

SOUTH CENTRAL HUMAN RESOURCE AGENCY

Financial Statements with Supplementary Information

Year Ended June 30, 2017

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Financial Statements with Supplementary Information  
Year Ended June 30, 2017

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## Independent Auditors' Report

Governing Board  
South Central Human Resource Agency  
Fayetteville, Tennessee

### **Report on the Financial Statements**

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, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **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, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 and required supplementary schedules on pages 29 through 31 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedules of indirect costs and expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedule of agency officials 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2018, 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 solely 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 the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Rodger Moss & Co, PLLC

Nashville, Tennessee  
January 30, 2018

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Management's Discussion and Analysis  
June 30, 2017

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, 2017. 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**

South Central Human Resource Agency's mission is to provide low income individuals and the communities within our service area, access to educational, economic, nutritional, and social services that promote and encourage self-reliance through our partnerships with local, state, and federal 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 2017, SCHRA had in place 13 Neighborhood Service Centers, 20 Head Start Centers, 21 Pre-K classroom collaborations in 3 counties, 7 Early Head Start Centers, and 21 congregate meal sites served by 2 commercial kitchens. The Senior Community Employment Program also serves clients in four additional counties: Bledsoe, Grundy, Marion, and Sequatchie. During fiscal year 2017, SCHRA delivered approximately \$22.7 million dollars of services and employed approximately 600 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 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 and state program guidelines.

The 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, and 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 six 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-partite board to insure compliance with the Community Services Block Grant Act.

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

The Policy Council meets six times (bi-monthly) a year; the Executive Committee of the SCTDD, acting for the Governing Board, meets in concert with and ratifies Policy Council actions including program budgets, proposals, and contracts approved by the Policy Council. The 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.

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

**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. The replacement value is insured at approximately \$4 million dollars. 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. The central office has had several maintenance items accomplished during the 2017 fiscal year. They include: replacing floor covering, painting offices, replacing the fire panel, and life safety code repairs. The central office also received new meeting and office space for the Head Start and Community Correction programs. A new employee fitness area was also developed during the past fiscal year. The cost of the wellness center was offset by the sale of surplus items. This has been a very successful addition to SCHRA. Facility maintenance was reorganized to be included in our existing cost allocation plan. A new Facility Director position was created and is being included within the Executive cost pool. This position was filled from one of our existing staff members within the maintenance department. This process makes for a more efficient use of resources and better budgeting practices. A new web-based facility work order system is being developed that will allow for preventative maintenance schedules and better facility reviews across our service area. SCHRA also received an "Excellence in Risk Management Award" from the Tennessee Municipal League for the maintenance improvements during 2017. This was a humble honor for our agency.

**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 2017 follow:

*Head Start and Early Head Start Programs*

The objective of the Head Start and Early Head Start (collectively referred to as "Head Start") programs, funded by the U.S. Dept. of Health and Human Services - Administration for Children and Families, is to promote school readiness of low-income children by enhancing children's cognitive, social and emotional development. Head Start and Early Head Start together serve pregnant women and children (birth to 5) and their families, who are under the poverty line or are eligible for public assistance. The Head Start program provides services in the following areas: early childhood development and health services and family and community partnerships. Inclusive in these services are education, medical and dental services, mental health, nutrition, parent involvement, family services, special needs services and family literacy. Children in the program were proficient in the categories of mathematics, language, cognitive skills, literacy, and social emotional skills. The percentages ranged from 89-93%. Ten percent of our enrollment is mandated to serve children with disabilities. Our program ensured that age-appropriate health services were provided to 1,117 enrolled and/or terminated children, with 86% receiving age appropriate preventive dental services, and 36 children receiving mental health services. Our centers are Tennessee State Childcare licensed, which implement the three-star rating system that uses the ECERS-R and ITERS-R to monitor learning environments and teaching practices. Along with establishing school readiness goals for the children, we acknowledge that parents are their child's first educators and will continue to be throughout their child's educational career. There were numerous parents and community volunteers who provided services to our program throughout all 13 of our counties. Head Start facility improvements continue to be a major focus of SCHRA. Several Head Start locations received new tricycle paths and shade structures during this last year. Additionally, facilities received safety improvements with video cameras and physical barriers around playgrounds. The Agency has also implemented Adverse Childhood Experience training within the Head Start Program. The program is centered on a known curriculum called Trauma Smart. The results and outcomes are making an impact within our agency.

*Low-Income Home Energy Assistance Program*

The Low-Income Home Energy Assistance Program ("LIHEAP") is funded by the Tennessee Housing Development Agency ("THDA"). This program 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. 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 2017, a total of 6,483 households received assistance totaling \$2,531,064.

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

*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 2017, a total of 92,969 congregate meals were served to over 1,500 clients and 60,886 home delivered meals were served to over 260 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 (AmeriGroup, AmeriChoice and Blue Care) provides similar meals to the frail and disabled aged 18 years or older. For this period, Options provided 14,868 meals to over 100 clients, Family Caregiver provided 2,002 meals to over 10 clients, and Long Term Care Choices provided 25,605 meals to over 100 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 2017, 277 clients were assisted in 27 Tennessee counties and 3 other states. Benefits overseen on behalf of clients for the year totaled \$2,259,546.

*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. During fiscal year 2017, these kitchens supplied 202,401 meals for the Agency's Senior Nutrition Program and 16,557 meals for its Head Start Program. Private pay meals totaled 6,071. Other catering engagements both internal and public produced additional revenues of \$91,642.

*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 2017 for operation of its CSBG Program from funds passed through to the Agency by the Tennessee Dept. of Human Services ("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. Direct services to clients, except information and referral, have an income eligibility requirement of 125% of federal poverty guidelines. In addition to financial eligibility, need of service must be established according to the individual or household circumstances with priority given to the elderly and handicapped. During fiscal year 2017, the CSBG Program served 565 unduplicated households with 879 individuals and 17,225 units of service.

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

*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. Clients must be age 55 or above, a legal resident of the county in which they apply, and be capable of performing tasks involved in the community service employment assigned as stated in the training site description, and must be economically disadvantaged, as determined by the currently established poverty guidelines - 125% scale. 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 2017, the Title V Program served a 12 county area with an allocated slot level of 93 clients. The Title V Program also served 4 additional counties (Bledsoe, Grundy, Marion, and Sequatchie) with 51 clients which are outside of SCHRA’s service area. During fiscal year 2017 a total of 144 clients were served.

*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. A plan of care related to household operations and home management for individuals eligible for the program is developed following an in-depth assessment through the SCTDD/AAAD. Without such services, they become at risk of residential or institutional care. Homemaker services involve a series of in-home contacts for the purpose of providing such services as light housekeeping, laundry, maintenance, household business, care and referral to other resources where appropriate. During fiscal year 2017, a total of 2,356.5 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 (AmeriGroup, AmeriChoice and Blue Care) provides for homemaker and personal care assistance and respite sitter service to the frail elderly and adults with disabilities. During fiscal year 2017, Options provided 2,136 units of service, Family Caregiver provided 1,732 units of service, and Long Term Care Choices provided 7,780 units of service. These services were delivered to 91 clients.

*Community Corrections Program*

The Community Corrections Program, funded by the Tennessee Dept. of Corrections, 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 2017, the Program served 475 clients who paid \$14,687 in victim restitution, \$9,410 in child support, and worked 5,877 hours of community service. The Agency also added new programming for Recovery Court for Lincoln County funded through Tennessee Dept. of Mental Health and Substance Abuse Services. The Agency also received funding through the Tennessee Dept. of Criminal Justice Programs for a Pre-Release Case Manager. These two new programs will aid greatly with our court services.

*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. Teen parents and their children may also be assisted by these volunteers. 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. Applicants must be at least 55 years old, willing to serve an average of 20 hours per week and meet 200% of poverty guidelines. Volunteers receive a modest tax-free allowance or stipend and an annual physical exam. For fiscal year 2017, services were provided for 161 “at risk” children by 59 Foster Grandparents.



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

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

The SSBG/Protective Service Homemaker Program, funded by Tennessee Dept. 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. Eligibility is determined by the DHS caseworker. Need is established when an individual or family is experiencing a specific personal or social problem for which homemaker services are deemed appropriate. During fiscal year 2017, a total of 7,088 hours of service were provided to 108 clients.

*Weatherization Assistance Program*

The Weatherization Assistance Program ("WAP"), funded by the Tennessee Housing Development Agency ("TDHA"), strives to improve energy efficiency and reduce energy costs of low-income households through the application of weatherization measures approved by TDHA to qualified housing units. Eligibility guidelines for this funding allow households of up to 200% of federal poverty level to benefit. The funding and scope of this program have been drastically reduced due to the lack of federal funding. During fiscal year 2017, 34 homes were weatherized at a funding level of \$244,971.

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

**Overview of the Financial Statements**

This discussion and analysis is intended to provide an overview of the Agency's financial statements.

**Basic Financial Statements**

The Agency's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. The basic financial statements present two different views of the Agency through the use of government-wide and fund financial statements.

**Government-Wide Financial Statements**

The government-wide financial statements on pages 12 and 13 provide a broad overview of the Agency's financial position and operations in a manner similar to a private-sector business. The statement of net position presents the Agency's assets and liabilities on a full accrual, economic resource basis. The difference between assets and liabilities is reported as net position which is broken down into three parts: net investment in capital assets, restricted, and unrestricted. Net position serves as a useful indicator of the Agency's overall financial position. The statement of activities presents a comparison of expenses and revenues for each major function/program of the Agency and also reflects how the Agency's net position changed during the fiscal year. On the statement of activities, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All of the Agency's activities are considered to be governmental activities.

**Fund Financial Statements**

The fund financial statements on pages 14 through 17 provide information about the Agency's funds. Funds are used to maintain control over resources that are to be segregated for specific activities or purpose. Fund accounting ensures and reflects compliance with finance-related legal requirements, such as grantor provisions. The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting period when they are measurable and available and expenditures are generally recorded when the related fund liability is incurred. All of the Agency's funds are considered to be governmental funds.

**Governmental Funds**

Governmental funds are used to account for basic services and are reported as governmental activities in the government-wide financial statements. Differences between the Agency's government activities as reported in the statement of net position and the statement of activities and its governmental funds are identified in the reconciliations that are part of the fund financial statements.

**Notes to Financial Statements**

The notes to the financial statements on pages 18 through 28 provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Supplementary Information**

In addition to the basic financial statements, the financial statements include required and other supplementary information to enhance the reader's understanding of the Agency.

**Required Supplementary Information**

The required supplementary information on pages 29 through 31 is provided to supplement the basic financial statements.

**Other Supplementary Information**

The supplementary information on pages 32 through 34 is provided for purposes of additional analysis and is not a required part of the basic financial statements.

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

**Single Audit**

Under the Uniform Guidance, a Single Audit applies to nonfederal entities that expend \$750,000 or more in a year in federal awards. The Agency's expenditure of federal awards totaled approximately \$17.2 million during the fiscal year. Accordingly, a Single Audit was required. The Single Audit section of the financial statements on pages 35 through 45 includes the schedule of expenditures of federal and state awards and notes thereto, the schedule of findings and questioned costs, a summary schedule of prior audit findings and the Agency's corresponding corrective action plan along with our independent auditors' reports on internal control and compliance.

**Government-Wide Financial Analysis**

**Net Position**

Table 1 presents a summary of the Agency's net position at June 30, 2017 (as presented on page 12) with comparative data from June 30, 2016.

Condensed Statement of Net Position

	<u>2017</u>	<u>2016</u>
Current assets	\$ 2,300,988	\$ 2,624,528
Restricted assets	650,520	527,403
Net pension asset	1,800,559	1,767,783
Capital assets	<u>2,076,251</u>	<u>1,977,872</u>
Total assets	<u>6,828,318</u>	<u>6,897,586</u>
Deferred outflows of resources	<u>65,448</u>	<u>-</u>
Current liabilities	1,666,464	1,812,782
Capital lease obligation	<u>18,419</u>	<u>-</u>
Total liabilities	<u>1,684,883</u>	<u>1,812,782</u>
Deferred inflows of resources	<u>-</u>	<u>21,281</u>
Net position:		
Net investment in capital assets	2,057,832	1,977,872
Restricted for pension benefits	1,800,559	1,767,783
Unrestricted	<u>1,350,492</u>	<u>1,317,868</u>
Total net position	<u>\$ 5,208,883</u>	<u>\$ 5,063,523</u>

The Agency's assets exceeded liabilities by \$5.2 million as of June 30, 2017. The Agency's net position increased \$145,360 for the fiscal year.

The Agency's net investment in capital assets (buildings and improvements, vehicles, equipment, and land) represents 40% of its net position as of June 30, 2017. The Agency uses these capital assets to provide services to clients; consequently, these assets are not available for future spending. The Agency's net position restricted for pension benefits represents 35% of its net position as of June 30, 2017. The Agency will use this asset to offset future employer contributions to the Public Employee Retirement Plan administered by the Tennessee Consolidate Retirement System.

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

**Change in Net Assets**

Table 2 presents a summary of government-wide activity for the year ended June 30, 2017 (as presented on page 13) with comparative data for the year ended June 30, 2016.

Table 2  
Change in Net Position

	2017		2016	
	<u>Amount</u>	<u>Percentage of Funding</u>	<u>Amount</u>	<u>Percentage of Funding</u>
<b>Revenues:</b>				
Operating grants and contributions	\$ 17,747,075	78.09%	\$ 17,201,337	78.25%
Charges for services and other income	<u>4,979,818</u>	<u>21.91%</u>	<u>4,781,263</u>	<u>21.75%</u>
<b>Total revenues</b>	<u>22,726,893</u>	<u>100.00%</u>	<u>21,982,600</u>	<u>100.00%</u>
<b>Expenses:</b>				
Head Start	10,783,847	47.45%	10,469,018	47.62%
Low-Income Home Energy Assistance	3,244,492	14.28%	2,904,896	13.21%
Community Representative Payee	2,364,711	10.40%	2,269,376	10.32%
Nutrition Services for the Elderly	1,566,350	6.89%	1,578,034	7.18%
Food Service	1,214,223	5.34%	1,039,192	4.73%
Community Services Block Grant	777,402	3.42%	1,045,123	4.75%
Senior Community Service Employment	698,289	3.07%	704,948	3.21%
Community Corrections	543,475	2.39%	508,192	2.31%
Homemaker Services for the Elderly	320,896	1.41%	330,359	1.50%
Foster Grandparent	244,661	1.08%	278,497	1.27%
Social Services Block Grant	243,935	1.07%	228,938	1.04%
Weatherization Assistance	245,711	1.08%	171,192	0.78%
Emergency Food Assistance	95,268	0.42%	99,574	0.45%
State Appropriations, Agency & Other	<u>238,273</u>	<u>1.05%</u>	<u>173,141</u>	<u>0.79%</u>
<b>Total expenses</b>	<u>22,581,533</u>	<u>99.36%</u>	<u>21,800,480</u>	<u>99.17%</u>
<b>Change in net position</b>	<u>\$ 145,360</u>	<u>0.64%</u>	<u>\$ 182,120</u>	<u>0.83%</u>

Net position increased by \$145,360 for the fiscal year compared to an increase in net position of \$182,120 for the prior year. Operating grants and contributions provided approximately 78% of the revenues for governmental activities for both the current and prior fiscal year. These funds were expended in both years primarily for child education, energy assistance, and nutrition and other services for the elderly.

**Financial Analysis of the Agency's Funds**

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

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

**Governmental Funds**

The focus of the Agency's governmental funds is on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Agency's financing requirements.

As of June 30, 2017, the Agency's governmental funds reported a total fund balance of approximately \$1.29 million, a decrease of \$54,105 over the prior fiscal year.

The general fund is the Agency's primary operating fund. Revenues exceeded expenditures in this fund by \$52,389 for the fiscal year. The unassigned fund balance of the general fund was approximately \$1.15 million as of June 30, 2017.

The special revenue fund is used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for a specific purpose other than debt service or capital projects. Expenditures exceeded revenues in this fund by \$106,494, for the fiscal year. This short-fall was funded by a transfer from the general fund of the same amount.

**Net Pension Asset**

As of June 30, 2017, the Agency's net pension asset totaled \$1,800,559 compared to \$1,767,783 in the prior fiscal year; a net increase of \$32,776. Additional information on the Agency's pension plan can be found in Note 11 of the financial statements.

**Capital Assets**

As of June 30, 2017, the Agency's capital assets totaled \$2,076,251 compared to \$1,977,872 in the prior fiscal year; a net increase of \$98,379. These assets include buildings and improvements, vehicles, equipment, and land. Additions to capital assets totaled \$268,637. Fully depreciated assets with an original cost of \$368,534 were disposed of during the fiscal year. The Agency also recognized depreciation expense of \$170,258. Additional information on the Agency's capital assets can be found in Note 4 of the financial statements.

**Long-Term Debt**

In December 2016, the Agency entered into a sixty month lease with U.S. Bank Equipment Finance which has been reported as a capital lease obligation. As of June 30, 2017, the capital lease obligation totaled of \$18,419. Additional information on the Agency's capital lease obligation can be found in Note 6 of 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. Under Section 4-29-236 of the *Tennessee Code Annotated*, the Agency is schedule to terminate on June 30, 2021.

**Requests for Information**

This report is designed to provide an overview of the Agency's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Director, South Central Human Resource Agency, P.O. Box 638, Fayetteville, TN 37334.

SOUTH CENTRAL HUMAN RESOURCE AGENCY

Statement of Net Position

June 30, 2017

ASSETS

Cash and cash equivalents		\$ 155,692
Certificate of deposit		468,412
Receivables		1,537,999
Inventories - kitchen supplies		39,291
Prepaid expenses		99,594
Restricted assets		
Cash		507,460
Inventories - food commodities		143,060
Net pension asset		1,800,559
Capital assets		
Buildings and improvements	\$ 2,392,129	
Vehicles	937,111	
Equipment	339,182	
Land	<u>25,000</u>	
	3,693,422	
Less accumulated depreciation	<u>1,617,171</u>	
Capital assets, net		<u>2,076,251</u>
Total assets		<u>6,828,318</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions		<u>65,448</u>
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LIABILITIES

Accounts payable	276,172	
Accrued payroll	203,184	
Accrued payroll taxes and employee benefits	185,574	
Due to funding source	693,537	
Accrued leave	280,755	
Accrued audit fee	27,242	
Capital lease obligation	<u>18,419</u>	
Total liabilities		<u>1,684,883</u>

NET POSITION

Net investment in capital assets		2,057,832
Restricted for pension benefits		1,800,559
Unrestricted		<u>1,350,492</u>
Total net position		<u>\$ 5,208,883</u>

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Statement of Activities  
Year Ended June 30, 2017

Functions/Programs	Expenses		Revenues		Net Revenue (Expense) and Changes in Net Position
	Direct Expenses	Indirect Costs Allocated	Charges for Services and Other Income	Operating Grants and Contributions	
Governmental Activities:					
Program activities:					
Head Start	\$ 10,021,613	\$ 762,234	\$ 86,049	\$ 10,832,492	\$ 134,694
Low-Income Home Energy Assistance	3,156,444	88,048	-	3,244,412	(80)
Community Representative Payee	2,356,956	7,755	2,364,701	-	(10)
Nutrition Services for the Elderly	1,529,873	36,477	903,209	561,208	(101,933)
Community Services Block Grant	720,142	57,260	3,910	828,764	55,272
Senior Community Service Employment	692,421	5,868	-	698,261	(28)
Community Corrections	503,300	40,175	35,010	506,539	(1,926)
Homemaker Services for the Elderly	297,234	23,662	306,205	-	(14,691)
Foster Grandparent	237,112	7,549	110	244,383	(168)
Social Services Block Grant	225,948	17,987	-	245,171	1,236
Weatherization Assistance	237,061	8,650	-	244,971	(740)
Emergency Food Assistance	88,248	7,020	530	95,269	531
Other	57,459	4,567	1,595	59,421	(1,010)
Support services:					
Food Service	1,124,690	89,533	1,234,654	-	20,431
State Appropriations, Agency & Other	165,210	11,037	43,845	186,184	53,782
Total	<u>\$ 21,413,711</u>	<u>\$ 1,167,822</u>	<u>\$ 4,979,818</u>	<u>\$ 17,747,075</u>	145,360
Net position at beginning of year					<u>5,063,523</u>
Net position at end of year					<u>\$ 5,208,883</u>

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Balance Sheet - Governmental Funds  
June 30, 2017

	General	Special Revenue	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 153,260	\$ 2,432	\$ 155,692
Certificate of deposit	468,412	-	468,412
Receivables			
Funding sources and others	2,495	1,535,504	1,537,999
Due from special revenue fund	754,993	-	754,993
Inventories - kitchen supplies	39,291	-	39,291
Prepaid expenses	99,594	-	99,594
Restricted assets			
Cash	1,582	505,878	507,460
Inventories - food commodities	-	143,060	143,060
Total assets	\$ 1,519,627	\$ 2,186,874	\$ 3,706,501
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 62,495	\$ 213,677	\$ 276,172
Accrued payroll	40,480	162,704	203,184
Accrued payroll taxes and employee benefits	36,971	148,603	185,574
Due to funding sources	-	693,537	693,537
Due to general fund	-	754,993	754,993
Accrued leave	67,395	213,360	280,755
Accrued audit fee	27,242	-	27,242
Total liabilities	234,583	2,186,874	2,421,457
<b>Fund Balances</b>			
Nonspendable	138,885	-	138,885
Unassigned	1,146,159	-	1,146,159
Total fund balances	1,285,044	-	1,285,044
Total liabilities and fund balances	\$ 1,519,627	\$ 2,186,874	\$ 3,706,501



SOUTH CENTRAL HUMAN RESOURCE AGENCY  
 Reconciliation of the Balance Sheet - Governmental  
 Funds to the Statement of Net Position  
 June 30, 2017

Fund balances - total governmental funds		\$	1,285,044
<p>Amounts reported for governmental activities in the statement of net position are different because of the following:</p>			
<p>Net pension asset and deferred outflows related to pensions are not available to pay for current period expenditures and, therefore, are either deferred or not applicable to governmental funds</p>			1,866,007
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds</p>			
Governmental capital assets	\$	3,693,422	
Less accumulated depreciation		<u>1,617,171</u>	
			2,076,251
<p>Long-term capital lease obligation is not reported in the governmental funds</p>			<u>(18,419)</u>
Net position of governmental activities		\$	<u><u>5,208,883</u></u>

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Governmental Funds  
Year Ended June 30, 2017

	General	Special Revenue	Total Governmental Funds
<b>Revenues</b>			
Grantor contributions	\$ 127,890	\$ 17,522,725	\$ 17,650,615
Performance based income	-	1,133,019	1,133,019
Program income	1,208,557	111,886	1,320,443
State and local contributions	58,296	38,164	96,460
Other income	183,648	2,342,708	2,526,356
Total revenues	<u>1,578,391</u>	<u>21,148,502</u>	<u>22,726,893</u>
<b>Expenditures</b>			
Salaries	299,963	6,571,686	6,871,649
Fringe benefits	157,509	2,784,715	2,942,224
Participant costs	5,113	3,860,908	3,866,021
Food	624,813	1,521,322	2,146,135
Indirect costs	108,491	1,059,331	1,167,822
Contract services	6,298	441,235	447,533
Insurance and bonding	8,124	57,185	65,309
Maintenance and repairs	57,523	193,367	250,890
Nonexpendable supplies	2,363	40,292	42,655
Office supplies	3,064	26,624	29,688
Other	5,916	2,228,269	2,234,185
Postage	7,349	12,483	19,832
Printing and duplication	167	16,351	16,518
Professional services	17,825	424,248	442,073
Program supplies	40,737	409,799	450,536
Renovations	15,282	422	15,704
Rent and leases	41,961	646,495	688,456
Telephone	2,553	165,832	168,385
Transportation	16,297	28,364	44,661
Travel - in area	82	144,611	144,693
Travel - out of area	136	206,436	206,572
Utilities	22,813	155,216	178,029
Vehicles and equipment	101,940	259,805	361,745
Total expenditures	<u>1,546,319</u>	<u>21,254,996</u>	<u>22,801,315</u>
Excess (deficiency) of revenues over expenditures	32,072	(106,494)	(74,422)
<b>Other Financing Sources (Uses)</b>			
Proceeds from capital lease obligation	20,317	-	20,317
Transfers in (out)	<u>(106,494)</u>	<u>106,494</u>	<u>-</u>
Net change in fund balances	(54,105)	-	(54,105)
Fund balances at beginning of year	<u>1,339,149</u>	<u>-</u>	<u>1,339,149</u>
Fund balances at end of year	<u>\$ 1,285,044</u>	<u>\$ -</u>	<u>\$ 1,285,044</u>

See accompanying notes to financial statements.

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Reconciliation of the Statement of Revenues, Expenditures, and  
Changes in Fund Balances - Governmental Funds to the Statement of Activities  
Year Ended June 30, 2017

Net change in fund balances - total governmental funds \$ (54,105)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are depreciated over their estimated lives

Expenditures for capital assets	\$ 268,637	
Depreciation expense	<u>(170,258)</u>	98,379

Governmental funds report proceeds from disposals of capital assets as revenues. However, the corresponding gain (loss) is reported in the statement of activities

Proceeds from disposals of capital assets	(88,089)	
Gain on disposal of capital assets	<u>88,089</u>	-

Negative pension expense in the statement of activities which does not require current financial resources is not reported as an expenditure in governmental funds.

119,505

Governmental funds report proceeds from long-term debt as revenues and corresponding payments thereon as expenditures. However, the statement of activities reflects the net liability

Proceeds from capital lease obligation	(20,317)	
Principal payments	<u>1,898</u>	<u>(18,419)</u>

Change in net position of governmental activities \$ 145,360

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Notes to Financial Statements  
June 30, 2017

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). The Agency only has governmental funds.

**Government-Wide Financial Statements** - The government-wide financial statements include the statement of net position and the statement of activities. In the statement of net position, 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 position is reported in three parts: net investment in capital assets, restricted, and unrestricted. The Agency has not incurred nor does it expect to incur any expenses for which both restricted and unrestricted net position is available. The statement of activities presents a comparison of expenses and 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. Indirect costs represent allocated administrative costs. Revenues include (a) charges for services offered and other income recognized by a particular function/program and (b) operating grants and contributions that are restricted to meeting the operational requirements of a particular program. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, interfund services provided and used are not eliminated in the process of consolidation.

**Fund Financial Statements** - The fund financial statements provide information about the 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. All general receipts that are not allocated by law or contractual agreement to a special revenue fund are accounted for in this fund. The general fund also pays general operating expenditures and capital improvement costs that are not paid through a 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. Excess expenditures of this fund are financed with a transfer from the general fund. The transfer from the general fund for the fiscal year totaled \$106,494. The interfund balance of \$754,993 due to the general fund as of June 30, 2017 will be repaid as cash flows permit.

The Agency's fund balance is reported in two parts: nonspendable and unassigned. The Agency's nonspendable fund balance consists of the amount spent on inventories of kitchen supplies and prepaid expenses. The Agency has no restricted fund balance as of June 30, 2017. The Agency also does not have, nor does it expect to have, any committed or assigned fund balances or any expenditures for which more than one resource classification is available.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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 the related cash flows. Grants and contributions are non-exchange transactions and are recognized as revenue as soon as all requirements imposed by the grantor or contributor have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Interfund services provided and used are not eliminated in the process of consolidation.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting period when they become susceptible to accrual (i.e. when they are “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 the liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, if measurable, except for unmatured principal and interest on long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds.

The Agency generally considers all revenues available if they are collected within 60 days after year-end. Grant funds received by the Agency before it has a legal claim to them, such as advances, or prior to the incurrence of qualifying expenditures, are reported as liabilities. The liability is removed and revenue is recognized in subsequent periods once the revenue recognition criteria are met and the Agency has a legal claim to the resources.

**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.

**Cash Equivalents** - For financial statement purposes, the Agency considers cash equivalents to include investments in the State of Tennessee Local Government Investment Pool (LGIP) and any other highly liquid investments with maturities of three months or less.

**Inventories** - Inventories consist of kitchen supplies and food commodities received that have not yet been distributed to eligible households. Kitchen supplies are stated at cost. The value of each commodity item in inventory is provided by the grantor, the State of Tennessee, Department of Agriculture, with a corresponding amount included in due to funding source. Inventories are charged to expense in the period used or distributed. The Agency uses the first in first out (FIFO) method in determining the cost of inventory.

**Capital Assets** - Capital assets, which include building and improvements, vehicles, equipment, and land, are reported under governmental activities in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at cost if purchased or constructed. The cost of capital assets is depreciated using the straight-line method over the estimated useful lives (5 - 40 years). The costs for normal maintenance and repairs that do not add value to the assets or materially extend the lives of the assets are not capitalized.

**Federal, State, and Local Agency Grant Funds** - Funds used to operate many of the Agency’s programs are made available through federal, state, and local agency grants. Revenues are recognized at the time allowable costs are incurred. 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. In addition, since the Agency receives grant funds on both an advance and cost-reimbursement basis, either a receivable or a liability may exist at the end of the Agency’s fiscal year.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Annual Leave** - Annual leave is expensed during the period in which it is earned. 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, 2017.

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, no liability for unused sick leave has been recognized in the financial statements as of June 30, 2017.

**Income Taxes** - As a governmental entity, the Agency is exempt from federal and state income taxes. 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. Accordingly, the Agency files Form 990, *Return of Organization Exempt from Income Tax*, on an annual basis. Forms 990s for the years ending June 30, 2014 and thereafter are subject to examination by the IRS, generally for three years after the date the returns are filed.

**Net Position and Fund Balances**

Net position in governmental-wide financial statements is classified as net investment in capital assets, restricted and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by any amounts due attributable to the acquisition, construction, or improvement of those assets. Restricted net position results when constraints placed on net position are either externally imposed or imposed by law. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent. The governmental fund types classify fund balances as follows:

*Nonspendable* fund balance includes amounts that cannot be spent because they are either not in spendable form (i.e. prepaid expenses) or are legally or contractually required to be maintained intact.

*Restricted* fund balance is the portion of fund balance that can only be used for specific purposes imposed externally by grantors and others or by law.

*Committed* fund balance is the portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Agency's governing board (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing board. The Agency had no committed fund balance as of June 30, 2017 or during the year then ended.

*Assigned* fund balance is the portion of fund balance that the Agency intends to use for specific purposes as determined by the Agency's governing board. The Agency had no assigned fund balance as of June 30, 2017 or during the year then ended.

*Unassigned* fund balance is the portion of fund balance that has not been restricted, committed, or assigned to specific purposes.

**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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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, and in the State of Tennessee Local Government Investment Pool. The Agency's receivables are primarily due from federal, state and local agencies. Accordingly, management does not believe significant credit risk exists at June 30, 2017.

**Pensions** - For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Agency's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System ("TCRS"), and additions to/deductions from the Agency's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

**Deferred Outflows and Inflows of Resources** - In addition to assets and liabilities, the statement of net position will sometimes report separate sections for deferred outflows and inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Agency reports deferred pension charges and credits in its statements of net position in connection with its participation in the Public Employee Retirement Plan of the TCRS. Deferred pension charges are either (a) recognized in the subsequent period as a reduction of the net pension liability (asset) or (b) amortized in a systematic and rational method as pension expense in future periods in accordance with GAAP. Deferred pension credits are amortized in a systematic and rational method and recognized as a reduction of pension expense in future periods in accordance with GAAP.

**Date of Management's Review** - Management has evaluated events and transactions occurring subsequent to June 30, 2017 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date of this report, which is the date these financial statements were available to be issued.

NOTE 2 - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits (including the certificate of deposit) may not be returned to it. 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 also 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, 2017, the carrying amount of the Agency's deposits, including the certificate of deposit, was \$1,131,564, and bank balances, which totaled \$1,581,104, were fully insured or collateralized.

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

NOTE 3 - RECEIVABLES

Receivables from grantor agencies and others as of June 30, 2017 consisted of the following:

Federal	\$ 254,009
State	1,083,373
Other	<u>200,617</u>
	<u>\$ 1,537,999</u>

NOTE 4 - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2017 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	2,392,129	-	-	2,392,129
Vehicles	1,035,756	248,320	(346,965)	937,111
Equipment	<u>340,434</u>	<u>20,317</u>	<u>(21,569)</u>	<u>339,182</u>
Total capital assets being depreciated	<u>3,768,319</u>	<u>268,637</u>	<u>(368,534)</u>	<u>3,668,422</u>
Less accumulated depreciation for:				
Building and improvements	633,791	89,993	-	723,784
Vehicles	865,188	67,283	(346,965)	585,506
Equipment	<u>316,468</u>	<u>12,982</u>	<u>(21,569)</u>	<u>307,881</u>
Total accumulated depreciation	<u>1,815,447</u>	<u>170,258</u>	<u>(368,534)</u>	<u>1,617,171</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>1,952,872</u>	<u>98,379</u>	<u>-</u>	<u>2,051,251</u>
Governmental activities capital assets, net of accumulated depreciation	<u>\$ 1,977,872</u>	<u>\$ 98,379</u>	<u>\$ -</u>	<u>\$ 2,076,251</u>

Depreciation expense for the year ended June 30, 2017 was \$170,258.

NOTE 5 - LEASE AGREEMENTS

The Agency leases real estate, vehicles, and equipment for operation of its programs. Rent for the year ended June 30, 2017 totaled \$688,456 including allocated building costs of \$255,257. The Agency's leases are generally cancelable with thirty days notice in the event that the Agency loses federal or state funding for any program which utilizes leased property.



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

NOTE 6 - LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Transfers/ Decreases	Ending Balance
Capital lease obligation	\$ <u>          -</u>	\$ <u>  20,317</u>	\$ <u>  (1,898)</u>	\$ <u>  18,419</u>

In December 2016, the Agency entered into a sixty month lease agreement with U.S. Bank Equipment Finance for a new forklift. The lease has been reported as a capital lease obligation as it contains an option for the Agency to purchase the equipment for \$1 at the end of the lease. The capital lease obligation has an implicit interest rate of 2.98% and calls for monthly payments of \$365. Lease payments are made by the General Fund.

Future minimum lease payments under the capital lease obligation as of June 30, 2017 are as follows:

Year Ending June 30:	Future Minimum Lease Payments	Less: Amount Representing Interest	Total
2018	\$ 4,379	\$ 496	\$ 3,883
2019	4,379	379	4,000
2020	4,379	258	4,121
2021	4,379	134	4,245
2022	<u>2,189</u>	<u>19</u>	<u>2,170</u>
Total	<u>\$ 19,705</u>	<u>\$ 1,286</u>	<u>\$ 18,419</u>

The corresponding asset recorded under the capital lease obligation totaled \$20,317 and accumulated amortization on this asset totaled \$2,370 as of June 30, 2017. Amortization of the asset is included in depreciation expense.

NOTE 7 - DEFINED CONTRIBUTION PLANS

**Tax-Deferred Annuity Plan**

The Agency has adopted the Section 403(b) Non-ERISA Tax-Deferred Annuity Plan (the “Annuity Plan”) sponsored by Mutual of America Life Insurance Company (“Mutual of America”). Mutual of America is also the administrator of the Annuity Plan. Employees are eligible to participate in the Annuity Plan on the first day of employment. The Annuity Plan only permits contributions from employees that are excludable from gross income (“pre-tax” under the Internal Revenue Code); it does not provide for any other contributions by the Agency or employees. Employee contributions in any taxable year are also subject to certain statutory limitations. Employees who have fifteen years of service or who have attained age fifty before the end of the Plan year are eligible to make catch-up contributions. Employees may also contribute amounts representing distributions from other qualified defined benefit or contribution plans (“rollovers”). Employee contributions are invested in the participant’s individual account after each payroll period and are fully vested. Employee contributions to the Annuity Plan totaled \$205,206 for the year ended June 30, 2017.

**Money Purchase Pension Plan**

The Agency has also adopted the Mutual of America Life Insurance Company Defined Contribution Pension Plan (the “Pension Plan”). The Agency is also the administrator of the Pension Plan. Employees are eligible to participate in the Pension Plan after six months of eligible service. The Agency makes matching contributions to the Plan based on each eligible employee’s base salary provided that the employee contributes at least 2% of his/her base salary to the Annuity Plan. The Agency contributes 5% for eligible employees with less than fifteen years of service and 8% for eligible employees with fifteen or more years of service. The matching contributions are invested in the participant’s individual account after each payroll period and are fully vested after one year of vesting service. Employer contributions forfeited by terminated employees are used to reduce the Agency’s current matching contributions. Employer contributions for the year ended June 30, 2017 to the Pension Plan totaled \$264,554.

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

NOTE 7 - DEFINED CONTRIBUTION PLANS (Continued)

**Both Plans**

An individual account is maintained for each participant which reflects (a) the total amount of contributions, transfers and other additions that are allocated to such account on the participant's behalf and the earnings thereon, (b) any payments or withdrawals on the participant's behalf from such accounts, and (c) any expenses of such accounts attributable to the participant's interest therein. All contributions are invested in group annuity contracts issued by Mutual of America. Participants direct the investment of their contributions into the investment options offered by the plans. The plans currently offer fixed interest and variable investment options through their group annuity contracts issued by Mutual of America. Participants may generally change their investment options on a daily basis. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account. Distribution of benefits may only occur after certain qualifying events such as attainment of age 59 ½, termination of employment, death, or disability.

On March 28, 2017, the Agency's Governing Board voted to terminate both plans effective July 1, 2017.

NOTE 8 - 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 \$2,535,189 for the year ended June 30, 2017.

NOTE 9 - CONCENTRATIONS

Approximately 78% of the Agency's revenues for 2017 came from direct and pass-through federal grants. Approximately 62% of the Agency's revenues for 2017 were from two programs. The Agency is economically dependent on federal and state funding in order to carry out its various programs.

NOTE 10 - RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and volunteers; and natural disasters. The Agency protects itself from potential loss through participation in the Tennessee Municipal League Risk Management Pool (the "Pool") for commercial general and personal injury liability; property and crime liability, public officers' liability; automobile liability, and workers' compensation. The Agency's agreement with the Pool provides for payment of annual premiums for coverage. The agreement also provides for refunds or additional assessments to members 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 of Tennessee's Self Insurers Risk Retention Group, Inc., specialized insurance coverages through various commercial insurance policies for some of its programs, and additional employee dishonesty coverage specific to its pension plan. There have been no significant reductions in insurance coverage from coverage in the prior year by major categories of risk. In addition, the amount of settled claims did not exceed insurance coverage in any of the past three fiscal years.

The Agency also participates in the State of Tennessee's Employee Group Insurance Fund (the "Fund"). This is an internal service fund of the State that provides a program of health insurance coverage for the employees of the Agency with the risk retained by the State. 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% of the total premium for its employees.

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

NOTE 11 - CONTINGENCIES

Substantially all of the Agency’s revenues and related receivables are provided through grants or contracts with federal, state and local agencies. The Agency’s compliance with the requirements of these grants and contract is subject to audit or other verification at the discretion of the applicable agency. Management is not aware of any deficiencies or other noncompliance issues which, upon ultimate resolution, would have a material adverse impact on the financial statements of the Agency.

In addition, the operations of the Agency are subject to the administrative directives, rules and regulations of these agencies. Such administrative directives, rules and regulations are subject to change by an act of the United States Congress or its designees. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Under Section 4-29-236 of the *Tennessee Code Annotated*, the Agency is scheduled to terminate on June 30, 2021.

NOTE 12 - PENSION PLAN

**Plan Description** - Ten inactive employees (or beneficiaries) of the Agency are provided a defined benefit pension plan (the “pension plan”) through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the Tennessee Consolidated Retirement System. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

**Benefits Provided** - Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member’s highest five consecutive year average compensation and the member’s years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (“COLA”s) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

**Employees Covered** - The Agency withdrew from participation in the TCRS effective June 30, 1984. Employees who were members in the pension plan at the time the withdrawal became effective were given 30 days to elect to withdraw from the pension plan and receive a refund of their accumulated contributions. Any member who elected not to withdraw is entitled to benefits according to the pension plan as it existed on the date of withdrawal. At the measurement date of June 30, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	6
Active employees	-
	10
	10

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

NOTE 12 - PENSION PLAN (Continued)

**Contributions** - Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. For the year ended June 30, 2017, no employee contributions were made to the pension plan. The Agency makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2017, the Actuarially Determined Contribution (ADC) for the Agency was \$0 based on a rate of 0.0% covered payroll. The Agency's ADC and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

**Net Pension Asset**

The Agency's net pension asset was measured as of June 30, 2016, and the total pension liability used to calculate net pension asset was determined by an actuarial valuation as of that date.

**Actuarial Assumptions**

The total pension liability as of the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.50%

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		<u>100%</u>

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

NOTE 12 - PENSION PLAN (Continued)

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the Agency will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in Net Pension Asset**

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (Asset) (a) - (b)</b>
Balance at June 30, 2015	\$ 148,027	\$ 1,915,810	\$ (1,767,783)
Changes for the year:			
Service cost	1,223	-	1,223
Interest	10,910	-	10,910
Differences between expected and actual experience	5,801	-	5,801
Contributions - employer	-	-	-
Contributions - employees	-	-	-
Net investment income	-	50,710	(50,710)
Benefit payments, including refunds of employee contributions	(7,561)	(7,561)	-
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	<u>10,373</u>	<u>43,149</u>	<u>(32,776)</u>
Balance at June 30, 2016	<u>\$ 158,400</u>	<u>\$ 1,958,959</u>	<u>\$ (1,800,559)</u>

**Sensitivity of Net Pension Asset to Changes in the Discount Rate**

The following presents the net pension asset of the Agency calculated using the current discount rate of 7.5%, as well as what the net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	<b>1% Decrease (6.5%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
Net pension asset	\$ (1,780,240)	\$ (1,800,559)	\$ (1,817,313)

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

NOTE 12 - PENSION PLAN (Continued)

**Negative Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

**Negative Pension Expense**

For the year ended June 30, 2017, the Agency recognized negative pension expense of \$119,505.

**Deferred Outflows of Resources and Deferred Inflows of Resources**

For the year ended June 30, 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on pension plan investments	65,448	-
Contributions subsequent to the measurement date of June 30, 2016	-	-
Total	\$ 65,448	\$ -

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<b>Year Ended June 30:</b>	<b>Amount</b>
	2018	\$ 5,963
	2019	5,963
	2020	34,980
	2021	18,542
	2022	-
	Thereafter	-
		\$ 65,448

**Payable to the Pension Plan**

The Agency had no required employer contributions to the pension plan for the year ended June 30, 2017. Accordingly, no payable has been reported.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios  
Based on Participation in the Public Employee Pension Plan of the TCRS (Unaudited)  
Year Ended June 30, 2017

	Last Fiscal Year Ending June 30:		
	2014	2015	2016
<b>Total pension liability</b>			
Service cost	\$ 1,234	\$ 1,218	\$ 1,223
Interest	10,746	10,843	10,910
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(7,493)	(5,950)	5,801
Changes in assumptions	-	-	-
Benefit payments, including refunds of employee contributions	<u>(3,470)</u>	<u>(2,882)</u>	<u>(7,561)</u>
Net change in total pension liability	1,017	3,229	10,373
Total pension liability - beginning	<u>143,781</u>	<u>144,798</u>	<u>148,027</u>
Total pension liability - ending (a)	<u>\$ 144,798</u>	<u>\$ 148,027</u>	<u>\$ 158,400</u>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ -	\$ -	\$ -
Contributions - employee	-	-	-
Net investment income	264,954	57,285	50,710
Benefit payments, including refunds of employee contributions	(3,470)	(2,882)	(7,561)
Administrative expense	(119)	-	-
Other changes	<u>-</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	261,365	54,403	43,149
Plan fiduciary net position - beginning	<u>1,600,042</u>	<u>1,861,407</u>	<u>1,915,810</u>
Plan fiduciary net position - ending (b)	<u>\$ 1,861,407</u>	<u>\$ 1,915,810</u>	<u>\$ 1,958,959</u>
<b>Net pension liability (asset) - ending (a) - (b)</b>	<u>\$ (1,716,609)</u>	<u>\$ (1,767,783)</u>	<u>\$ (1,800,559)</u>
Plan fiduciary net position as a percentage of total pension liability	1285.52%	1294.23%	1236.72%
Covered payroll	\$ -	\$ -	\$ -
Net pension liability (asset) as a percentage of covered payroll	N/A	N/A	N/A

Note: This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.



SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Schedule of Contributions Based on Participation in the Public  
Employee Pension Plan of the TCRS (Unaudited)  
Year Ended June 30, 2017

	Last Fiscal Year Ending June 30:			
	2014	2015	2016	2017
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll	N/A	N/A	N/A	N/A

Note: This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Notes to Schedule of Contributions (Unaudited)  
Year Ended June 30, 2017

**Valuation Date:**

Actuarially determined contributions for fiscal year 2017 were calculated based on the June 30, 2015 actuarial valuation.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Varies by year
Asset valuation	10-year smoothed with a 20% corridor to market value
Inflation	3%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation
Investment rate of return	7.5%, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.5%

OTHER SUPPLEMENTARY INFORMATION

SOUTH CENTRAL HUMAN RESOURCE AGENCY

Schedule of Indirect Costs

Year Ended June 30, 2017

Salaries	\$ 604,891
Fringe benefits	235,228
Contract services	32,542
Insurance and bonding	35,399
Maintenance and repairs	4,340
Nonexpendable supplies	961
Office supplies	13,182
Other	12,556
Participant costs	685
Postage	3,873
Printing and duplication	6,585
Professional services	54,286
Program supplies	409
Renovations	32
Rent and leases	99,000
Telephone	5,910
Transportation	1,091
Travel - in area	1,396
Travel - out of area	47,432
Utilities	596
Vehicles and equipment	<u>7,428</u>
	<u>\$ 1,167,822</u>

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Schedule of Agency Officials (Unaudited)  
June 30, 2017

**POLICY COUNCIL**

<b>COUNTY</b>	<b>PROVIDER MEMBER COUNTY EXECUTIVE</b>	<b>CONSUMER MEMBER</b>
<b>BEDFORD</b>	Co. Mayor Eugene Ray One Public Sq. Suite 101 Shelbyville, TN 37160	Mr. Cathy Hayes 130 Patriot Circle Shelbyville, TN 37160
<b>COFFEE</b>	Co. Mayor Gary Cordell 1329 McArthur St. #1 Manchester, TN 37355	Mr. Charles E. Sain 781 Spry Road Bradyville, TN 37026
<b>FRANKLIN</b>	Co. Mayor Richard Stewart 855 Dinah Shore Blvd. Suite 3 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. Priscilla McNairy 1100 Gimlet Creek Rd. Lawrenceburg, TN 38464
<b>HICKMAN</b>	Co. Mayor Shaun Lawson 114 N. Central Ave., Suite 204 Centerville, TN 37033	<Vacant>
<b>LAWRENCE</b>	Co. Exec. T. R. Williams 200 West Gaines, Suite 201 Lawrenceburg, TN 38464	Ms. Sandy Calvert 220 Centennial Boulevard Lawrenceburg, TN 38464
<b>LEWIS</b>	Co. Mayor Bill Webb Lewis County Courthouse 110 Park Ave. N., Rm 108 Hohenwald, TN 38462	Ms. Sue Turnbow 536 N. Park St. Hohenwald, TN 38462
<b>LINCOLN</b>	Co. Mayor Bill Newman 112 Main Ave. South, Rm 101 Fayetteville, TN 37334	Mr. Freddie McKinney 502 Adams Street Fayetteville, TN 37334
<b>MARSHALL</b>	Co. Mayor Joe Boyd Liggett 1108 Courthouse Annex Lewisburg, TN 37091	Mr. John Campbell 1670 McBride Rd Lewisburg, TN 37091
<b>MAURY</b>	Co. Mayor Charlie Norman 41 Public Square 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. Coleman March P.O. Box 322 Lynchburg, TN 37352

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Schedule of Agency Officials (Continued)

**POLICY COUNCIL (Continued)**

<b>COUNTY</b>	<b>PROVIDER MEMBER COUNTY EXECUTIVE</b>	<b>CONSUMER MEMBER</b>
<b>PERRY</b>	Co. Mayor Terry Richardson P. O. Box 16 Linden, TN 37096	Ms. Joanne Lord 3081 Cedar Creek Rd. Linden, TN 37096
<b>WAYNE</b>	Co. Mayor Jim Mangubat P. O. Box 848 Waynesboro, TN 38485	Mr. Brenda Mathis 623 South Main St. Waynesboro, TN 38485
<b>HEAD START POLICY COUNCIL REPRESENTATIVE:</b>	Ms. Anna Hall 615 Oliver Smith Rd. Fayetteville, TN 37355	
<b>POLICY COUNCIL OFFICERS:</b>	Chairman - Co. Mayor Sloan Stewart Vice Chairman - Mayor Joe Boyd Ligget Secretary - Mr. Charles Sain	
<b>BUDGET, STATE/LOCAL APPROPRIATIONS, &amp; AUDIT COMMITTEE:</b>	Co. Mayor Sloan Stewart, Chairman Co. Mayor Richard Stewart Co. Mayor Eugene Ray Co. Mayor Janet Vanzant Mr. John Campbell Ms. Sue Turnbow	
<b>EXECUTIVE DIRECTOR:</b>	Mr. Paul Rosson	
<b>FINANCE DIRECTOR:</b>	Ms. Amy Ezell	
<b>HUMAN RESOURCE DIRECTOR:</b>	Ms. Scarlet Patterson	

SINGLE AUDIT

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)	Receipts	Expenditures	Ending Accrued (Deferred)	Expenditures to Subrecipients
<u>Direct Programs</u>							
<u>U.S. Department of Health and Human Services</u>							
Head Start	93.600	04CH465003	\$ (620,048)	\$ 620,048	\$ -	\$ -	-
Head Start	93.600	04CH465004	-	7,644,245	7,845,521	(201,276)	-
Head Start	93.600	04HP001701	91,012	418,112	500,708	8,416	-
Head Start	93.600	04HP001702	-	1,867,774	1,899,599	(31,825)	-
Total	93.600		(529,036)	10,550,179	10,245,828	(224,685)	-
<u>Corporation for National and Community Service</u>							
Retired Senior Volunteer Program	94.002	15SRSTN005	(4,073)	32,315	29,660	(1,418)	-
Total	94.002		(4,073)	32,315	29,660	(1,418)	-
Foster Grandparent Program	94.011	15GXSTN002	(17,875)	254,710	244,383	(7,548)	-
Total	94.011		(17,875)	254,710	244,383	(7,548)	-
<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-26910-15-55-A-24	(29,399)	29,399	-	-	-
Senior Community Service Employment Program	17.235	AD-29496-16-55-A-24	-	627,751	698,261	(70,510)	-
Total	17.235		(29,399)	657,150	698,261	(70,510)	-
<u>U.S. Department of Health and Human Services, passed through from Tennessee Housing Development Agency</u>							
Low-Income Home Energy Assistance	93.568	LIHEAP-16-15	(54,927)	178,203	123,276	-	-
Low-Income Home Energy Assistance	93.568	LIHEAP-16B-15	-	2,775,601	2,893,252	(117,651)	-
Low-Income Home Energy Assistance	93.568	LWx-16-11	(32,602)	61,293	227,884	(199,193)	-
Total	93.568		(87,529)	3,015,097	3,244,412	(316,844)	-

See independent auditors' report.  
See accompanying note to schedule of expenditures of federal and state awards.



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)	Receipts	Expenditures	Ending Accrued (Deferred)	Expenditures to Subrecipients
<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 (Continued)</u>							
Community Services Block Grant	93.569	Z-16-49116	(342,112)	342,112	-	-	-
Community Services Block Grant	93.569	Z-17-49116	-	594,548	828,764	(234,216)	-
Total 93.569			(342,112)	936,660	828,764	(234,216)	-
Social Services Block Grant	93.667	Z-16-49316	(25,178)	25,178	-	-	-
Social Services Block Grant	93.667	Z-17-49316	-	158,825	219,607	(60,782)	-
Total 93.667			(25,178)	184,003	219,607	(60,782)	-
<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	46,144	412,118	503,367	(45,105)	-
Total 10.558			46,144	412,118	503,367	(45,105)	-
Emergency Food Assistance Program (Administrative Costs)	10.568	54394	(10,572)	21,967	11,395	-	-
Emergency Food Assistance Program (Administrative Costs)	10.568	62449	-	31,889	31,889	-	-
Emergency Food Assistance Program (Administrative Costs)	10.568	62671	-	23,674	51,985	(28,311)	-
Total 10.568			(10,572)	77,530	95,269	(28,311)	-
Emergency Food Assistance Program (Food Commodities)	10.569	N/A	116,992	301,761	275,693	143,060	-
Total Food Distribution Cluster			106,420	379,291	370,962	114,749	-
<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	06-2017-07	-	463,616	477,900	(14,284)	-
Nutrition Services Incentive Program	93.053	06-2017-14	-	59,854	65,308	(5,454)	-
Total Aging Cluster			-	523,470	543,208	(19,738)	-

See independent auditors' report.  
See accompanying note to schedule of expenditures of federal and state awards.

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)	Receipts	Expenditures	Ending Accrued (Deferred)	Expenditures to Subrecipients
<u>Pass Through Programs (Continued)</u>							
<u>U.S. Department of Energy, passed through from Tennessee Housing Development Agency</u>							
Weatherization Assistance for Low-Income Persons	81.042	WAP-14-12	(62,363)	93,723	31,360	-	-
Weatherization Assistance for Low-Income Persons	81.042	WAP-16-10	-	86,743	213,611	(126,868)	-
Total 81.042			(62,363)	180,466	244,971	(126,868)	-
<u>U.S. Department of the Treasury, passed through from United Way of Metropolitan Nashville</u>							
Volunteer Income Tax Assistance	21.003	16VITA0214	(521)	521	-	-	-
Volunteer Income Tax Assistance	21.003	17VITA0214	-	17,160	17,160	-	-
Total 21.003			(521)	17,681	17,160	-	-
Total - Federal Programs			(945,522)	17,143,140	17,190,583	(992,965)	-
<u>State Programs</u>							
State of Tennessee Department of Human Services	N/A	Direct Appropriation	-	145,890	145,890	-	-
State of Tennessee Department of Corrections	N/A	41931	(54,140)	363,014	482,347	(173,473)	-
State of Tennessee Department of Children's Services	N/A	35910-02117	-	36,321	83,073	(46,752)	-
State of Tennessee Department of Mental Health and Substance Abuse Services	N/A	53937	-	157	24,192	(24,035)	-
Total - State Programs			(54,140)	545,382	735,502	(244,260)	-
Total - All Programs			\$ (999,662)	\$ 17,688,522	\$ 17,926,085	\$ (1,237,225)	\$ -

See independent auditors' report.  
See accompanying note to schedule of expenditures of federal and state awards.

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Notes to Schedule of Expenditures of Federal and State Awards  
Year Ended June 30, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards (the schedule) includes the federal and state award activity of the Agency under programs of the federal and state government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Agency, it is not intended to and does not present the financial position or changes in financial position of the Agency.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) The Agency is not eligible to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance since its indirect cost rate is approved annually by the U.S. Department of Health and Human Services.

NOTE 3 - NONCASH ASSISTANCE - FOOD COMMODITIES

Food commodities are expended when the food is distributed. The amount expended is based on food commodity values provided by the State of Tennessee, Department of Agriculture. At June 30, 2017, the Agency had food commodities totaling \$143,060 in inventory.

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2017

**I. Summary of Auditors' Results**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified opinion

Internal Control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes        X No
- Significant deficiency(ies) identified? \_\_\_\_\_ X Yes        No
- Noncompliance material to financial statements noted? \_\_\_\_\_ Yes        X No

**Federal Awards**

Internal control over major federal programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes        X No
- Significant deficiency(ies) identified? \_\_\_\_\_ Yes        X No

Type of auditors report issued on compliance for major federal programs: Unmodified opinion

- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ Yes        X No

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.568	Low-Income Home Energy Assistance
93.600	Head Start

Dollar threshold used to distinguish between type A and type B programs: \$750,000

- Auditee qualified as low -risk auditee? \_\_\_\_\_ Yes        X No

**II. Findings Relating to the Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards**

Reference number: 2017-001

Condition: Certain general ledger account balances were not reconciled during the year.

Criteria: General ledger account balances should be reconciled monthly.

Questioned Costs: None

Cause: Due to experiencing fiscal Staff changes and the need for acclimation/training of new fiscal personnel.

Effects:

1. Material adjustments were identified impacting asset, liability, revenue and expense account balances.
2. Financial reports submitted to Agency management and grantor agencies contained errors.
3. Liabilities due to grantor agencies were not timely identified.
4. Completion of audit was delayed.

Context: Entries necessary to adjust certain general ledger account balances were not timely recorded during the year.

Recommendation: General ledger account balances should be reconciled monthly.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the finding. The Finance Director will ensure that general ledger account balances are reconciled monthly going forward.

**III. Findings and Questioned Costs for Federal Award Programs**

None Reported.

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2017

**Findings - Financial Statements Audit**

Reference number: 2016-001

Condition: Pension amounts related to the Agency's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System ("TCRS Plan") were not recorded in the Agency's general ledger as of June 30, 2016.

Corrective Action Taken:

Corrected: The proposed audit adjustment was recorded in the Agency's general ledger as of June 30, 2016.

Reference number: 2016-002

Condition: Certain general ledger account balances were not reconciled as of June 30, 2016.

Corrective Action Taken:

Corrected: The general ledger account balances were reconciled and the proposed audit adjustments were recorded in the Agency's general ledger as of June 30, 2016.

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

None

SOUTH CENTRAL HUMAN RESOURCE AGENCY

1437 Winchester Highway  
Fayetteville, TN 37334

Corrective Action Plan

January 30, 2018

Department of Health & Human Services,  
Administration for Children & Families,  
Office of Head Start  
18th Floor Portals Building  
1250 Maryland Ave, SW  
Washington DC 20024

The South Central Human Resource Agency respectfully submits the following corrective action plan for the year ended June 30, 2017.

Name and address of independent public accounting firm:

Rodefer Moss & Co, PLLC  
3011 Armory Drive, Suite 290  
Nashville, TN 37204

Audit Period: Fiscal year ended June 30, 2017

The findings from the June 30, 2017 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the number assigned in the schedule.

Finding 2017-001 - Account Reconciliations

Recommendation: General ledger account balances should be reconciled monthly.

Action Taken: Management agrees with the finding. The Finance Director will ensure that general ledger account balances are reconciled monthly going forward.

If the Administration for Children & Families has questions regarding this plan, please contact me at (931) 433-7182

Sincerely yours,

Paul Rosson, Executive Director

Independent Auditors' 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, in accordance with the 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, 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, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated January 30, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001, that we consider to be a significant deficiency.

**Compliance and Other Matters**

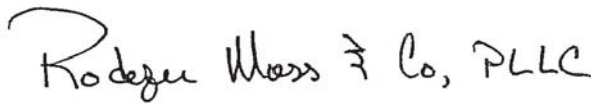
As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Agency's Response to Finding**

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rodeger Mass & Co, PLLC

Nashville, Tennessee  
January 30, 2018



Independent Auditors' Report on Compliance for Each Major Program and on  
Internal Control Over Compliance Required by the Uniform Guidance

Governing Board  
South Central Human Resource Agency  
Fayetteville, Tennessee

**Report on Compliance for Each Major Federal Program**

We have audited South Central Human Resource Agency's (the "Agency") compliance with the types of compliance requirements described in the *OMB 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, 2017. The Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Agency complied, in all material respects, with the types of 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, 2017.

**Report on Internal Control Over Compliance**

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Rodger Messer Co, PLLC

Nashville, Tennessee  
January 30, 2018