

SOUTH CENTRAL HUMAN RESOURCE AGENCY

Financial Statements with Supplementary Information

Year Ended June 30, 2016

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 Financial Statements with Supplementary Information
 Year Ended June 30, 2016

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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, 2016, 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, 2016, 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 10 and required supplementary schedules on pages 28 through 30 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

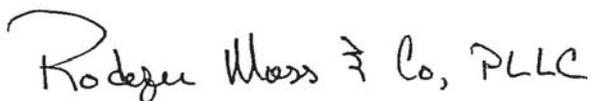
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of 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* (CFR) 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 schedules of insurance coverage and agency officials have 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.



Nashville, Tennessee
January 31, 2017

SOUTH CENTRAL HUMAN RESOURCE AGENCY
Management's Discussion and Analysis
June 30, 2016

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, 2016. 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 helps people in need to help themselves and each other to enrich their lives.

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 2016, SCHRA had in place 13 Neighborhood Service Centers, 20 Head Start Centers, 21 Pre-K classroom collaborations in 3 counties, 3 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 2016, SCHRA delivered approximately \$22.0 million dollars of services and employed approximately 450 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 seven city mayors; and, as authorized, acts for the Governing Board.

The membership of the Policy Council is comprised of one-third elected public officials currently holding office, one-third are persons chosen in accordance with democratic selection procedures to assure that they are representatives for the poor in the area they serve, and the remainder are officials or members of business, industry, religious, welfare, educational, and other major groups with interest in the community. This is known as a tri-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. A Licensed Attorney, a Financial Management Representative, and an Early Childhood Representative also serve on the Policy Council to meet the requirements of the Head Start Act. Normally these last three positions do not have voting status unless they serve in a dual role as an appointed community representative.

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. This facility includes a commercial kitchen, office and program facilities, and a storage area for commodities held for distribution. The Agency moved into this building as its base of operations in April 2005 and continues to operate from this location.

Program Highlights

The Agency operates a variety of programs to meet the needs of clients in its service areas. Program highlights for the Agency's most significant programs from fiscal year 2016 follow:

Head Start and Early Head Start Programs

The objectives 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, are to promote school readiness 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. 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 50 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. During FY 15, the Agency was awarded a second Head Start grant totaling \$2,555,000 to expand Early Head Start services in Bedford, Coffee, Lincoln, and Maury counties to 128 children. The expansion grant, which covers an 18 month period from March 1, 2015 through August 31, 2016, was increased to \$4.2 million during FY 16. This award includes \$3,570,000 for expansion of operations, \$330,000 for training and technical assistance, and \$300,000 for start-up.

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 2016, a total of 5,583 clients received assistance totaling \$2,443,727.

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 2016, a total of 94,129 congregate meals were served to over 1500 clients and 65,601 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 13,996 meals to over 100 clients, Family Caregiver provided 2,903 meals to over 10 clients, and Long Term Care Choices provided 28,518 meals to over 100 clients.

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

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 2016, 268 clients were assisted in nineteen Tennessee counties and nine other states. Benefits overseen on behalf of clients for the year totaled \$2,173,034.

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 2016, these kitchens supplied 205,147 meals for the Agency's Senior Nutrition Program and 16,637 meals for its Head Start Program. Private pay meals totaled 8,813. Other catering engagements both internal and public produced additional revenues of \$74,849.

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 2016 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 2016, the CSBG Program served 8,453 unduplicated households with 18,875 units of service.

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 2016, the Title V Program served a twelve (12) county area with an allocated slot level of 81 clients. The Title V Program also served four (4) additional counties (Bledsoe, Grundy, Marion, and Sequatchie) which are outside of SCHRA's service area. During fiscal year 2016 a total of 161 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 2016, a total of 3,648 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

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

(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 2016, Options provided 4,416 units of service, Family Caregiver provided 2,832 units of service, and Long Term Care Choices provided 11,056 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 2016, the Program served 475 clients who paid \$24,931 in victim restitution, \$13,156 in child support, and worked 4,989 hours of community service.

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 2016, services were provided for 294 "at risk" children by 61 Foster Grandparents.

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 2016, a total of 7,412 hours of service were provided to 101 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 2016, 183 weatherization applications were updated for eligibility and 67 homes were contracted for weatherization before June 30, 2016.

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

Overview of the Financial Statements

Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements, which consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the Agency through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplementary information that will enhance the reader's understanding of the financial condition of the Agency.

The final section of the report is the federally mandated "Single Audit", which is prepared to comply with the Single Audit Act of 1996. Reports on internal control and compliance, along with the schedule of expenditures of federal and state awards, are presented to reflect federal and state participation in various Agency programs.

Government-Wide Financial Statements

The first two statements on pages 11 and 12 are government-wide financial statements that are designed to 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, with the difference between the two categories reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Agency is improving. The statement of activities presents information on how the Agency's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement, which may result in cash flows in future fiscal periods, such as earned but unused accrued leave. All of the Agency's activities are considered to be governmental activities.

Fund Financial Statements

The fund financial statements on pages 13 through 16 provide more detail about the Agency's most significant activities. 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. 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. Governmental funds use an accounting method called modified accrual accounting. This method provides a short-term spending focus. The relationship between government activities (reported in the statement of net position and the statement of activities) and governmental funds is described in reconciliations that are part of the fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 17 through 27 of this report.

Required Supplementary Information

The required supplementary information on pages 28 through 30 of this report is presented to supplement the basic financial statements.

Supplementary Information

The supplementary information on pages 31 through 37 of this report is presented 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)

Government-Wide Financial Analysis

Net Position

Table 1 below is a summary of the Agency's net position at June 30, 2016 with comparative data from June 30, 2015.

Table 1
Condensed Statement of Net Position

	<u>2016</u>	<u>2015</u>
Current assets	\$ 2,624,528	\$ 2,633,723
Restricted assets	527,403	577,020
Net pension asset	1,767,783	1,716,609
Capital assets	<u>1,977,872</u>	<u>2,030,911</u>
Total assets	<u>6,897,586</u>	<u>6,958,263</u>
Deferred outflows of resources	<u>65,770</u>	<u>-</u>
Current liabilities	<u>1,812,782</u>	<u>1,960,792</u>
Total liabilities	<u>1,812,782</u>	<u>1,960,792</u>
Deferred inflows of resources	<u>87,051</u>	<u>116,068</u>
Net position:		
Investment in capital assets	1,977,872	2,030,911
Restricted for pension benefits	1,767,783	1,600,541
Unrestricted	<u>1,317,868</u>	<u>1,249,951</u>
Total net position	<u>\$ 5,063,523</u>	<u>\$ 4,881,403</u>

The Agency's assets exceeded liabilities by \$5.06 million as of June 30, 2016. The Agency's net position increased \$182,120 for the fiscal year.

The Agency's investment in capital assets (buildings and improvements, vehicles, equipment, and land) represents 39% of its net position as of June 30, 2016. 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, 2016.

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

Change in Net Assets

Table 2 presents a summary of government-wide activity (as presented on page 12) for the year ended June 30, 2016, with comparative data for June 30, 2015.

Table 2
Change in Net Position

	2016		2015	
	<u>Amount</u>	<u>Percentage of Funding</u>	<u>Amount</u>	<u>Percentage of Funding</u>
Revenues:				
Operating grants and contributions	\$ 17,201,337	78.25%	\$ 15,497,350	75.37%
Charges for services and other income	<u>4,781,263</u>	<u>21.75%</u>	<u>5,063,947</u>	<u>24.63%</u>
Total revenues	<u>21,982,600</u>	<u>100.00%</u>	<u>20,561,297</u>	<u>100.00%</u>
Expenses:				
Head Start	10,469,018	47.62%	8,430,263	41.00%
Low Income Home Energy Assistance	2,904,896	13.21%	3,839,362	18.67%
Community Representative Payee	2,269,376	10.32%	2,290,068	11.14%
Nutrition Services for the Elderly	1,578,034	7.18%	1,480,324	7.20%
Community Services Block Grant	1,045,123	4.75%	763,845	3.71%
Food Service	1,039,192	4.73%	1,140,045	5.54%
Senior Community Service Employment	704,948	3.21%	646,770	3.15%
Community Corrections	508,192	2.31%	474,627	2.31%
Homemaker Services for the Elderly	330,359	1.50%	363,272	1.77%
Foster Grandparent	278,497	1.27%	267,175	1.30%
Social Services Block Grant	228,938	1.04%	238,714	1.16%
Weatherization Assistance	171,192	0.78%	9,488	0.05%
Emergency Food Assistance	99,574	0.45%	91,041	0.44%
State Appropriations, Agency & Other	173,141	0.79%	262,850	1.28%
Rebuild and Recover	<u>-</u>	<u>0.00%</u>	<u>168,808</u>	<u>0.82%</u>
Total expenses	<u>21,800,480</u>	<u>99.17%</u>	<u>20,466,652</u>	<u>99.54%</u>
Change in net position	<u>\$ 182,120</u>	<u>0.83%</u>	<u>\$ 94,645</u>	<u>0.46%</u>

Governmental activities showed an increase in net position of \$182,120 for the fiscal year compared to an increase in net position of \$94,645 for the prior year. Operating grants and contributions provided approximately 78% of the funds for governmental activities for the current fiscal year and approximately 75% for the 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, 2016, the Agency's governmental funds reported a total fund balance of approximately \$1.34 million, an increase of \$89,198 over the prior fiscal year.

The general fund is the Agency's primary operating fund. Revenues exceeded expenditures in this fund by \$180,010 for the fiscal year. The unassigned fund balance of the general fund was approximately \$1.20 million as of June 30, 2016.

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 \$90,812, 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, 2016, the Agency's net pension asset totaled \$1,767,783 compared to \$1,716,609 in the prior fiscal year; a net increase of \$51,174. Additional information on the Agency's pension plan can be found in Note 11 of the financial statements.

Capital Assets

As of June 30, 2016, the Agency's capital assets totaled \$1,977,872 compared to \$2,030,911 in the prior fiscal year; a net decrease of \$53,039. These assets include buildings and improvements, vehicles, equipment, and land. Additions to capital assets totaled \$92,838. Fully depreciated assets with an original cost of \$18,899 were disposed of during the fiscal year. The Agency also recognized depreciation expense of \$145,877. Additional information on the Agency's capital assets can be found in Note 4 of the financial statements.

Long-Term Debt

The Agency has no long-term debt.

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 scheduled 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 Director of Fiscal Operations, South Central Human Resource Agency, P.O. Box 638, Fayetteville, TN 37334.

SOUTH CENTRAL HUMAN RESOURCE AGENCY

Statement of Net Position

June 30, 2016

ASSETS		
Cash		\$ 675,890
Certificate of deposit		464,501
Receivables		1,345,035
Inventories - kitchen supplies		103,688
Prepaid expenses		35,414
Restricted assets		
Cash		410,411
Inventories - food commodities		116,992
Net pension asset		1,767,783
Capital assets		
Buildings and improvements	\$ 2,392,129	
Vehicles	1,035,756	
Equipment	340,434	
Land	<u>25,000</u>	
	3,793,319	
Less accumulated depreciation	<u>1,815,447</u>	
Capital assets, net		<u>1,977,872</u>
Total assets		<u>6,897,586</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions		<u>65,770</u>
LIABILITIES		
Accounts payable	535,976	
Accrued payroll	225,433	
Accrued payroll taxes and employee benefits	167,540	
Due to funding source	584,395	
Accrued leave	263,938	
Accrued audit fee	<u>35,500</u>	
Total liabilities		<u>1,812,782</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions		<u>87,051</u>
NET POSITION		
Investment in capital assets		1,977,872
Restricted for pension benefits		1,767,783
Unrestricted		<u>1,317,868</u>
Total net position		<u>\$ 5,063,523</u>

SOUTH CENTRAL HUMAN RESOURCE AGENCY
Statement of Activities
Year Ended June 30, 2016

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	\$ 9,778,438	\$ 690,580	\$ 896	\$ 10,507,562	\$ 39,440
Low Income Home Energy Assistance	2,842,181	62,715	-	2,904,896	-
Community Representative Payee	2,263,443	5,933	2,278,681	-	9,305
Nutrition Services for the Elderly	1,541,703	36,331	956,130	557,181	(64,723)
Community Services Block Grant	973,000	72,123	4,529	1,042,617	2,023
Senior Community Service Employment	699,348	5,600	-	704,948	-
Community Corrections	473,081	35,111	42,357	465,470	(365)
Homemaker Services for the Elderly	307,534	22,825	302,023	-	(28,336)
Foster Grandparent	270,965	7,532	540	277,062	(895)
Social Services Block Grant	213,121	15,817	-	209,965	(18,973)
Weatherization Assistance	163,719	7,473	-	171,192	-
Emergency Food Assistance	92,693	6,881	862	99,574	862
Other	67,401	4,765	681	73,881	2,396
Support services:					
Food Service	960,230	78,962	1,177,457	-	138,265
State Appropriations, Agency & Other	89,515	11,460	17,107	186,989	103,121
Total	<u>\$ 20,736,372</u>	<u>\$ 1,064,108</u>	<u>\$ 4,781,263</u>	<u>\$ 17,201,337</u>	182,120
Net position at beginning of year					<u>4,881,403</u>
Net position at end of year					<u>\$ 5,063,523</u>

SOUTH CENTRAL HUMAN RESOURCE AGENCY
Balance Sheet - Governmental Funds
June 30, 2016

	General	Special Revenue	Total Governmental Funds
ASSETS			
Cash	\$ 671,112	\$ 4,778	\$ 675,890
Certificate of deposit	464,501	-	464,501
Receivables			
Funding sources and others	20,816	1,324,219	1,345,035
Due from special revenue fund	331,627	-	331,627
Inventories - kitchen supplies	103,688	-	103,688
Prepaid expenses	35,414	-	35,414
Restricted assets			
Cash	1,691	408,720	410,411
Inventories - food commodities	-	116,992	116,992
Total assets	\$ 1,628,849	\$ 1,854,709	\$ 3,483,558
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 127,017	\$ 408,959	\$ 535,976
Accrued payroll	38,494	186,939	225,433
Accrued payroll taxes and employee benefits	28,607	138,933	167,540
Due to funding sources	-	584,395	584,395
Due to general fund	-	331,627	331,627
Accrued leave	60,082	203,856	263,938
Accrued audit fee	35,500	-	35,500
Total liabilities	289,700	1,854,709	2,144,409
Fund Balances			
Nonspendable	139,102	-	139,102
Unassigned	1,200,047	-	1,200,047
Total fund balances	1,339,149	-	1,339,149
Total liabilities and fund balances	\$ 1,628,849	\$ 1,854,709	\$ 3,483,558

SOUTH CENTRAL HUMAN RESOURCE AGENCY
 Reconciliation of the Balance Sheet - Governmental
 Funds to the Statement of Net Position
 June 30, 2016

Fund balances - total governmental funds		\$ 1,339,149
<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 and inflows related to pensions are not available to pay for current period expenditures and, therefore, are either deferred or not applicable to governmental funds</p>		1,746,502
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds</p>		
Governmental capital assets	\$ 3,793,319	
Less accumulated depreciation	<u>1,815,447</u>	
		<u>1,977,872</u>
Net position of governmental activities		<u><u>\$ 5,063,523</u></u>

SOUTH CENTRAL HUMAN RESOURCE AGENCY
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds
Year Ended June 30, 2016

	General	Special Revenue	Total Governmental Funds
Revenues			
Grantor contributions	\$ 127,890	\$ 16,970,583	\$ 17,098,473
Performance based income	-	1,179,249	1,179,249
Program income	1,177,457	115,648	1,293,105
State and local contributions	59,099	43,765	102,864
Interest income	4,510	3	4,513
Other income	125,070	2,179,326	2,304,396
Total revenues	<u>1,494,026</u>	<u>20,488,574</u>	<u>21,982,600</u>
Expenditures			
Salaries	273,106	6,194,927	6,468,033
Fringe benefits	145,110	2,658,251	2,803,361
Participant costs	3,026	3,632,882	3,635,908
Food	487,054	1,483,910	1,970,964
Indirect costs	96,921	967,187	1,064,108
Contract services	-	418,250	418,250
Insurance and bonding	12,075	62,718	74,793
Maintenance and repairs	26,411	196,443	222,854
Nonexpendable supplies	4,259	76,833	81,092
Office supplies	4,289	17,975	22,264
Other	15,815	2,256,669	2,272,484
Postage	6,660	13,989	20,649
Printing and duplication	764	18,633	19,397
Professional services	26,966	419,922	446,888
Program supplies	51,343	664,632	715,975
Rent and leases	40,349	610,335	650,684
Telephone	2,369	138,665	141,034
Transportation	14,784	29,378	44,162
Travel - in area	234	164,171	164,405
Travel - out of area	1,012	196,729	197,741
Utilities	27,916	147,477	175,393
Vehicles and equipment	73,553	209,410	282,963
Total expenditures	<u>1,314,016</u>	<u>20,579,386</u>	<u>21,893,402</u>
Excess (deficiency) of revenues over expenditures	180,010	(90,812)	89,198
Other Financing Sources (Uses)			
Transfers in (out)	<u>(90,812)</u>	<u>90,812</u>	<u>-</u>
Net change in fund balances	89,198	-	89,198
Fund balances at beginning of year	<u>1,249,951</u>	<u>-</u>	<u>1,249,951</u>
Fund balances at end of year	<u>\$ 1,339,149</u>	<u>\$ -</u>	<u>\$ 1,339,149</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, 2016

Net change in fund balances - total governmental funds	\$	89,198
<p>Amounts reported for governmental activities in the statement of activities are different because of the following:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are depreciated over their estimated lives</p>		
Expenditures for capital assets	\$	92,838
Current year's depreciation		<u>145,877</u>
		(53,039)
<p>Governmental funds report proceeds from disposals of capital assets as revenues. However, the corresponding gain (loss) is reported in the statement of activities</p>		
Cost of capital assets disposed		18,899
Accumulated depreciation on capital assets disposed		<u>18,899</u>
		-
<p>Negative pension expense in the statement of activities which does not require current financial resources is not reported as an expenditure in governmental funds.</p>		
		<u>145,961</u>
Change in net position of governmental activities	\$	<u><u>182,120</u></u>

SOUTH CENTRAL HUMAN RESOURCE AGENCY
Notes to Financial Statements
June 30, 2016

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 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: 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 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 \$90,812. The interfund balance of \$331,627 due to the general fund as of June 30, 2016 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, 2016. 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 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.

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, 2016.

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, 2016.

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. The Agency was notified by the Internal Revenue Service (IRS) in 2012 that it must begin filing Form 990, *Return of Organization Exempt from Income Tax*, on an annual basis effective for the year ended June 30, 2011. Forms 990s for the years ending June 30, 2013 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 investment in capital assets, restricted and unrestricted. 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, 2016 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, 2016 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. 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, 2016.

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, 2016 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, 2016, the carrying amount of the Agency's deposits, including the certificate of deposit, was \$1,550,802, and bank balances, which totaled \$1,855,996, 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, 2016 consisted of the following:

Federal	\$ 550,984
State	581,894
Other	<u>212,157</u>
	<u>\$ 1,345,035</u>

NOTE 4 - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2016 consisted of the following:

	Beginning Balance	Increases	Transfers/ Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Capital assets being depreciated:				
Building and improvements	2,392,129	-	-	2,392,129
Vehicles	942,918	92,838	-	1,035,756
Equipment	<u>359,333</u>	<u>-</u>	<u>(18,899)</u>	<u>340,434</u>
Total capital assets being depreciated	<u>3,694,380</u>	<u>92,838</u>	<u>(18,899)</u>	<u>3,768,319</u>
Less accumulated depreciation for:				
Building and improvements	543,798	89,993	-	633,791
Vehicles	823,420	41,768	-	865,188
Equipment	<u>321,251</u>	<u>14,116</u>	<u>(18,899)</u>	<u>316,468</u>
Total accumulated depreciation	<u>1,688,469</u>	<u>145,877</u>	<u>(18,899)</u>	<u>1,815,447</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>2,005,911</u>	<u>(53,039)</u>	<u>-</u>	<u>1,952,872</u>
Governmental activities capital assets, net of accumulated depreciation	<u>\$ 2,030,911</u>	<u>\$ (53,039)</u>	<u>\$ -</u>	<u>\$ 1,977,872</u>

Depreciation expense for the year ended June 30, 2016 was \$145,877.

NOTE 5 - OPERATING LEASE AGREEMENTS

The Agency leases real estate, vehicles, and equipment for operation of its programs. Rent for the year ended June 30, 2016 totaled \$650,684 including allocated building costs of \$200,236. All of the Agency's leases are cancelable with thirty days notice in the event that the Agency loses federal or state funding for any program which utilizes leased property.

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

NOTE 6 - 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 \$211,950 for the year ended June 30, 2016.

Money Purchase Pension Plan

The Agency also has 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, 2016 to the Pension Plan totaled \$242,141.

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. Although the Agency expects the plans to remain in effect indefinitely, the Agency reserves the right to amend or terminate the plans at any time with approval from the Governing Board.

NOTE 7 - 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 \$2,337,315 for the year ended June 30, 2016.

NOTE 8 - CONCENTRATIONS

Approximately 78% of the Agency's revenues for 2016 came from direct and pass-through federal grants. Approximately 61% of the Agency's revenues for 2016 were from two programs. The Agency is economically dependent on federal and state funding in order to carry out its various programs.

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

NOTE 9 - 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 percent of the total premium for its employees.

NOTE 10 - 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 11 - 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 (TCRS). 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.

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

NOTE 11 - PENSION PLAN (Continued)

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 (COLAs) 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 are entitled to benefits according to the pension plan as it existed on the date of withdrawal. At the measurement date of June 30, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	7
Active employees	-
	10

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, 2016, no employee contributions were made to the 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, 2016, 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, 2015, and the total pension liability used to calculate net pension asset was determined by an actuarial valuation as of that date.

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

NOTE 11 - PENSION PLAN (Continued)

Actuarial Assumptions

The total pension liability as of the June 30, 2015 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, 2015 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%	<u>1%</u>
		<u>100%</u>

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.

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

NOTE 11 - PENSION PLAN (Continued)

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at June 30, 2014	\$ 144,798	\$ 1,861,407	\$ (1,716,609)
Changes for the year:			
Service cost	1,218	-	1,218
Interest	10,843	-	10,843
Differences between expected and actual experience	(5,950)	-	(5,950)
Contributions - employer	-	-	-
Contributions - employees	-	-	-
Net investment income	-	57,285	(57,285)
Benefit payments, including refunds of employee contributions	(2,882)	(2,882)	-
Administrative expense	-	-	-
Net changes	<u>3,229</u>	<u>54,403</u>	<u>(51,174)</u>
Balance at June 30, 2015	<u>\$ 148,027</u>	<u>\$ 1,915,810</u>	<u>\$ (1,767,783)</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:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net pension asset	\$ (1,750,675)	\$ (1,767,783)	\$ (1,782,298)

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

NOTE 11 - 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, 2016, the Agency recognized negative pension expense of \$145,961.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2016, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on pension plan investments	65,770	87,051
Contributions subsequent to the measurement date of June 30, 2015	-	-
Total	\$ 65,770	\$ 87,051

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

Year Ended	
June 30:	Amount
2017	\$ (12,575)
2018	(12,575)
2019	(12,575)
2020	16,444
2021	-
Thereafter	-
	\$ (21,281)

Payable to the Pension Plan

The Agency had no required employer contributions to the pension plan for the year ended June 30, 2016. 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 TCRS (Unaudited)
Year Ended June 30, 2016

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

	Fiscal Year Ending June 30:		
	2014	2015	2016
Actuarially determined contribution	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$ -	\$ -	\$ -
Contributions 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
Notes to Schedule of Contributions (Unaudited)
Year Ended June 30, 2016

Valuation Date:

Actuarially determined contributions for 2016 were calculated based on the July 1, 2013 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	1 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, averaging 4.25%
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%

SUPPLEMENTARY INFORMATION

SOUTH CENTRAL HUMAN RESOURCE AGENCY

Schedule of Indirect Costs

Year Ended June 30, 2016

Salaries	\$	559,262
Fringe benefits		243,250
Rent and leases		76,605
Travel - out of area		36,475
Insurance and bonding		35,985
Contract services		35,500
Professional services		26,322
Vehicles and equipment		10,990
Office supplies		10,437
Maintenance and repairs		6,064
Printing and duplication		6,006
Telephone		5,194
Postage		4,078
Other		3,327
Travel - in area		1,808
Program supplies		1,114
Transportation		925
Participant costs		417
Nonexpendable supplies		306
Food		43
		<hr/>
	\$	<u>1,064,108</u>

SOUTH CENTRAL HUMAN RESOURCE AGENCY
Schedule of Insurance Coverage (Unaudited)
Year Ended June 30, 2016

	<u>Amount</u>
A. Commercial General Liability and Personal Injury Liability Protection	
Policy No. TML-0282-16	
Policy Period: 7/01/15-7/01/16	
Bodily injury or personal injury (per person)	\$ 300,000
Bodily injury or personal injury (per occurrence)	700,000
Property damage (per occurrence)	100,000
Fire damage/impounded property damage/non-monetary defense cost	100,000
Other loss (per occurrence)	1,000,000
Deductible	None
B. Real and Personal Property and Crime	
Policy No. TMP-0538-16	
Policy Period: 7/01/15-7/01/16	
Building and personal property	7,650,687
EDP equipment	493,750
Flood (per occurrence)	1,000,000
Earthquake (per occurrence)/newly cost removal	1,500,000
Rental values/construction/demolition/debris/consequential loss	500,000
Leasehold interest/extra expense/terrorism (per occurrence)	500,000
Property in transit/accounts receivable/valuable papers & records/loss of revenue	250,000
EDP media/software	100,000
Personal effects	50,000
Deductible (per occurrence)	1,000
C. Public Officers Liability	
Policy No. TML-0282-16	
Policy Period: 7/01/15-7/01/16	
Limit for errors and omissions	1,000,000
Deductible (per occurrence)	None
D. Automobile Insurance	
Policy No. TML-0282-016	
Policy Period: 7/01/15-7/01/16	
Bodily injury (per person)	300,000
Bodily injury (per occurrence)	700,000
Property damage (per occurrence)	100,000
Other loss (per occurrence)	1,000,000
Deductibles (comprehensive/collision)	100/250
E. Workers Compensation	
Policy No. TWC-0211-16	
Policy Period: 7/01/15-7/01/16	
Bodily injury (per accident)	300,000
Bodily injury by disease (policy limit)	700,000
Bodily injury by disease (per employee)	300,000
Deductible	None

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

	<u>Amount</u>
F. Personal Liability Insurance for South Central Human Resource Agency Volunteers Policy No. TNFAYE1 Policy Period: 7/01/15-7/01/16	
Personal injury or property damage (per occurrence)	\$ 1,000,000
Annual aggregate (for both combined)	3,000,000
Deductible	None
G. Accident Insurance for South Central Human Resource Agency Volunteers Policy No. MHH010303 Policy Period: 7/01/15-7/01/16	
Principal sum	2,500
Capital sum	2,500
Medical indemnity (per occurrence)	50,000
Deductible	None
H. Excess Automobile Liability Insurance for South Central Human Resource Agency Volunteers Policy No. TNFAYE1 Policy Period: 7/01/15-7/01/16	
Per accident or loss	500,000
Deductible	None
I. Special Accident for Head Start Program Policy No. 83 SR 193351 Policy Period: 9/22/15-9/22/16	
Accidental dismemberment	10,000
Medical expenses (per occurrence)	10,000
Death benefit (per occurrence)	5,000
Accident medical expense benefit (max)	25,000
Dental limit	1,000
J. Special Accident for Early Head Start Centers (Children) Policy No. 50202928907345001 Policy Period: 8/23/15-8/23/16	
Accidental death (per occurrence)	5,000
Accidental dismemberment (per occurrence)	15,000
Accident medical expense (per occurrence)	25,000
K. Special Accident Insurance for Early Head Start Centers (Mothers) Policy No. 50202928807345001 Policy Period: 8/23/15-8/23/16	
Accidental death	5,000
Accidental dismemberment	15,000
Accidental medical expense	10,000

(Continued)

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

	<u>Amount</u>
L. Accident Insurance for Retired Senior Program Volunteers	
Policy No. TNFAYE	
Policy Period: 7/01/15-7/01/16	
Principal sum	\$ 2,500
Capital sum	2,500
Medical indemnity (maximum per insured)	50,000
Deductible	None
M. Personal Liability Insurance for Retired Senior Volunteer Program	
Certificate No. TNFAYE	
Policy Period: 7/01/15-7/01/16	
Personal injury or property damage (per occurrence)	1,000,000
Annual aggregate for both combined	3,000,000
Deductible	None
N. Excess Automobile Liability Insurance for Retired Senior Volunteer Program	
Certificate No. TNFAYE	
Policy Period: 7/01/15-7/01/16	
Maximum payment per accident or loss	500,000
Deductible	None
O. Personal Liability Insurance for Foster Grandparent Program Volunteers	
Certificate No. TNFAYE3	
Policy Period: 7/01/15-7/01/16	
Personal injury or property damage (per occurrence)	1,000,000
Annual aggregate for both combined	3,000,000
Deductible	None
P. Excess Automobile Liability Insurance for Foster Grandparent Volunteers	
Certificate No. TNFAYE3	
Policy Period: 7/01/15-7/01/16	
Maximum payment per accident or loss	500,000
Deductible	None
Q. Accident Insurance for Foster Grandparent Program	
Policy No. MHH010303	
Policy Period: 7/01/15-7/01/16	
Principal sum	2,500
Capital sum	2,500
Medical indemnity (maximum per insured)	50,000

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

	<u>Amount</u>
R. Accident Insurance for Community Correction Program Volunteers	
Policy No. MHH010303	
Policy Period: 7/01/15-7/01/16	
Principal sum	\$ 2,500
Capital sum	2,500
Medical indemnity (per occurrence)	50,000
Deductible	None
S. Crime Coverage	
Policy No. TMP 538-16	
Policy Period: 7/01/15-7/01/16	
Employee dishonesty (per occurrence per employee public official bond)	150,000
Forgery or alteration	150,000
Theft, disappearance, or destruction	150,000
Computer fraud	150,000
T. Employee Dishonesty Coverage for Agency Pension Plan	
Policy No. LFM0025034	
Policy Period: 7/9/15-7/09/18	
Limit of insurance	500,000

SOUTH CENTRAL HUMAN RESOURCE AGENCY
Schedule of Agency Officials (Unaudited)
June 30, 2016

POLICY COUNCIL

COUNTY	PROVIDER MEMBER COUNTY EXECUTIVE	CONSUMER MEMBER
BEDFORD	Co. Mayor Eugene Ray 101 Bedford Courthouse Shelbyville, TN 37160	Mr. Will P. Martin 110 Scotland Heights Shelbyville, TN 37160
COFFEE	Co. Mayor Gary Cordell 1329 McArthur St. #1 Manchester, TN 37355	Mr. Charles E. Sain 781 Spry Road Bradyville, TN 37026
FRANKLIN	Co. Mayor Richard Stewart Franklin County Courthouse Winchester, TN 37398	Ms. Melanie Smith 826 Marshall Rd. Belvidere, TN 37306
GILES	Co. Mayor Janet Vanzant * P. O. Box 678 Pulaski, TN 38478	Ms. Priscilla McNairy 1100 Gimlet Creek Rd. Lawrenceburg, TN 38464
HICKMAN	Co. Mayor Shaun Lawson 114 N. Central Ave., Suite 204 Centerville, TN 37033	Ms. Shirley DeVore 109 Morrison St. Centerville, TN 37033
LAWRENCE	Co. Exec. T. R. Williams 200 West Gaines, Suite 201 Lawrenceburg, TN 38464	Ms. Sandy Calvert 220 Centennial Boulevard Lawrenceburg, TN 38464
LEWIS	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
LINCOLN	Co. Mayor Bill Newman 112 Main Ave. South, Rm 101 Fayetteville, TN 37334	Mr. Freddie McKinney 502 Adams Street Fayetteville, TN 37334
MARSHALL	Co. Mayor Joe Boyd Liggett * 1108 Courthouse Annex Lewisburg, TN 37091	Mr. John Campbell 1670 McBride Rd Lewisburg, TN 37091
MAURY	Co. Mayor Charlie Norman 101 Maury County Courthouse Columbia, TN 38401	Mr. Eugene Richardson 2127 Polk Dr. Columbia, TN 38401
MOORE	Co. Mayor Sloan Stewart P. O. Box 206 Lynchburg, TN 37352	<Vacant>

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

POLICY COUNCIL (Continued)

COUNTY	PROVIDER MEMBER COUNTY EXECUTIVE	CONSUMER MEMBER
PERRY	County Mayor Terry Richardson P. O. Box 16 Linden, TN 37096	Ms. Joanne Lord * 3081 Cedar Creek Rd. Linden, TN 37096
WAYNE	Co. Mayor Jason Rich P. O. Box 848 Waynesboro, TN 38485	Mr. David Duren 199 Duren Lane Waynesboro, TN 38485
HEAD START POLICY COUNCIL REPRESENTATIVE:		Ms. Brenda Helenjaris 85 Lindburgh Ave. Winchester, TN 37398

* Officers

Executive Director: Mr. Paul Rosson (previously Mr. James (Coy) Anderson)

Director of Fiscal Operations: Ms. Amy Ezell (previously Mr. James Reynolds)

Human Resource Manager: Ms. Scarlet Patterson

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

SOUTH CENTRAL HUMAN RESOURCE AGENCY
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2016

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	04CH465002	\$ (392,043)	\$ 392,043	\$ -	\$ -	-
Head Start	93.600	04CH465003	-	7,024,340	7,644,388	(620,048)	-
Head Start	93.600	04HP001701	(238,451)	2,830,379	2,500,916	91,012	-
Total	93.600		(630,494)	10,246,762	10,145,304	(529,036)	-
<u>Corporation for National and Community Service</u>							
Retired Senior Volunteer Program	94.002	15SRSTN005	-	32,410	36,483	(4,073)	-
Total	94.002		-	32,410	36,483	(4,073)	-
Foster Grandparent Program	94.011	12GXSTN002	(35,571)	35,571	-	-	-
Foster Grandparent Program	94.011	15GXSTN002	-	259,187	277,062	(17,875)	-
Total	94.011		(35,571)	294,758	277,062	(17,875)	-
<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-25533-14-55A-24	(10,900)	686,449	704,948	(29,399)	-
Total	17.235		(10,900)	686,449	704,948	(29,399)	-
<u>U.S. Department of Health and Human Services, passed through from Tennessee Housing Development Agency</u>							
Low-Income Home Energy Assistance	93.568	LIHEAP1515	(59,710)	408,790	349,080	-	-
Low-Income Home Energy Assistance	93.568	LIHEAP1615	-	2,460,846	2,515,773	(54,927)	-
Low-Income Home Energy Assistance	93.568	LWX1611	-	7,441	40,043	(32,602)	-
Total	93.568		(59,710)	2,877,077	2,904,896	(87,529)	-

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-15-49116	(218,523)	218,523	-	-	-
Community Services Block Grant	93.569	Z-16-49116	-	700,505	1,042,617	(342,112)	139,000
Total 93.569			(218,523)	919,028	1,042,617	(342,112)	139,000
Social Services Block Grant	93.667	Z-15-49316	(23,658)	23,658	-	-	-
Social Services Block Grant	93.667	Z-16-49316	-	157,972	183,150	(25,178)	-
Total 93.667			(23,658)	181,630	183,150	(25,178)	-
<u>U. S. Department of Agriculture, passed through from State of Tennessee Department of Agriculture</u>							
Child and Adult Care Food Program	10.558	34756026001	(67)	408,469	362,258	46,144	-
Total 10.558			(67)	408,469	362,258	46,144	-
Emergency Food Assistance Program (Administrative Costs)	10.568	45925	(6,322)	53,180	46,858	-	-
Emergency Food Assistance Program (Administrative Costs)	10.568	54394	-	42,144	52,716	(10,572)	-
Total 10.568			(6,322)	95,324	99,574	(10,572)	-
Emergency Food Assistance Program (Food Commodities)	10.569	N/A	178,384	332,699	394,091	116,992	-
Total Food Distribution Cluster			172,062	428,023	493,665	106,420	-
<u>U.S. Department of Health and Human Services, passed through from South Central Tennessee Development District</u>							
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	Congregate Nutrition Services	-	488,881	488,881	-	-
Nutrition Services Incentive Program	93.053	Services	-	68,300	68,300	-	-
Total Aging Cluster			-	557,181	557,181	-	-

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	WAP1412	(5,006)	113,835	171,192	(62,363)	-
		Total 81.042	(5,006)	113,835	171,192	(62,363)	-
<u>U.S. Department of the Treasury, passed through from United Way of Metropolitan Nashville</u>							
Volunteer Income Tax Assistance	21.003	15VITA0214	(2,078)	2,078	-	-	-
Volunteer Income Tax Assistance	21.003	16VITA0214	-	19,930	20,451	(521)	-
		Total 21.003	(2,078)	22,008	20,451	(521)	-
		Total - Federal Programs	(813,945)	16,767,630	16,899,207	(945,522)	139,000
<u>State Programs</u>							
State of Tennessee Department of Human Services	N/A	Direct Appropriation	-	127,890	127,890	-	-
State of Tennessee Department of Corrections	N/A	41931	(48,020)	459,350	465,470	(54,140)	-
		Total - State Programs	(48,020)	587,240	593,360	(54,140)	-
		Total - All Programs	\$ (861,965)	\$ 17,354,870	\$ 17,492,567	\$ (999,662)	\$ 139,000

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, 2016

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, 2016. 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, 2016, the Agency had food commodities totaling \$116,992 in inventory.

SOUTH CENTRAL HUMAN RESOURCE AGENCY
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2016

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? | <u> X </u> | Yes | | <u> </u> | No |
| • Significant deficiency(ies) identified? | | | | <u> X </u> | No |
| Noncompliance material to financial statements noted? | | | | <u> X </u> | No |

Federal Awards

Internal control over major federal programs:

- | | | | | | |
|---|-----------------|-----|--|------------------|----|
| • Material weakness(es) identified? | <u> </u> | Yes | | <u> X </u> | No |
| • Significant deficiency(ies) identified? | | | | <u> X </u> | 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)? | <u> </u> | Yes | | <u> X </u> | No |
|--|-----------------|-----|--|------------------|----|

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.569	Community Services Block Grant
93.600	Head Start

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

- | | | | | | |
|---|-----------------|-----|--|------------------|----|
| Auditee qualified as low -risk auditee? | <u> </u> | Yes | | <u> X </u> | No |
|---|-----------------|-----|--|------------------|----|

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

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.

Criteria: Pension amounts related to the Agency's participation in the TCRS Plan should be recorded in the Agency's general ledger.

Questioned Costs: None

Cause: The Agency withdrew from participation in the TCRS Plan effective June 30, 1984. Management was not aware until September 2016 that ten inactive employees (or beneficiaries) were covered by benefit terms of the TCRS Plan nor of the Agency's fiduciary net position in the TCRS Plan.

Effect: A material audit adjustment was identified to record pension amounts related to the Agency's participation in the TCRS plan as of June 30, 2016.

Context: Pension amounts, including a net pension asset of \$1,767,783, were not recorded as of June 30, 2016.

Recommendation: Pension amounts related to the Agency's participation in the TCRS Plan should be recorded in the Agency's general ledger as of June 30, 2016.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the finding. The proposed audit adjustment has been recorded in the Agency's general ledger as of June 30, 2016. The Director of Fiscal Operations will also ensure that pension amounts are adjusted as necessary in future accounting periods.

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

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

Reference number: 2016-002

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

Criteria: General ledger account balances should be reconciled monthly.

Questioned Costs: None

Cause: Turnover of staff in the fiscal department during the fiscal year.

Effect: Material audit adjustments were identified impacting asset and liability account balances.

Context: Entries necessary to adjust certain general ledger account balances were not recorded as of June 30, 2016.

Recommendation: General ledger account balances should be reconciled monthly.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the finding. The proposed audit adjustments have been recorded in the Agency's general ledger as of June 30, 2016. The Director of Fiscal Operations will also ensure that general ledger account balances are reconciled monthly.

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, 2016

Findings - Financial Statements Audit

Reference Number: 2015-002

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, 2015 resulting in a material audit adjustment. In addition, the TCRS Plan was not addressed in the Agency's financial statements, note disclosures, and required supplementary information section of the financial report issued in January 2016.

Corrective Action Taken:

Corrected: The 2015 financial report was reissued to include the TCRS Plan in the financial statements, note disclosures, and required supplementary information.

Findings and Questioned Costs - Major Federal Award Programs Audit

Department of Agriculture

Program: Emergency Food Assistance Program (Food Commodities) (CFDA No. 10.569)

Reference Number: 2015-001

Condition: The Agency did not maintain accurate and complete records with respect to the receipt, distribution/use, and inventory of USDA foods throughout the fiscal year.

Corrective Action Taken:

Corrected: Policies and procedures related to commodities were updated in April 2016. In addition, a new inventory system was installed in order to better track the receipt, distribution/use, and inventory on site.

SOUTH CENTRAL HUMAN RESOURCE AGENCY

1437 Winchester Highway
Fayetteville, TN 37334

Corrective Action Plan

January 31, 2017

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, 2016.

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, 2016

The findings from the June 30, 2016 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the number assigned in the schedule.

Finding 2016-001 - Omission of TCRS Plan

Recommendation: Pension amounts related to the Agency's participation in the TCRS Plan should be recorded in the Agency's general ledger as of June 30, 2016.

Action Taken: Management agrees with the finding. The proposed audit adjustment has been recorded in the Agency's general ledger as of June 30, 2016. The Director of Fiscal Operations will also ensure that pension amounts are adjusted as necessary in future accounting periods.

Finding 2016-002 - Account Reconciliations

Recommendation: General ledger account balances should be reconciled monthly.

Action Taken: Management agrees with the finding. The proposed audit adjustments have been recorded in the Agency's general ledger as of June 30, 2016. The Director of Fiscal Operations will also ensure that general ledger account balances are reconciled monthly.

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, 2016, 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 31, 2017.

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002, that we consider to be material weaknesses.

Compliance and Other Matters

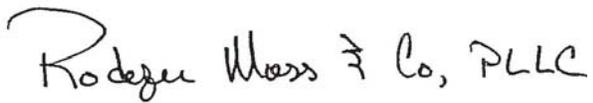
As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 findings 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.

A handwritten signature in black ink that reads "Roderic Messer Co, PLLC". The signature is written in a cursive, slightly slanted style.

Nashville, Tennessee
January 31, 2017

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, 2016. 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, 2016.

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 Moss & Co, PLLC

Nashville, Tennessee
January 31, 2017