

SOUTH CENTRAL HUMAN RESOURCE AGENCY

Financial Statements with Supplementary Information

Year Ended June 30, 2011

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Financial Statements with Supplementary Information
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Independent Auditors' Report

Governing Board
South Central Human Resource Agency
Fayetteville, Tennessee

We have audited the accompanying financial statements of the governmental activities and each major fund of South Central Human Resource Agency (the "Agency"), as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2011, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Roderick Moss & Co, PLLC

Nashville, Tennessee
December 21, 2011

SOUTH CENTRAL HUMAN RESOURCE AGENCY
Management's Discussion and Analysis
June 30, 2011

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, 2011. The information in this letter is provided to comply with GASB No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The discussion and analysis included in this document contain information regarding social services provided by South Central Human Resource Agency.

Mission Statement

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

Agency Overview

The South Central Human Resource Agency ("SCHRA" or the "Agency") was created July 11, 1973 and chartered as a public non-profit corporation February 19, 1975. The Agency's goal is to promote the development of human resources in South Central Tennessee through effective and efficient delivery of human services. From the Agency's central office at 1437 Winchester Highway in Fayetteville, Tennessee, it strives to effectively deliver human service programs and oversee the coordination efforts through its Neighborhood Service Centers located in the thirteen counties served by the Agency: Bedford, Coffee, Franklin, Giles, Hickman, Lawrence, Lewis, Lincoln, Marshall, Maury, Moore, Perry, and Wayne. The counties served by SCHRA contain over 6,500 square miles of vastly rural country and supports a population of approximately 423,000 individuals. Across this region in fiscal year 2011, SCHRA had in place 14 Neighborhood Service Centers, 22 Head Start Centers, 23 Pre-K classroom collaborations in 3 counties, 3 Early Head Start Centers, and 21 congregate meal sites served by 2 commercial kitchens. In addition, in 2010, the Senior Community Employment Program was expanded to serve clients in four additional counties: Bledsoe, Grundy, Marion, and Sequatchie. During fiscal year 2011, SCHRA delivered over 23 million dollars of services through grant/contract programs and employed approximately 400 people.

Governing Bodies

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

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

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

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

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

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

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

American Recovery and Reinvestment Act

The *American Recovery and Reinvestment Act of 2009* (Public Law 111-5) ("ARRA") was enacted on February 17, 2009. ARRA was designed to boost the economy through a \$787 billion package of spending and tax measures. ARRA provides significant resources to help struggling states, communities, and families. The Agency through its grantor organizations received additional funding to address these needs in fiscal years 2010 and 2011. Agency programs receiving ARRA funding were Weatherization Assistance, Community Services Block Grant, Head Start, Nutrition, Senior Community Service Employment, Emergency Food & Shelter, and Emergency Food Assistance. As of June 30, 2011, \$9,293,546 of ARRA funding had been expended by these programs in service to Agency clients as follows: Weatherization Assistance - \$5,671,484, Community Services Block Grant - \$1,365,263, Head Start - \$1,387,283, Nutrition - \$146,070, Senior Community Service Employment - \$634,299, Emergency Food & Shelter - \$47,405, and Emergency Food Assistance - \$41,742.

Central Office Building in Fayetteville, TN

On March 20, 2002, the Agency acquired a 40,000 square foot, single story, brick commercial building situated on 5.1 acres, located at 1437 Winchester Highway. This facility includes a commercial kitchen, office and program facilities and 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 2011 follow:

Head Start Program

The objective of the Head Start Program (which includes the Early Head Start Program), funded by the U.S. Dept. of Health and Human Services - Administration for Children and Families, is to provide comprehensive quality services to educate children and empower families. The program serves primarily low income children from birth to 5 years of age, including pregnant women and children with special needs and their families. The program is composed of early childhood development and health services, family and community partnerships, and program design and management. Inclusive in these services are education, medical and dental services, mental health, nutrition, parent involvement, family services, special needs services and family literacy. Head Start served a total of 1,155 three and four year olds during the program year and 93 children birth to three and pregnant women. Of that number, the program served 128 children with special needs. Of the 1,080 families served, 694 received at least one social service. All the children served were up-to-date on all immunizations appropriate for their age and 99% had a medical home established when they left the program.

In fiscal year 2011, the Agency continued to expend funds under two ARRA - Head Start grants awarded in the prior year. In addition, the Agency was awarded two additional ARRA - Head Start grants to continue to provide the Head Start program to children in Bedford County and to provide early learning mentor coaches. Funds expended under the ARRA - Head Start grants totaled \$852,395 for fiscal year 2011.

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

Low Income Home Energy Assistance Program

The Low Income Home Energy Assistance Program ("LIHEAP") provides assistance to elderly, handicapped, and low-income persons with energy used to heat their homes through financial assistance to offset a portion of the cost. The Agency received funding for fiscal year 2011 for operation of LIHEAP from funds passed through to the Agency by the State of Tennessee Department of Human Services ("DHS"). Priority for assistance is given to lowest of income. Priority points are used to determine the amount of assistance which ranges from \$300 to \$600. Energy and crisis assistance is provided to eligible households through direct payment to a utility or propane company. During fiscal year 2011, 12,463 clients received assistance totaling \$4,987,062.

Weatherization Assistance Program

The Weatherization Assistance Program ("WAP") strives to improve energy efficiency and reduce energy costs of low-income households through the application of weatherization materials to each dwelling unit. The Agency received funding for fiscal year 2011 for operation of WAP from funds passed through to the Agency by DHS. These funds were provided by the *American Recovery and Reinvestment Act of 2009* ("ARRA"). Eligibility guidelines for this funding allowed households of up to 200% of Federal Poverty Level to benefit. Up to \$7,100, including weatherization and health and safety measures, may be spent on approved dwelling units. During fiscal year 2011, weatherization improvements totaling \$2,337,839 were made on 611 dwelling units. ARRA funds expended under WAP during fiscal year 2011 totaled \$2,771,968.

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 2011 for operation of its CSBG Program from funds passed through to the Agency by DHS. The CSBG Program insures access to programs and services by elderly, handicapped, and low-income persons through the Neighborhood Service Centers in each of the 13 counties served by the Agency where experienced personnel assist in meeting the needs of the low-income population. During fiscal year 2011, the CSBG Program served 13,394 unduplicated households.

During fiscal year 2011, the Agency continued to expend funds awarded to it in the prior year by DHS to expand its CSBG Program services and activities through funding provided by ARRA. This additional funding provided a wide range of services in the categories of Emergency, Health, Nutrition, Housing and Employment to eligible households in support of family independence, wellness and financial stability. During fiscal year 2011, 349 households were assisted with this additional funding with payments totaling \$153,828. ARRA funds expended under the CSBG Program during fiscal year 2011 totaled \$163,849.

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 2011, 97,849 congregate meals and 74,877 home delivered meals were served to 1,502 clients. Additionally funding through State of Tennessee Home and Community Based Program (OPTIONS), the Family Caregiver Program and the Statewide Medicaid HCBS Waiver Program provides similar meals to the frail and disabled aged 18 years or older. For this period OPTIONS provided 12,678 meals to 59 clients, Family Caregiver provided 68 meals to 2 clients, Medicaid Waiver provided 70 meals to 3 clients, and Long Term Care Choices provided 24,934 meals to 116 clients. Also ARRA funding provided 1,106 home delivered meals to an additional 23 clients. ARRA funds expended under the Nutrition Program during fiscal year 2011 totaled \$27,594.

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

Senior Community Service Employment Program

The Senior Community Service Employment ("Title V") Program, funded by Senior Service America, Inc. ("SSAI"), is designed to assist economically disadvantaged people age 55 and over by providing immediate supplemental income, work experience and training at an approved training site, with an immediate goal of more permanent, unsubsidized employment. The Title V Program is also dedicated to strengthening families, communities, and the nation by providing older and disadvantaged individuals with opportunities to learn, work, and serve others. 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 2011, the Title V Program served a twelve (12) county area with an allocated slot level of 114 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 2011, the Agency continued to expend funds awarded to it in the prior year by SSAI to expand its Title V Program services and activities through funding provided by ARRA. Clients served by the Title V Program during fiscal year 2011 totaled 269. ARRA funding expended in fiscal year 2011 totaled \$442,069.

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 of our service area. Additionally these kitchens offer professional catering services to provide income to purchase major food service equipment and to help sustain the Agency's congregate meal service for a full five day week. Without these additional dollars, the Nutrition Congregate Program would be in operation only four days per week. This would mean that 1,850 to 2,000 meals per month would be cut and a higher number of seniors would not be served in communities served by the Agency. During fiscal year 2011, these kitchens supplied 218,075 meals for the Agency's Nutrition Program and 22,679 meals for its Head Start Program. Other catering engagements both internal and public produced additional revenues of \$66,856.

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 2011, 154 clients were assisted in seventeen Tennessee counties and three other states. Funds distributed to/on behalf, of clients for the year totaled \$ 1,174,934.

Homemaker Services for the Elderly Program

The Homemaker Services for the Elderly ("Homemaker") Program, funded by the South Central TN Development District/TN Commission on Aging and Disabilities through the Older Americans Act ("SCTDD/AAAD"), provides homemaker, respite, and/or personal care services to individuals age 60 and over or adults age 18 or older who are disabled or incapacitated who wish to remain in their own homes. These services may comprise basic housekeeping tasks, assistance with bathing and more as determined by the SCTDD/AAAD. During fiscal year 2011, 4,975 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 Medicaid Waiver/Choices Program provides for homemaker and personal care assistance and respite sitter service to the frail elderly and adults with disabilities. During fiscal year 2011, Options provided 5,279 units of service, Family Caregiver provided 2,789 units of service, and Choices provided 7,046 units of service.

Community Corrections Program

The Community Corrections Program, funded by the State of Tennessee Board of Probation & Parole, is designed to help alleviate the overcrowding of prisons and jails by offering constructive sentencing options for non-violent offenders in the Circuit Courts of the 14th Judicial District - Coffee County, the 17th Judicial District - Bedford, Lincoln, Marshall, and Moore Counties, and the 22nd Judicial District - Giles, Lawrence, Maury, and Wayne Counties. The Program provides intensive monitoring of offenders, and includes necessary services to enhance a successful reintegration into society. During fiscal year 2011, the Program served 417 clients who paid \$21,226 in victim restitution, \$822 in child support, and worked 5,033 hours of community service.

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

Foster Grandparent Program

The Foster Grandparent Program, funded by the Corporation for National Service, provides stipend volunteer opportunities for limited income persons age 55 and older to give supportive services to children with "special needs" in the community. Foster Grandparents assist children and adolescents with learning disabilities, those who have been abused and/or neglected, and drug addicted abandoned babies. Foster Grandparents also help teen parents and their children. Foster Grandparents serve an average of 20 hours a week in volunteer stations such as Head Start, public schools, day care centers, shelters for abused women and children, and after school programs. For fiscal year 2011, services were provided for 552 "at risk" children by 88 Foster Grandparents.

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

The SSBG/Protective Service Homemaker Program, funded by State of Tennessee Department of Human Services, provides supportive services to adults (Adult Protective Services (APS) cases) who have been threatened with abuse, neglect, or exploitation and require assistance to prevent this from occurring. Services focus on activities which the client can no longer do for themselves and which are necessary for the person to remain at home, including emotional support and encouragement during periods of loneliness and depression. Services are directed at teaching homemaking and daily living skills to these individuals. During fiscal year 2011, 8,393 hours of service were provided to 111 clients.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

The Statement of Activities presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused compensated absences).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency are considered to be governmental funds.

Governmental Funds

Government funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflow of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Agency's near-term financing requirements.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements

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

Requests for Information

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

Financial Analysis

Net Assets

Table 1 below provides a summary of SCHRA's net assets for the years ended June 30, 2011 and 2010.

Table 1
Condensed Statement of Net Assets

	<u>2011</u>	<u>2010</u>
Current assets	\$ 2,046,538	\$ 2,506,915
Restricted assets	630,006	594,719
Capital assets	<u>1,680,774</u>	<u>1,703,445</u>
Total assets	<u>\$ 4,357,318</u>	<u>\$ 4,805,079</u>
Current liabilities	\$ 1,399,350	\$ 1,748,045
Long-term liabilities	<u>82,500</u>	<u>127,500</u>
Total liabilities	<u>\$ 1,481,850</u>	<u>\$ 1,875,545</u>
Investment in capital assets, net of related debt	\$ 1,553,274	\$ 1,530,945
Unrestricted	<u>1,322,194</u>	<u>1,398,589</u>
Total net assets	<u>\$ 2,875,468</u>	<u>\$ 2,929,534</u>

Total assets decreased by approximately \$448,000 primarily due to decreases in cash, receivables, and capital assets. Total liabilities decreased by approximately \$394,000 primarily due to decreases in due to grantors. The change in net assets is a decrease of approximately \$54,000.

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

Change in Net Assets

Table 2 summarizes the change in net assets for the years ended June 30, 2011 and 2010.

Table 2
Change in Net Assets

	<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>Percentage of Funding</u>	<u>Amount</u>	<u>Percentage of Funding</u>
Revenues:				
Operating grants and contributions	\$ 20,489,672	83.96%	\$ 18,936,546	84.35%
Charges for services	<u>3,913,397</u>	<u>16.04%</u>	<u>3,514,175</u>	<u>15.65%</u>
Total revenues	<u>24,403,069</u>	<u>100.00%</u>	<u>22,450,721</u>	<u>100.00%</u>
Expenses:				
Head Start Cluster	7,655,504	31.37%	7,113,408	31.68%
Low Income Home Energy Assistance	5,605,896	22.97%	3,381,930	15.06%
Weatherization Assistance	2,771,968	11.36%	2,899,516	12.92%
Community Services Block Grant Cluster	1,014,999	4.16%	2,041,008	9.09%
Nutrition Services for the Elderly	1,531,219	6.27%	1,427,526	6.36%
Senior Community Service Employment	1,334,629	5.47%	1,110,097	4.94%
Food Service	1,139,667	4.67%	1,026,202	4.57%
Community Representative Payee	1,243,713	5.10%	956,145	4.26%
Homemaker Services for the Elderly	424,112	1.74%	467,600	2.08%
Community Corrections	445,024	1.82%	374,944	1.67%
Foster Grandparent	315,989	1.29%	284,349	1.27%
SSBG/Protective Service Homemaker	261,312	1.07%	225,050	1.00%
State Appropriations, Agency & Other	<u>713,103</u>	<u>2.92%</u>	<u>690,517</u>	<u>3.08%</u>
Total expenses	<u>24,457,135</u>	<u>100.22%</u>	<u>21,998,292</u>	<u>97.98%</u>
Change in net assets	<u>\$ (54,066)</u>	<u>-0.22%</u>	<u>\$ 452,429</u>	<u>2.02%</u>

As shown, operating grants and contributions provide approximately 84% of the funds for governmental activities, which are expended primarily for child education, energy, and weatherization assistance.

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

Net Cost of Governmental Activities

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

Table 3
Net Cost of Governmental Activities

<u>Program</u>	<u>2011</u>		<u>2010</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Head Start Cluster	\$ 7,655,504	\$ 36,909	\$ 7,113,408	\$ 261,154
Low Income Home Energy Assistance	5,605,896	(425)	3,381,930	-
Weatherization Assistance	2,771,968	(14,322)	2,899,516	-
Community Services Block Grant Cluster	1,014,999	(12,275)	2,041,008	(3,934)
Nutrition Services for the Elderly	1,531,219	(28,456)	1,427,526	49,825
Senior Community Service Employment	1,334,629	2	1,110,097	-
Food Service	1,139,667	110,815	1,026,202	144,864
Community Representative Payee	1,243,713	(15,846)	956,145	(7,717)
Homemaker Services for the Elderly	424,112	18,805	467,600	(29,806)
Community Corrections	445,024	(5,253)	374,944	-
Foster Grandparent	315,989	(4,837)	284,349	(409)
SSBG/Protective Service Homemaker	261,312	(25,524)	225,050	(18,272)
State Appropriations, Agency & Other	<u>713,103</u>	<u>(113,659)</u>	<u>690,517</u>	<u>56,724</u>
Totals	<u>\$ 24,457,135</u>	<u>\$ (54,066)</u>	<u>\$ 21,998,292</u>	<u>\$ 452,429</u>

Capital Assets

As of June 30, 2011, SCHRA had invested a cumulative total of \$3,080,268 in capital assets compared to a cumulative total of \$3,053,686 as of June 30, 2010. Accumulated depreciation totaled \$1,399,494 and \$1,350,241 as of June 30, 2011 and 2010, respectively. SCHRA recognized depreciation expense of \$117,827 and \$122,048 for fiscal years 2011 and 2010, respectively. Additional information about capital assets can be found in Note 4 of the financial statements.

Long-Term Debt

The Agency has a non-interest bearing note payable to the Fayetteville Board of Public Utilities. The note is payable in monthly installments of \$3,750 and is secured by a \$450,000 irrevocable letter of credit. The outstanding balance on the note is \$127,500 as of June 30, 2011 (\$172,500 as of June 30, 2010). Payments on the note are made by the General Fund. Additional information about this note can be found in Note 5 to the financial statements.

Factors Bearing on SCHRA's Future

The Agency is dependent on federal and state funding in order to carry out its various programs. The Agency expects to receive less funding for 2012 due to the exhaustion of ARRA funding.

SOUTH CENTRAL HUMAN RESOURCE AGENCY

Statement of Net Assets

June 30, 2011

ASSETS		
Cash		\$ 585,612
Receivables		1,419,516
Prepaid expenses		41,410
Restricted assets		
Cash		171,006
Certificate of deposit		459,000
Capital assets		
Buildings and improvements	\$ 1,736,983	
Vehicles	862,714	
Equipment	455,571	
Land	25,000	
	<u>3,080,268</u>	
Less accumulated depreciation	1,399,494	
Capital assets, net		<u>1,680,774</u>
Total assets		<u>4,357,318</u>
LIABILITIES		
Accounts payable		365,492
Accrued payroll		217,773
Accrued payroll taxes and employee benefits		104,644
Due to grantors		321,559
Accrued leave		305,832
Accrued audit fee		39,050
Long-term debt		
Due within one year		45,000
Due in more than one year		<u>82,500</u>
Total liabilities		<u>1,481,850</u>
NET ASSETS		
Investment in capital assets, net of related debt		1,553,274
Unrestricted		<u>1,322,194</u>
Total net assets		<u><u>\$ 2,875,468</u></u>

SOUTH CENTRAL HUMAN RESOURCE AGENCY

Statement of Activities
Year Ended June 30, 2011

Function/Programs	Expenses	Program Revenues		Net Revenue (Expense)
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Head Start Cluster	\$ 7,655,504	\$ 12,178	\$ 7,680,235	\$ 36,909
Low Income Home Energy Assistance	5,605,896	-	5,605,471	(425)
Weatherization Assistance	2,771,968	-	2,757,646	(14,322)
Community Services Block Grant Cluster	1,014,999	6,588	996,136	(12,275)
Nutrition Services for the Elderly	1,531,219	919,670	583,093	(28,456)
Senior Community Service Employment	1,334,629	-	1,334,631	2
Food Service	1,139,667	1,250,482	-	110,815
Community Representative Payee	1,243,713	1,227,867	-	(15,846)
Homemaker Services for the Elderly	424,112	442,062	855	18,805
Community Corrections	445,024	24,522	415,249	(5,253)
Foster Grandparent	315,989	-	311,152	(4,837)
SSBG/Protective Service Homemaker	261,312	-	235,788	(25,524)
State Appropriations, Agency & Other	<u>713,103</u>	<u>30,028</u>	<u>569,416</u>	<u>(113,659)</u>
Total Governmental Activities	<u>\$ 24,457,135</u>	<u>\$ 3,913,397</u>	<u>\$ 20,489,672</u>	(54,066)
Net Assets, beginning				<u>2,929,534</u>
Net Assets, ending				<u>\$ 2,875,468</u>

SOUTH CENTRAL HUMAN RESOURCE AGENCY
Balance Sheet - Governmental Funds
June 30, 2011

	General	Special Revenue	Total Governmental Funds
ASSETS			
Cash			
Cash - unrestricted	\$ 582,119	\$ 3,493	\$ 585,612
Cash - restricted	1,562	169,444	171,006
Total cash	583,681	172,937	756,618
Receivables			
Accounts receivables	14,463	1,405,053	1,419,516
Due from special revenue fund	873,484	-	873,484
Total receivables	887,947	1,405,053	2,293,000
Prepaid expenses	41,410	-	41,410
Certificate of deposit - restricted	459,000	-	459,000
Total assets	\$ 1,972,038	\$ 1,577,990	\$ 3,550,028
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 125,514	\$ 239,978	\$ 365,492
Accrued payroll	39,666	178,107	217,773
Accrued payroll taxes and employee benefits	19,060	85,584	104,644
Due to grantors	-	321,559	321,559
Due to general fund	-	873,484	873,484
Accrued leave	81,216	224,616	305,832
Accrued audit fee	39,050	-	39,050
Total liabilities	304,506	1,923,328	2,227,834
Fund Balances			
Nonspendable	41,410	-	41,410
Restricted	459,000	-	459,000
Unassigned	1,167,122	(345,338)	821,784
Total fund balances	1,667,532	(345,338)	1,322,194
Total liabilities and fund balances	\$ 1,972,038	\$ 1,577,990	\$ 3,550,028

SOUTH CENTRAL HUMAN RESOURCE AGENCY
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Assets
June 30, 2011

Fund Balances - Total Governmental Funds	\$ 1,322,194
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets of \$3,080,268 net of accumulated depreciation of (\$1,399,494), are not financial resources and, therefore, are not reported in the funds.	1,680,774
Long-term debt is not reported in the funds	<u>(127,500)</u>
Net Assets	<u>\$ 2,875,468</u>

SOUTH CENTRAL HUMAN RESOURCE AGENCY
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds
Year Ended June 30, 2011

	General	Special Revenue	Total Governmental Funds
Revenues			
Grantor contributions	\$ -	\$ 19,791,491	\$ 19,791,491
Program income	1,250,767	107,021	1,357,788
Performance based income	-	1,274,679	1,274,679
USDA reimbursement	-	440,043	440,043
State and local contributions	194,392	63,746	258,138
Interest income	10,450	5	10,455
Other income	87,749	1,182,726	1,270,475
	<u>1,543,358</u>	<u>22,859,711</u>	<u>24,403,069</u>
Total revenues			
Expenditures			
Salaries	258,577	5,289,473	5,548,050
Fringe benefits	137,121	2,477,473	2,614,594
Participant costs	3,579	8,936,087	8,939,666
Food	563,079	1,465,280	2,028,359
Indirect costs	87,672	883,904	971,576
Contract services	-	545,711	545,711
Debt repayment	45,000	-	45,000
Insurance and bonding	2,798	32,850	35,648
Maintenance and repairs	49,635	96,432	146,067
Nonexpendable supplies	359	23,356	23,715
Office supplies	3,022	29,250	32,272
Other	55,204	1,230,717	1,285,921
Postage	3,985	17,972	21,957
Printing and duplication	1,523	8,748	10,271
Professional services	14,085	318,847	332,932
Program supplies	48,819	355,445	404,264
Renovations	76,976	32,809	109,785
Rent and leases	35,003	383,883	418,886
Telephone	2,055	120,430	122,485
Transportation	25,145	60,620	85,765
Travel - in area	157	186,236	186,393
Travel - out of area	7,576	107,736	115,312
Utilities	31,514	161,730	193,244
Vehicles and equipment	87,821	173,770	261,591
	<u>1,540,705</u>	<u>22,938,759</u>	<u>24,479,464</u>
Total expenditures			
Net change in fund balances	2,653	(79,048)	(76,395)
Fund balances, beginning of year	<u>1,664,879</u>	<u>(266,290)</u>	<u>1,398,589</u>
Fund balances, end of year	<u>\$ 1,667,532</u>	<u>\$ (345,338)</u>	<u>\$ 1,322,194</u>

See accompanying notes to financial statements.

SOUTH CENTRAL HUMAN RESOURCE AGENCY
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (76,395)

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

Governmental funds reported capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and recorded as depreciation expense. This is the amount by which capital outlays of \$95,156 exceeded depreciation expense of (\$117,827) in the current period. (22,671)

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

Net Revenue (Expense) - Total Governmental Activities \$ (54,066)

SOUTH CENTRAL HUMAN RESOURCE AGENCY
Notes to Financial Statements
June 30, 2011

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.

New Standards - In 2009, GASB issued GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) to improve the usefulness of the amount reported in fund balance by providing more structured classification and clarify the definition of existing governmental fund types. The standard is effective for periods beginning after June 15, 2010. The Agency has adopted this standard for the year ended June 30, 2011.

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which Agency gives or receives value without directly receiving or giving equal value in exchange, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

Fund Balances - Under previous accounting standards, fund balances in the fund financial statements were reported as reserved or unreserved. As noted above, the Agency has adopted GASB 54 for the year ended June 30, 2011 to provide more clearly defined categories of fund balance. The new categories of fund balance are as follows:

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

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Annual Leave - Full time employees who have been employed by the Agency for up to five years accrue 1 day of vacation per month. 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, 2011. Grant funds reimburse the special revenue fund as the leave is earned.

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

Income Taxes - As a governmental entity, the Agency is exempt from federal and state income.

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

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

Concentrations of Credit Risk - Financial instruments, which potentially subject the Agency to concentrations of credit risk, consist primarily of cash and accounts receivable. The Agency's financing sources are primarily grants from federal and state governmental entities. Management does not believe significant credit risk exists at June 30, 2011.

Subsequent Events - The Agency has evaluated events and transactions through December 21, 2011, the date of these financial statements were issued for items that should potentially be recognized or disclosed.

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

NOTE 2 - DEPOSITS

Deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the Agency. Category 1 consists of deposits that are insured or collateralized with securities held by the Agency or by its agent in the Agency's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Agency's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Agency's name.

The majority of the Agency's deposits are in financial institutions that participate in the Tennessee Bank Collateral Pool (the Pool) administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the Pool may be required by agreement to pay an assessment to cover any deficiency. Consequently, deposits covered by the Pool are considered to be fully insured for purposes of credit risk disclosure.

At June 30, 2011, the carrying amount of the Agency's deposits, including the certificates of deposit, was \$1,215,618, and the bank balances were \$1,829,712. Of the bank balances, \$455,489 was covered by federal depository insurance and \$1,374,223 was covered through the Pool.

NOTE 3 - RECEIVABLES

Receivables from grantor agencies and others as of June 30, 2011 consisted of the following:

Federal	\$ 320,620
State	894,049
Other	<u>204,847</u>
	<u>\$ 1,419,516</u>

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

NOTE 4 - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2011 consisted of the following:

Governmental activities:	Beginning Balance	Increases	Transfers/ Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Capital assets being depreciated:				
Building and improvements	1,706,282	30,701	-	1,736,983
Vehicles	901,880	29,408	(68,574)	862,714
Equipment	420,524	35,047	-	455,571
Total capital assets being depreciated	<u>3,028,686</u>	<u>95,156</u>	<u>(68,574)</u>	<u>3,055,268</u>
Less accumulated depreciation for:				
Building and improvements	227,023	43,835	-	270,858
Vehicles	712,932	71,370	(68,574)	715,728
Equipment	410,286	2,622	-	412,908
Total accumulated depreciation	<u>1,350,241</u>	<u>117,827</u>	<u>(68,574)</u>	<u>1,399,494</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>1,678,445</u>	<u>(22,671)</u>	<u>-</u>	<u>1,655,774</u>
Governmental activities capital assets, net of accumulated depreciation	<u>\$ 1,703,445</u>	<u>\$ (22,671)</u>	<u>\$ -</u>	<u>\$ 1,680,774</u>

Depreciation expense for the year ended June 30, 2011 was \$117,827.

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

NOTE 5 - LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2011 consisted of:

Note payable, non-interest bearing to Fayetteville Board of Public Utilities, due in monthly installments of \$3,750, secured by \$450,000 irrevocable letter of credit	\$ 127,500
Less installments due within one year	<u>(45,000)</u>
	<u>\$ 82,500</u>

The Agency’s certificate of deposit secures the irrevocable letter of credit which expires May 13, 2014. Future principal payments on long-term debt are: 2012 - \$45,000, 2013 - \$45,000 and 2014 - \$37,500.

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Transfers/ Decreases	Ending Balance
Note payable - Fayetteville Board of Public Utilities	<u>\$ 172,500</u>	<u>\$ -</u>	<u>\$ (45,000)</u>	<u>\$ 127,500</u>

Payments on the note are made by the General Fund.

NOTE 6 - OPERATING LEASES AGREEMENTS

The Agency leases real estate, vehicles, and equipment for operation of its programs. Rent paid for real estate for the year ended June 30, 2011 totaled \$418,886 including allocated building costs totaling \$167,505. All of the Agency’s leases are cancelable with thirty days notice in the event that the Agency loses federal or state funding for any program which utilizes leased property.

NOTE 7 - RETIREMENT PLANS

The Agency sponsors a Tax Deferred Annuity Plan (the “Annuity Plan”) for employees of the Agency. Employees are eligible to participate in the Plan on the first day of employment. Employees may make pre-tax contributions to the Plan subject to limits set by the Internal Revenue Code. Contributions to the Annuity Plan are fully vested. Employee contributions for the year ended June 30, 2011 to the Annuity Plan totaled \$159,362.

The Agency also sponsors the South Central Human Resource Agency Pension Plan (the “Pension Plan”), a defined contribution money purchase pension plan. Employees are eligible to participate in the Pension Plan after six months of employment. The Agency contributes 5% of the employee’s base salary each month, if the employee contributes 2% of his/her base salary to the Annuity Plan. The Agency’s contributions for each eligible employee (and earnings allocated thereon) are fully vested after one year of continuous service. Agency contributions for, and earnings forfeited by, employees who leave employment before one year of service are used to reduce the Agency’s current period contribution requirement. Employer contributions for the year ended June 30, 2011 to the Pension Plan totaled \$151,527.

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

NOTE 8 - RISK MANAGEMENT

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

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

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

NOTE 9 - CONCENTRATIONS

Approximately 83% of the Agency's revenues for 2011 came from direct and pass-through federal grants. Approximately 66% of the Agency's revenues for 2011 were from three programs. The Agency is economically dependent on federal and state funding in order to carry out its various programs.

NOTE 10 - IN-KIND CONTRIBUTIONS

The Agency is required to obtain local support in the form of in-kind contributions to match federal and state funding on various grants. These contributions are in the form of rent-free use of space; volunteer labor, supervision and services; and other non-cash contributions provided by individuals, private organizations, and local governments. The amount of in-kind revenue is also recognized as expense so the effect on the Agency's operations is zero. In-kind revenues and expenses are not included in the basic financial statements and totaled \$2,037,309 for the year ended June 30, 2011.

NOTE 11 - SUBSEQUENT EVENT

In November 2011, the Agency was notified by the Internal Revenue Service that its tax-exempt status had been revoked automatically because the Agency had not filed Form 990 for the last three years. Management of the Agency believes that the Agency, as a government entity, is not required to file Form 990 and that this revocation was in error. Management is currently accessing what action needs to be taken to reinstate the Agency's tax-exempt status retroactive to the date it was revoked. The affects of this revocation on the Agency's operations, if not reversed, has not determined.

SUPPLEMENTARY INFORMATION

SOUTH CENTRAL HUMAN RESOURCE AGENCY

Schedule of Indirect Costs

Year Ended June 30, 2011

Salaries	\$ 551,496
Fringe benefits	210,440
Food	1,555
Contract services	41,850
Insurance and bonding	15,573
Maintenance and repairs	3,269
Office supplies	8,432
Other	4,409
Participant costs	114
Postage	2,529
Printing and duplication	3,401
Professional services	10,169
Program supplies	303
Rent and leases	70,051
Telephone	4,240
Transportation	3,289
Travel - in area	1,277
Travel - out of area	38,499
Vehicles and equipment	<u>680</u>
	<u>\$ 971,576</u>

SOUTH CENTRAL HUMAN RESOURCE AGENCY
Schedule of Insurance Coverage
Year Ended June 30, 2011

	<u>Amount</u>
A. General Liability	
Policy No. TML-0282-12	
Policy Period: 7/01/09-7/01/12	
Bodily injury or personal injury (per person)	\$ 300,000
Bodily injury or personal injury (per occurrence)	700,000
Property damage (per occurrence)	100,000
Other loss (per occurrence)	1,000,000
Deductible	None
B. Property and Crime	
Policy No. TMP-0538-12	
Policy Period: 7/01/09-7/01/12	
Building and personal property	4,465,962
EDP equipment	280,347
Employee dishonesty	100,000
Forgery or alteration	100,000
Theft, disappearance or destruction	100,000
Computer fraud	100,000
C. Errors or Omissions Liability	
Policy No. TML-0282-12	
Policy Period: 7/01/09-7/01/12	
Limit for errors and omissions	1,000,000
Deductible (per occurrence)	None
D. Automobile Liability	
Policy No. TML-0282-012	
Policy Period: 7/01/09-7/01/12	
Bodily injury (per person)	\$ 300,000
Bodily injury (per occurrence)	700,000
Property damage (per occurrence)	100,000
Other loss (per occurrence)	1,000,000
Comprehensive deductible	100
Collision deductible	250
E. Workers Compensation	
Policy No. TWC-0211-13	
Policy Period: 7/01/10-7/01/13	
Bodily injury (per accident)	300,000
Bodily injury by disease (policy limit)	700,000
Bodily injury by disease (per employee)	300,000
Deductible	None

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

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

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

	<u>Amount</u>
L. Accident Insurance for Retired Senior Program Volunteers Policy No. TNFAYE Policy Period: 7/1/10-6/30/11	
Principal sum	2,500
Capital sum	2,500
Medical indemnity (per insured)	50,000
Deductible	None
M. Personal Liability Insurance for Retired Senior Volunteer Program Certificate No. TNFAYE Policy Period: 7/01/10-6/30/11	
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: 7/01/10-6/30/11	
Maximum payment per accident or loss	500,000
Deductible	None
O. Personal Liability Insurance for Foster Grandparent Program Volunteers Certificate No. TNFAYE3 Policy Period: 7/01/10-6/30/11	
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: 7/01/10-6/30/11	
Maximum payment per accident or loss	500,000
Deductible	None
Q. Accident Insurance for Foster Grandparent Program Policy No. SPS900302 Policy Period: 7/01/10-6/30/11	
Principal sum	2,500
Capital sum	2,500
Medical indemnity (per insured)	50,000

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

	<u>Amount</u>
R. Accident Insurance for Community Correction Program Volunteers	
Policy No. SPS900304	
Policy Period: 7/01/10-6/30/11	
Principal sum	2,500
Capital sum	2,500
Medical indemnity (per occurrence)	50,000
Deductible	None
S. Employee Dishonesty Coverage for Agency Pension Plan	
Policy No. CBP 5 255 703	
Policy Period: 7/9/09 - 7/9/12	
Limit of insurance	500,000

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, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number	Beginning Accrued (Deferred)	Cash Receipts	Expenditures	Other	Ending Accrued (Deferred)
<u>Direct Programs</u>							
<u>U.S. Department of Health and Human Services</u>							
Head Start							
Head Start	93.600	04CH0464/45	\$ (254,586)	\$ 5,839,604	\$ 5,847,828	\$ 3,301	\$ (259,509)
Early Head Start	93.600	04CH0464/45	(3,330)	519,971	519,556	-	(2,915)
Head Start Training & Technical Assistance	93.600	04CH0464/45	(107)	74,676	75,111	-	(542)
Early Head Start Training & Technical Assistance	93.600	04CH0464/45	(20)	9,890	12,004	-	(2,134)
	Total 93.600		(258,043)	6,444,141	6,454,499	3,301	(265,100)
ARRA - Head Start							
Head Start Expansion (Bedford County)	93.708	04SH0464/01	20,852	198,664	197,172	-	22,344
Head Start Expansion (Bedford County)	93.708	04SH0464/02	-	493,860	474,430	-	19,430
ARRA Early Learning Mentor Coaches	93.708	90ST0103/01	-	103,648	129,732	-	(26,084)
Head Start 2009 ARRA COLA Quality Improvement Funding	93.708	04SE0464/01	(114,116)	165,316	51,061	-	139
	Total 93.708		(93,264)	961,488	852,395	-	15,829
	Total Head Start Cluster		(351,307)	7,405,629	7,306,894	3,301	(249,271)
<u>Corporation for National and Community Service</u>							
Retired Senior Volunteer Program							
Retired Senior Volunteer Program	94.002	07SRSTN006	(9,721)	9,721	-	-	-
	94.002	11SR128777	-	42,948	45,647	-	(2,699)
	Total 94.002		(9,721)	52,669	45,647	-	(2,699)
Foster Grandparent Program	94.011	09SFSTN003	(20,551)	316,006	314,217	3,065	(15,697)

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number	Beginning Accrued (Deferred)	Cash Receipts	Expenditures	Other	Ending Accrued (Deferred)
<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-16177-07-60-A-24	(114,241)	114,241	-	-	-
Senior Community Service Employment Program	17.235	AD-20017-10-60-A-24	-	848,297	892,562	-	(44,265)
ARRA - Senior Community Service Employment Program	17.235	AD-18413-09-60-A-24	(95)	95	-	-	-
ARRA - Senior Community Service Employment Program	17.235	AD-20017-10-60-A-24	(13,548)	455,616	442,069	-	(1)
Total	17.235		(127,884)	1,418,249	1,334,631	-	(44,266)
<u>U.S. Department of Homeland Security, passed through from United Way of America</u>							
Emergency Food and Shelter National Board Program	97.024	27-7740-00	(2,660)	29,151	30,415	3,924	-
Emergency Food and Shelter National Board Program	97.024	28-7760-00	(501)	9,747	10,173	927	-
Total	97.024		(3,161)	38,898	40,588	4,851	-
ARRA - Emergency Food and Shelter National Board Program	97.114	AR-7740-00	(631)	20,475	21,498	1,654	-
ARRA - Emergency Food and Shelter National Board Program	97.114	AR-7760-00	(272)	6,846	7,148	574	-
Total	97.114		(903)	27,321	28,646	2,228	-
Total Emergency Food and Shelter Program Cluster			(4,064)	66,219	69,234	7,079	-
<u>U.S. Department of the Treasury, passed through from United Way of Metropolitan Nashville</u>							
Volunteer Income Tax Assistance	21.003	V110041	(287)	48,591	53,938	3,283	(2,351)
<u>U.S. Department of Agriculture, passed through from State of Tennessee Department of Agriculture</u>							
Child and Adult Care Food Program	10.558	034756026001	(165)	376,808	376,643	-	-
<u>U.S. Department of Agriculture, passed through from South Central Tennessee Development District</u>							
Child and Adult Care Food Program	10.558	Nutrition - Congregate	-	63,400	63,400	-	-
Total	10.558		(165)	440,208	440,043	-	-

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number	Beginning Accrued (Deferred)	Cash Receipts	Expenditures	Other	Ending Accrued (Deferred)
<u>Pass Through Programs (Continued)</u>							
<u>U. S. Department of Agriculture, passed through from State of Tennessee Department of Agriculture</u>							
Emergency Food Assistance Program (Administrative Costs)	10.568	8675	(37,305)	82,572	44,952	(315)	-
Emergency Food Assistance Program (Administrative Costs)	10.568	8675	-	44,354	51,661	-	(7,307)
Sub-total			(37,305)	126,926	96,613	(315)	(7,307)
ARRA - Emergency Food Assistance Program (Administrative Costs)	10.568	8675	(18,563)	41,742	23,179	-	-
Total 10.568			(55,868)	168,668	119,792	(315)	(7,307)
<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 Meals	(3,462)	492,446	633,438	144,454	-
ARRA - Aging Home-Delivered Nutrition Services for States	93.705	Home Delivered Meals	-	8,200	7,877	(323)	-
ARRA - Aging Congregate Nutrition Services for States	93.707	Congregate Meals	-	20,975	19,717	(1,258)	-
Total Aging Cluster			(3,462)	521,621	661,032	142,873	-
<u>U.S. Department of Energy, passed through from State of Tennessee Department of Human Services</u>							
Weatherization Assistance for Low-Income Persons	81.042	Advance	8,188	-	-	-	8,188
Weatherization Assistance for Low-Income Persons	81.042	Z-05-021681	385	(385)	-	-	-
ARRA - Weatherization Assistance for Low-Income Persons	81.042	Z-09-000433	(35,259)	862,808	832,849	5,300	-
ARRA - Weatherization Assistance for Low-Income Persons	81.042	Z-11-000432	-	1,672,542	1,939,119	8,869	(257,708)
Total 81.042			(26,686)	2,534,965	2,771,968	14,169	(249,520)

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number	Beginning Accrued (Deferred)	Cash Receipts	Expenditures	Other	Ending Accrued (Deferred)
<u>Pass Through Programs (Continued)</u>							
U.S. Department of Health and Human Services, passed through from State of Tennessee Department of Human Services							
Low-Income Home Energy Assistance	93.568	Z-11-000215	(25,776)	3,363,777	3,329,136	-	8,865
Low-Income Home Energy Assistance	93.568	GG-11-34417	-	1,929,603	2,276,760	425	(346,732)
Total	93.568		(25,776)	5,293,380	5,605,896	425	(337,867)
Community Services Block Grant	93.569	Advance	34,317	-	-	-	34,317
Community Services Block Grant	93.569	Z-10-000116	(61,076)	771,725	848,237	1,632	(135,956)
Total	93.569		(26,759)	771,725	848,237	1,632	(101,639)
ARRA - Community Services Block Grant	93.710	Z-09-217919	(64,488)	213,855	163,849	14,482	-
Total		Total CSBG Cluster	(91,247)	985,580	1,012,086	16,114	(101,639)
Social Services Block Grant	93.667	Z-10-215436	(24,157)	24,157	-	-	-
Social Services Block Grant	93.667	GG-10-28507	-	179,039	261,312	52,262	(30,011)
Total	93.667		(24,157)	203,196	261,312	52,262	(30,011)
Temporary Assistance for Needy Families	93.558	Z-10-215436	(15,409)	22,976	17,298	9,731	-
Temporary Assistance for Needy Families	93.558	Z-11-000063	-	38,243	51,694	3,215	(10,236)
Total	93.558		(15,409)	61,219	68,992	12,946	(10,236)
Total - Federal Programs			(756,584)	19,516,200	20,065,682	255,202	(1,050,864)
<u>State Programs</u>							
Volunteer Income Tax Assistance	N/A	GR 09-26546	-	8,928	9,498	570	-
State of Tennessee Board of Probation and Parole	N/A	Z-08-21323-00	(45,942)	381,275	444,046	6,017	(102,696)
Total - State Programs			(45,942)	390,203	453,544	6,587	(102,696)
Total - All Programs			\$ (802,526)	\$ 19,906,403	\$ 20,519,226	\$ 261,789	\$ (1,153,560)

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

SOUTH CENTRAL HUMAN RESOURCE AGENCY
Note to Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2011

NOTE 1 - BASIS OF PRESENTATION

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

SOUTH CENTRAL HUMAN RESOURCE AGENCY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of South Central Human Resource Agency.
2. No significant deficiencies were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of South Central Human Resource Agency were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for South Central Human Resource Agency expresses an unqualified opinion on all major federal programs.
6. No audit findings were noted that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
17.235	Senior Community Service Employment Program
81.042	Weatherization Assistance for Low-Income Persons
93.568	Low-Income Home Energy Assistance Program

8. The threshold for distinguishing Type A and Type B programs was \$601,970
9. South Central Human Resource Agency was determined to be a low-risk auditee.

Findings - Financial Statements Audit

None

Findings and Questioned Costs - Major Federal Award Programs Audit

None

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

Governing Board
South Central Human Resource Agency
Fayetteville, Tennessee

We have audited the financial statements of the governmental activities and each major fund of South Central Human Resource Agency (the “Agency”), as of and for the year ended June 30, 2011, which collectively comprise the Agency’s basic financial statements and have issued our report thereon dated December 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Roderic Mass $\&$ Co, PLLC

Nashville, Tennessee
December 21, 2011

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

Governing Board
South Central Human Resource Agency
Fayetteville, Tennessee

Compliance

We have audited South Central Human Resource Agency's (the "Agency") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2011. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

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

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

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

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

Rodger Moss & Co, PLLC

Nashville, Tennessee
December 21, 2011