

**UPPER CUMBERLAND HUMAN RESOURCE
AGENCY**

Cookeville, Tennessee

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

Year Ended June 30, 2019

JOHNSON, HICKEY & MURCHISON, P.C.
Certified Public Accountants
Chattanooga, Tennessee

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INDEPENDENT AUDITORS' REPORT

**To the Board of Directors
Upper Cumberland Human Resource Agency**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund of the Upper Cumberland Human Resource Agency, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District'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 audits to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 District'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 District'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 the major fund of the Upper Cumberland Human Resource Agency, as of June 30, 2019, and the respective changes in financial position for the year then ended in conformity 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, certain pension information, and certain OPEB information on pages v through viii and 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 Other Supplementary Information on pages 32 through 39 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and related notes 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 the accompanying schedule of State of Tennessee contracts and related notes thereto are presented for purposes of additional analysis and is also not a required part of the Agency's financial statements.

The Other Supplementary Information on pages 32 through 39 and Schedule of Expenditures of Federal 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 information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2020, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

Johnson, Niskey & Meucham, P.C.

January 22, 2020
Chattanooga, Tennessee

**Upper Cumberland Human Resource Agency
Management's Discussion and Analysis
Year Ended June 30, 2019**

This section of Upper Cumberland Human Resource Agency's annual financial report presents our discussion and analysis of the Agency's financial performance during the fiscal year that ended June 30, 2019. The Agency's financial performance is discussed and analyzed within the context of the accompanying financial statements and notes following this section.

OVERVIEW OF FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the Agency's basic financial statements. The basic financial statements include: government wide financial statements; fund financial statements; and notes to the financial statements. The Agency also includes in this report additional information to supplement the financial statements.

Government-Wide Financial Statements

The Agency's annual reports includes two government-wide financial statements; the Statement of Net Position and the Statement of Activities. These statements report, on an accrual basis, all assets and liabilities and the changes in them. 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 first of these government-wide financial statements is the Statement of Net Position. This is the agency-wide statement of financial position presenting information that includes all of the Agency's assets and liabilities, deferred outflows of resources, and deferred inflows of resources with the difference 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 as a whole is improving or deteriorating. Evaluation of the overall health of the Agency would extend to other non-financial factors in addition to the financial information provided in this report.

The second government-wide financial statement is the Statement of Activities, which reports how the Agency's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when the cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the Agency's distinct activities or functions on revenues provided by the Agency's local governments and grantors.

The Agency operates programs through federal, state, and local government grants. All revenues generated through these programs are from grants, contracts, and fees for services.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Agency uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the Agency's funds rather than the Agency as a whole. The Agency utilizes one governmental fund – a general fund – to account for all of its activities.

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the Agency's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of

spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of the short-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 assist in understanding the differences between these two perspectives.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. They provide explanation of the financial statements and provide more detailed data.

Other Information

In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements.

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

The Agency’s net position increased \$602,532 during the fiscal year from a beginning balance of \$6,135,468 to \$6,738,000 at fiscal yearend.

	Total Primary Government	
	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 7,370,301	\$5,929,564
Capital assets	<u>3,224,681</u>	<u>2,725,334</u>
Total assets	<u>10,594,982</u>	<u>8,654,898</u>
Deferred outflows of resources	<u>399,622</u>	<u>484,217</u>
Current liabilities	3,172,458	2,312,340
Long-term liabilities	<u>494,521</u>	<u>498,039</u>
Total liabilities	<u>3,666,979</u>	<u>2,810,379</u>
Deferred inflows of resources	<u>589,625</u>	<u>193,268</u>
Net position		
Investment in capital assets	3,224,681	2,725,334
Restricted	3,331,972	2,871,543
Unrestricted	<u>181,347</u>	<u>538,591</u>
Total net position	<u>\$ 6,738,000</u>	<u>\$6,135,468</u>

Investment in capital assets represents net assets used to acquire those assets and 47.86% of total net position. Unrestricted net position comprises 2.69% of total net position.

	Total Primary Government	
	<u>2019</u>	<u>2018</u>
Program Revenues		
Charges for services	\$ 4,043,067	\$ 4,663,344
Operating grants and contributions	15,533,538	14,778,750
Capital grants and contributions	595,490	586,967
General revenues		
Interest	9,475	358
Other general revenues	<u>965</u>	<u>459,612</u>
Total revenues	20,182,535	20,489,031
Program expenses		
General government	<u>19,580,003</u>	<u>20,198,485</u>
Increase (decrease) in net position	<u>\$ 602,532</u>	<u>\$ 290,546</u>

Governmental activities are supported by charges for services and grants/contributions. Additionally general revenues cover any net expenses after program specific revenues are applied.

Since the Agency continues to derive the vast majority of its funding from the State and Federal governments, and those funds appear to be stable at the present time, the overall financial outlook of the Agency can be characterized as “good.” Despite the fact, the Agency continues to seek and implement cost control measures as funding from those sources does not always increase on an annual basis in keeping up with the rate of inflation (i.e., labor, employee benefit, and other operating costs).

FINANCIAL ANALYSIS OF THE AGENCY’S FUNDS

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a short-term inflow and outflow of expendable resources focus. This information is useful in assessing resources available at year-end. Governmental funds reported ending fund balance of \$3,283,544. Of this year-end total, \$102,801 is unassigned, indicating availability for continuing Agency requirements. The remaining fund balance is comprised of \$2,175,369 restricted for transportation programs, \$59,706 restricted for CASA programs, \$23,219 restricted for energy programs, \$3,895 restricted for community service programs, \$522,474 assigned to the retiree account, \$2,509 assigned to the flower fund, and \$393,571 is nonspendable. Revenues exceeded expenditures by \$375,243.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Agency’s capital assets totaled \$9,017,915, with accumulated depreciation of \$5,793,234 for a net book value of \$3,224,681 at June 30, 2019. There were capital outlays of \$1,146,542 during the period ending June 30, 2019. Depreciation in the current period was \$647,196.

Debt Administration

There were no additional capital leases or other increases in debt. During the year ending June 30, 2019, debt reduced \$47,405 which resulted in an ending balance of \$338,958.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Agency contracts primarily with agencies the State of Tennessee and managed care organizations (MCO); therefore, they are not directly affected by macroeconomic factors. However, the state, federal and local governments and MCOs are affected by these factors, indirectly affecting our Agency's grant and operating budgets. These effects can be positive or negative due to the economic environment. The Agency does not expect a sufficient change in transportation revenues as new MCO contracts commence in January 2020. The Agency will continue to be cautious and efficient with controlling costs to assure it remains within its budgetary spending limits on a grant by grant basis.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Agency's finances, comply with finance-related laws and regulation and demonstrate the Agency's commitment to public accountability. If you have any questions about this report or would like additional information, contact the Agency's Executive Director at 1104 England Drive, Cookeville, TN 38501.

**UPPER CUMBERLAND HUMAN RESOURCE AGENCY
ROSTER OF MANAGEMENT AND BOARD MEMBERS
YEAR ENDED JUNE 30, 2019**

MANAGEMENT

Mark Farley
Ginger Stout

Executive Director
Finance Director

BOARD OF DIRECTORS

Officers

Greg Wilson, Van Buren County
Steve Jones, Macon County
Mickey Robinson, Van Buren County
Denny Wayne Robinson, White County

Chairman
Vice Chairman
Secretary
Treasurer

Ben Danner, Overton County
Jimmy Haley, Warren County

Policy Council Chairman
Policy Council Vice Chairman

Other Members of the Board

Brent Bush, Cannon County
Roger Turney, Cannon County
Dale Reagan, Clay County
Lori Stringfield, Clay County
Emmett Sherrill, Cumberland County
Lisa Patrick, Cumberland County
Tim Stribling, DeKalb County
Bennett Armstrong, DeKalb County
Dwight Mathis, DeKalb County
Jimmy Johnson, Fentress County
Pat Clark, Fentress County
Randy Heady, Jackson County
Barbara Wheeler, Jackson County
Kenneth Hollis, Macon County
Frank Martin, Overton County
Sam Gibson, Pickett County
John Martin, Putnam County
Bill Wiggins, Putnam County
Johnnie Wheeler, Putnam County
Sarah Marie Smith, Smith County
James Gibbs, Smith County
Ben Newman, Warren County
William Ramsey, Warren County
Marvin Lusk, Warren County
Jeff Young, White County
Cheryl Sullivan, White County
Senator Paul Bailey

Andy Duggin, Cannon County
Daryl Fisher, Cannon County
Tonya Spears, Clay County
Allen Foster, Cumberland County
James Mayberry, Cumberland County
Kelli Tipton, Cumberland County
Josh Miller, DeKalb County
Pam Redmon, DeKalb County
Billy Adcock, DeKalb County
Lyndon Baines, Fentress County
Linda Upchurch, Fentress County
Lloyd Williams, Jackson County
Richard Driver, Macon County
Curtis Hayes, Overton County
Carey Garner, Pickett County
Randy Porter, Putnam County
Lisa Chapman-Fowler, Putnam County
Ricky Shelton, Putnam County
Jeff Mason, Smith County
Hollis Mullinax, Smith County
Don Hollingsworth, Van Buren County
Joel Akers, Warren County
Sue Anderson, Warren County
David Woodlee, Warren County
Ray Spivey, White County
Representative Cameron Sexton

UPPER CUMBERLAND HUMAN RESOURCE AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities
ASSETS	
Cash and cash equivalents	
Available	\$ 557,398
Grants receivable	4,651,243
Other receivables	698,306
Prepays	54,914
Inventories	338,657
Net pension asset	1,069,783
Land and other nondepreciable assets	497,100
Other capital assets, net of accumulated depreciation	2,727,581
Total assets	\$ 10,594,982
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows from pensions	\$ 381,712
Deferred outflows from OPEB plan	17,910
Total deferred outflows of resources	\$ 399,622
LIABILITIES	
Line of credit	\$ 748,013
Accounts payable	1,796,465
Due to other governments	15,468
Accrued expenses	453,044
Unearned revenue	1,000
Assets held for others	2,984
Net post employment healthcare plan obligation	155,484
Long-term liabilities	
Due within one year	120,194
Due in more than one year	374,327
Total liabilities	\$ 3,666,979
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pension plan	\$ 447,796
Deferred inflows related to OPEB plan	141,829
Total deferred inflows of resources	\$ 589,625

(The accompanying notes are an integral part of these statements.)

	<u>Governmental Activities</u>
NET POSITION	
Investment in capital assets	\$ 3,224,681
Restricted for	
Pensions	1,069,783
Transportation programs	2,175,369
CASA programs	59,706
Energy programs	23,219
Community service programs	3,895
Unrestricted	<u>181,347</u>
 Total net position	 <u>\$ 6,738,000</u>

(The accompanying notes are an integral part of these statements.)

**UPPER CUMBERLAND HUMAN RESOURCE AGENCY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

Functions/Programs	Expenses		Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Direct	Indirect	Charges for Service	Operating	Capital	Net Governmental Activities
				Grants and Contributions	Grants and Contributions	
Governmental activities						
Local programs and administration	\$ 990,474	\$ (693,356)	\$ 376,006	\$ -	\$ -	\$ 78,888
LIHEAP programs	5,013,669	41,601	-	5,211,055	-	155,785
Transportation programs	6,531,737	318,944	1,495,935	4,309,304	595,490	(449,952)
Nutrition programs	1,106,932	48,535	404,306	1,395,486	-	644,325
Residential programs	1,896,572	110,937	1,738,519	59,550	-	(209,440)
Other community services programs	3,587,992	173,339	28,301	3,985,439	-	252,409
Commodities	452,627	-	-	572,704	-	120,077
Total governmental activities	<u>19,580,003</u>	<u>-</u>	<u>4,043,067</u>	<u>15,533,538</u>	<u>595,490</u>	<u>592,092</u>
Total primary government	<u>\$ 19,580,003</u>	<u>\$ -</u>	<u>\$ 4,043,067</u>	<u>\$ 15,533,538</u>	<u>\$ 595,490</u>	<u>592,092</u>

GENERAL REVENUES

Interest	9,475
Other	<u>965</u>

Total general revenues and transfers 10,440

Change in net position 602,532

NET POSITION

Beginning	<u>6,135,468</u>
Ending	<u>\$ 6,738,000</u>

(The accompanying notes are an integral part of these statements.)

**UPPER CUMBERLAND HUMAN RESOURCE AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019**

**Total
Governmental
Funds**

ASSETS

Cash and cash equivalents		
Available	\$	557,398
Grants receivable		4,651,243
Other receivables		698,306
Prepays		54,914
Inventories		<u>338,657</u>
Total assets	\$	<u><u>6,300,518</u></u>

LIABILITIES AND FUND BALANCES

Liabilities

Line of credit		\$ 748,013
Accounts payable		1,796,465
Accrued expenditures		453,044
Unearned revenue		1,000
Assets held for others		2,984
Due to other governments		<u>15,468</u>
Total liabilities		<u><u>3,016,974</u></u>

Fund balances

Nonspendable		
Inventory		338,657
Prepaid items		54,914
Restricted for		
Transportation programs		2,175,369
CASA programs		59,706
Energy programs		23,219
Community service programs		3,895
Assigned to		
Flower fund		2,509
Retiree account		522,474
Unassigned		<u>102,801</u>
Total fund balances		<u><u>3,283,544</u></u>

Total liabilities and fund balances	\$	<u><u>6,300,518</u></u>
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(The accompanying notes are an integral part of these statements.)

**UPPER CUMBERLAND HUMAN RESOURCE AGENCY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019**

Differences in amounts reported for governmental activities in the statement of net position on page 1:

Fund balances – total governmental funds	\$ 3,283,544
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,224,681
Net pension assets are not available for current-period expenditures and, therefore, are not reported in the funds.	1,069,783
Deferred outflows, such as deferred outflows from other post-employment healthcare plan obligations and from pensions, are not due in the current period and, therefore, are not reported in the funds.	399,622
Deferred inflows, such as deferred inflows from other post-employment benefits and from pensions, are not received in the current period and, therefore, are not reported in the funds.	(589,625)
Long-term liabilities, such as compensated absences, that are not due in the current period and, therefore, are not reported in the funds.	(155,563)
Long-term liabilities, such as net post-employment healthcare plan obligation, that are not due in the current period and, therefore, are not reported in the funds.	(155,484)
Long-term liabilities, such as notes payable, that are not due in the current period and, therefore, are not reported in the funds.	<u>(338,958)</u>
	<u>\$ 6,738,000</u>

(The accompanying notes are an integral part of these statements.)

**UPPER CUMBERLAND HUMAN RESOURCE AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
YEAR ENDED JUNE 30, 2019**

	<u>Total Governmental Funds</u>
REVENUES	
Grantor contributions	\$ 15,413,743
Fees for service	1,626,952
Contract revenue	2,035,436
State and local contributions	634,226
Commodities received	572,704
Performance based revenue	88,978
Program income	380,679
Interest	9,475
Other revenue	<u>965</u>
	<u>20,763,158</u>
 EXPENDITURES	
Current	
LIHEAP programs	5,082,966
Transportation programs	6,070,506
Nutrition programs	1,110,693
Residential programs	1,895,749
Commodities	452,627
Local programs	950,724
Other community services programs	3,592,947
Capital outlay	1,146,542
Debt service	
Principal	47,405
Interest	<u>37,756</u>
	<u>20,387,915</u>
 NET CHANGE IN FUND BALANCE	 375,243
 FUND BALANCE	
Beginning	<u>2,908,301</u>
Ending	<u>\$ 3,283,544</u>

(The accompanying notes are an integral part of these statements.)

**UPPER CUMBERLAND HUMAN RESOURCE AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2019**

Differences in amounts reported for governmental activities in the statement of activities on page 3:

Net change in fund balances – total governmental funds \$ 375,243

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

Depreciation expense on governmental capital assets are included in the statement of activities. (647,196)

Capital outlay reported as expenditures in the governmental funds are reported as capital assets in the statement of activities 1,146,542

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund. (580,623)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal on long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. 47,405

The statement of net position includes a liability for the net post-employment healthcare plan obligation for participation in the Local Government OPEB Plan. The increase or decrease in the liability does not affect expenditures in the governmental funds. (5,239)

The statement of net position includes an asset for the net pension asset for participation in the Tennessee Consolidated Retirement System plan. The increase or decrease in the asset does not affect expenditures in the governmental funds. 124,527

The statement of net position includes a liability for compensated absences. These are planned to be liquidated with future resources; therefore, the increase or decrease in the liability does not affect expenditures in the governmental funds. 141,873

\$ 602,532

(The accompanying notes are an integral part of these statements.)

UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Upper Cumberland Human Resource Agency (Agency) was established in 1973 in accordance with Title 13, Chapter 26, as amended, of Tennessee Code Annotated. This legislation provides a regional system to deliver human resource agency programs in the State's counties and cities. It is governed by a member governing board and a member policy council. The board consists of the county executives and mayors within the area served by the Agency, one state senator and one state representative whose districts lie wholly or in part within the area served by the Agency, and members appointed by the county executives – one from each county served by the Agency. The policy council consists of two representatives from each county served and two legislators. For financial reporting purposes, the Agency includes all fund types and account groups over which the Board of Directors is financially accountable.

The accounting and reporting policies of the Agency relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles (GAAP) for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The GASB periodically updates its codification of the existing standards, which, along with the subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant accounting policies for the Agency are described below.

Reporting entity

The Agency, for financial purposes, includes all the funds relevant to the operations of the Upper Cumberland Human Resource Agency (the primary government). The Agency is also required to include in its financial statements those separately administered organizations (component units) with which the Agency has significant operational or financial relationships. The criteria for including organizations as component units within the Agency's reporting entity include whether the organization is legally separate and whether the Agency holds the corporate powers, whether the Agency appoints a majority of the organization's board and is able to impose its will, and the ability of the organization to impose a financial benefit or burden on the Agency. Based on the foregoing criteria, the Agency has no component units.

Basis of presentation

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by assessments and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Indirect expenses* for administrative overhead are allocated among the function and activities using a full cost allocation approach and are presented separately. Program *revenues* include (1) charges to customers or applicants who purchase use, or directly benefit from goods, services, or privileges provided by the given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Items not properly included among program revenues are reported instead as *general revenues*.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation (continued)

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Basis of accounting

The government-wide financial statements, consisting of the statement of net position and the statement of activities, are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liability is incurred. The government-wide financial statements report information on all of the non-fiduciary activities of the District as a whole.

The fund-level financial statements of the governmental funds consist of a general fund, use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they are susceptible to accrual, which is defined as being both measurable, meaning that the amount of the transaction can be determined, and available, meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 180 days of the end of the current fiscal period. Those revenues susceptible to accrual are federal and state grants, other state funds, interest income and charges for services. Expenditures are generally recognized when the liability is incurred. However, debt service expenditures as well as expenditures related to compensated absences are recorded only when payment is due.

Since the governmental funds statements are presented on a different measurement focus and basis of accounting than the governmental activities column in the government-wide financial statements, a reconciliation is presented on the page following the applicable fund statement which reconciles.

The Agency reports the following major governmental fund:

General fund – The general fund is the primary operating fund of the Agency. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

Fund accounting

The accounts of the Agency are organized on the basis of funds, which are considered separate accounting entities. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Amounts reported in the fund financial statements as due to or due from other funds are eliminated upon preparation of the government-wide statement of net position. The various funds are grouped into fund types as follows:

Governmental Funds - The general fund is the general operating fund of the Agency. It is used to account for all financial resources except those required to be accounted for in another fund, or those for which it is considered fiscally responsible to be accounted for in a separate fund.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund accounting (continued)

Proprietary Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises and therefore funded primarily through user charges.

Non-current governmental assets/liabilities - The Agency eliminates the presentation of account groups, but provides for these records to be maintained and incorporated into the governmental activities section of the government-wide financial statements.

Fund equity

Fund equity at the governmental fund level is classified as “fund balance.” Fund equity for all other reporting is classified as “net position.”

Fund balance – Generally, fund balance represents the difference between assets and liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

Non-spendable – Fund balances are reported as non-spendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

Restricted – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Committed – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the District’s Board of Directors through the adoption of a resolution. The Board also may modify or rescind the commitment.

Assigned – Fund balances are reported as assigned when amounts are constrained by Board action to be used for specific purposes, but are neither restricted or committed.

Unassigned – Fund balances are reported as unassigned when the residual amount does not meet any of the above criteria. The Agency reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

When both restricted and unrestricted amounts of fund balance are available for expenditure, it is the Agency’s policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the Agency’s policy to use fund balances in the following order: committed, assigned, unassigned.

Net position – Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted as described in the fund balances section above. All other net assets are reported as unrestricted.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budget and budgetary control

The Agency does not have an annual appropriated budget. The grant documents, service contracts and program projections serve as the financial plans for budgetary purposes.

Estimates

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

Cash equivalents

For purposes of these financial statements, the District considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Receivables

Receivables are reported at the outstanding principal amount. The Agency uses the direct write-off method to account for bad debts, which produces no material differences from the allowance method. Individual accounts are written off when they are determined to be uncollectible.

Inventories

The consumption method is used to account for inventories. Under the consumption method, an expenditure is recognized when inventory is consumed. Commodities inventory is valued using Tennessee Department of Agriculture issued price list.

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

For the fund financial statements, capital assets of governmental funds are recorded as expenditures at the time of purchase. For governmental funds at the government-wide presentation, the Agency capitalizes long-lived assets with an original cost of \$1,000 or more over their estimated useful lives using the straight-line method. Such assets are recorded at cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized.

Estimated useful lives of the various classes of depreciable capital assets are as follows:

Buildings	25-40 years
Leasehold and land improvements	15-24 years
Vehicles	5 years
Equipment	5 years

Long-term debt

In government-wide financial statements, long-term debt or other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities statement of net position.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated absences

Agency employees are paid for vacation and absences due to sickness by prescribed formulas based on length of service. Vacation and sick leave for employees of governmental funds are recorded as expenditures in the period they are used and considered payable from current financial resources. Vacation leave is based on employment date, and unused vacation leave is converted into sick leave at the end of the fiscal year-end.

The Agency's policies allow an employee who has been employed with the Agency or twenty consecutive years and is 59 ½ to receive a payment of accumulated sick leave up to six months upon retirement. The estimated value of accumulated benefits earned by these employees, which may be used in subsequent years and paid upon retirement, is recorded as long-term debt in the government-wide statements.

Deferred outflows/inflows of resources

GASB has defined deferred outflows of resources and deferred inflows of resources as follows:

Deferred outflows of resources – a consumption of net position by the government that is applicable to a future reporting period.

Deferred inflows of resources – an acquisition of net position by the government that is applicable to a future reporting period.

As of June 30, 2019, the Agency had \$399,622 of deferred outflows of resources from other post-employment benefits and pensions and had \$589,625 of deferred inflows of resources from other post-employment benefits and pensions.

Indirect costs

Indirect costs are allocated to the functions of the Agency based on the ratio of the individual direct program salaries to direct program salaries applied to the administrative costs.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Upper Cumberland Human Resource Agency's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and addition to/deductions from the Agency's fiduciary net position have been determined on the same basis as they are reported by 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 the TCRS. Investments are reported at fair value.

(2) CASH AND INVESTMENTS

The Agency does not have a formal policy regarding the types of investment authorized. However, State statutes authorize the Agency to invest operating funds in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, and state pooled investment fund. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

(2) CASH AND INVESTMENTS (continued)

At June 30, 2019, the Agency's cash and investments consist of the following:

	Weighted Average Maturity (Years)	Fair Value
Checking accounts	0.00	\$ 556,948
Petty cash	0.00	450
	0.00	\$ 557,398

Custodial Credit Risk – The Agency's policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. The deposits must be covered by federal deposit insurance or the Tennessee Bank Collateral Pool, by collateral held by the Agency's agent in the Agency's name, or by Federal Reserve Banks acting as third party agents. State statutes also authorize the types of investments in which the Agency may participate.

(3) CAPITAL ASSETS

Governmental activities

A summary of changes in capital assets and accumulated depreciation for governmental activities is as follows:

	Beginning	Additions	Dispositions and reclassifications	Ending
Non-depreciable capital assets				
Land	\$ 497,100	\$ -	\$ -	\$ 497,100
Total non-depreciable capital assets	\$ 497,100	\$ -	\$ -	\$ 497,100
Depreciable capital assets				
Buildings	\$ 542,795	\$ 42,392	\$ -	\$ 585,187
Equipment	1,514,431	74,290	-	1,588,721
Vehicles	5,317,047	1,029,860	-	6,346,907
	7,374,273	1,146,542	-	8,520,815

UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

(3) CAPITAL ASSETS (continued)

	<u>Beginning</u>	<u>Additions</u>	<u>Dispositions and reclassifications</u>	<u>Ending</u>
Less accumulated depreciation				
Buildings	\$ 209,632	\$ 15,454	\$ -	\$ 225,086
Equipment	1,293,469	76,093	-	1,369,562
Vehicles	3,642,937	555,649	-	4,198,586
	<u>5,146,038</u>	<u>647,196</u>	<u>-</u>	<u>5,793,234</u>
Depreciable capital assets, net	<u>\$ 2,228,235</u>	<u>\$ 499,346</u>	<u>\$ -</u>	<u>\$ 2,727,581</u>

Depreciation was charged to the functions of the primary government as follows:

Local programs and administration	\$ 14,955
Transportation	543,992
Residential	26,668
Nutrition	11,381
Other community services	<u>50,200</u>
Total governmental activities depreciation expense	<u>\$ 647,196</u>

(4) LONG-TERM LIABILITIES

Governmental activities

A summary of changes in long-term liabilities for governmental activities is as follows:

	<u>Beginning Balance</u>	<u>Adjustments and Additions</u>	<u>Adjustments and Retirements</u>	<u>Ending Balance</u>
Note payable	\$ 386,363	\$ -	\$ (47,405)	\$ 338,958
Compensated absences	<u>297,435</u>	<u>-</u>	<u>(141,872)</u>	<u>155,563</u>
	<u>\$ 683,798</u>	<u>\$ -</u>	<u>\$ (189,277)</u>	<u>\$ 494,521</u>

Presentation of long-term debt of governmental activities in the government-wide statement of net position is as follows:

Due within one year	\$ 120,194
Due in more than one year	<u>374,327</u>
	<u>\$ 494,521</u>

UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

(4) LONG-TERM LIABILITIES (continued)

The Agency funded the shortfall from the sale of the Lakeside Resort with a 48 month note payable with the Bank of Putnam County in the amount of \$687,890. The terms of the note require 96 monthly payments of \$4,713 including interest at 2.5% with the note maturing December 1, 2025. The note is collateralized by the Agency's retiree account, which had a balance at June 30, 2019, of \$522,474. The balance on the note at June 30, 2019, was \$338,958.

The note payable debt service requirements to maturity are as follows:

	Gross Payment	Interest	Principal
For the year ending June 30, 2020	\$ 56,554	\$ 7,919	\$ 48,635
2021	56,554	6,689	49,865
2022	56,554	5,428	51,126
2023	56,554	4,135	52,419
2024	56,554	2,810	53,744
2025-2026	84,831	1,662	83,169
	\$ 367,601	\$ 28,643	\$ 338,958

Interest has been included as a direct expense of the local program and administration activity in the amount of \$9,119.

(5) PENSION PLANS

Tennessee Consolidated Retirement System

Plan description

Employees of the Agency are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under the Tennessee Code of 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 publically available financial report that can be obtained at <https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies>.

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 service credit. Reduced benefits for

UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

(5) PENSION PLANS (continued)

Tennessee Consolidated Retirement System (continued)

Benefits provided (continued)

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 second 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 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees covered by benefit terms

At the measurement date of June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	29
Inactive employees entitled to but not yet receiving benefits	128
Active employees	<u>126</u>
 Total employees	 <u><u>283</u></u>

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of their salary. The Agency makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial evaluation. For the year ended June 30, 2019, the employer contributions for the Agency was \$227,309 based on a rate of 6.54% of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept the Agency's state shared taxes if required employer contributions are not remitted. The employer's Actuarial Determined Contribution (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 liability (asset)

The Agency's net pension liability (asset) was measured as of June 30, 2018, and the total pension liability (asset) used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

(5) PENSION PLANS (continued)

Tennessee Consolidated Retirement System (continued)

Actuarial assumptions

The total pension liability as of June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.44 % based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25%

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2018, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. 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, 2016, actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce 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 expected inflation of 2.5%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	<u>1%</u>
		<u>100%</u>

UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

(5) PENSION PLANS (continued)

Tennessee Consolidated Retirement System (continued)

Actuarial assumptions (continued)

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a blending of the three factors described above.

Discount rate

The discount rate used to measure the total pension liability was 7.25%. 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 evaluation 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 liability (asset)

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a.)</u>	<u>Plan Fiduciary Net Position (b.)</u>	<u>Net Pension Liability (Asset) (a.)-(b.)</u>
Balance at June 30, 2017	\$ 6,137,441	\$ 6,727,101	\$ (589,660)
Changes for the year			
Service cost	417,766	-	417,766
Interest	470,346	-	470,346
Differences between expected and actual experience	(339,795)	-	(339,795)
Contributions – employer	-	266,093	(266,093)
Contributions – employees	-	203,436	(203,436)
Net investment income	-	571,728	(571,728)
Benefit payments, including refunds of employee contributions	(135,346)	(135,346)	-
Administrative expense	-	(12,817)	12,817
Net changes	<u>412,971</u>	<u>893,094</u>	<u>(480,123)</u>
Balance at June 30, 2018	<u>\$ 6,550,412</u>	<u>\$ 7,620,195</u>	<u>\$ (1,069,783)</u>

UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

(5) PENSION PLANS (continued)

Tennessee Consolidated Retirement System (continued)

Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the net pension liability (asset) of the Agency calculated using the discount rate of 7.25%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Net pension liability (asset)	\$ (134,794)	\$ (1,069,783)	\$ (1,836,391)

Pension expense

For the year ended June 30, 2019, the Agency recognized pension expense of \$102,782.

Deferred outflows of resources and deferred inflows of resources

For the year ended June 30, 2019, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 71,201	\$ 398,831
Net difference between projected and actual earnings on pension plan investments	-	48,965
Changes in assumptions	83,202	-
Contributions subsequent to the measurement date Of June 30, 2018	<u>227,309</u>	<u>-</u>
	<u>\$ 381,712</u>	<u>\$ 447,796</u>

* The amount shown above for "Contributions subsequent to the measurement date of June 30, 2018," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

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, 2020	\$ (29,765)
2021	\$ (71,181)
2022	\$ (112,344)
2023	\$ (80,103)

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

(5) PENSION PLANS (continued)

Tennessee Consolidated Retirement System (continued)

Payable to the pension plan

At June 30, 2019, the Agency reported a payable of \$44,576 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2019.

Defined contribution plan

In addition to the TCRS plan, the Agency continues to provide pension benefits for full-time (hired on or before December 31, 2007) and permanent part-time employees who work at least 1,000 hours annually through a defined contribution plan administered by the State of Tennessee. In a defined contribution plan, benefits depend on amounts contributed to the plan plus investment earnings. Employees are eligible to make contributions immediately; however, employees are not eligible for the employer match until after 12 months of service.

Any amendments to the defined contribution plan have been approved by the Board of Directors of the Agency. According to the Agency's personnel policies approved by the Board of Directors, the agency contributes 5% of the employee's base salary each month, and the employee contributes at least 5% of the base salary. However, employees that are also participants in the TCRS plan do not receive the agency match. The employee is allowed to contribute up to federally defined limits. All contributions by the employee are fully vested upon participation in the retirement plan.

Employer contributions are vested at a rate of 20% per year. The Agency contributed \$25,166 for the year ended June 30, 2019.

(6) OTHER POST EMPLOYMENT BENEFITS

Plan description

Employees of the Agency, who were hired prior to July 1, 2015, are provided with pre-65 retiree health insurance benefits through the Local Government OPEB Plan (LGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be multiple-employer defined benefit plan that is used to provide post-employment benefits other than pensions (OPEB). However for accounting purposes, this plan will be treated as a single-employer plan. All eligible pre-65 retired employees and disability participants of local governments, who choose coverage, participate in the LGOP.

Benefits provided

The Agency offers the LGOP to provide health insurance coverage to eligible pre-65 retirees and disabled participants of local governments. Insurance coverage is the only postemployment benefit provided to retirees. An insurance committee created in accordance with TCA 8-27-701 establishes and amends the benefit terms of the LGOP. All members have the option of choosing between the premier preferred provider organization (PPO), standard PPO, limited PPO or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members, of the LGOP, receive the same plan benefits as active employees, at a blended premium rate that considers the cost of all participants. This creates an implicit subsidy for retirees. Participating employers determine their own policy related to direct subsidies provided for the retiree premiums. The Agency does not provide any direct subsidy for pre-65 retired insurance coverage and is only subject to the implicit. The LGOP is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No.75.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

(6) OTHER POST EMPLOYMENT BENEFITS (continued)

Employees covered by benefit terms

At July 1, 2018, the following employees of the Agency was covered by the benefit terms of the LGOP:

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	-
Active employees	<u>116</u>
 Total employees	 <u>119</u>

An insurance committee, created in accordance with TCA 8-27-701, establishes the required payments to the LGOP by member employers and employees through the blended premiums established for active and retired employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. For the fiscal year ended June 30, 2019, the Agency paid \$14,329 to the LGOP for OPEB benefits as they came due.

Actuarial assumptions

The total OPEB liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4.00%
Investment rate of return	6.75% for 2019, decreasing annually over a 32 year period to an ultimate rate of 3.81%
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2017, valuations were the same as those employed in the July 1, 2017 Pension Actuarial Valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012 - June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a 3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

(6) OTHER POST EMPLOYMENT BENEFITS (continued)

Discount rate

The discount rate used to measure the total OPEB liability was 3.62%. This rate reflects the interest rate derived from yields on a 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20-Year Municipal GO AA index.

Changes in the Total OPEB Liability

	Total OPEB Liability (a.)
Balance at June 30, 2017	<u>\$ 275,601</u>
Changes for the year	
Service cost	24,357
Interest	10,436
Changes of benefit terms	2,889
Differences between expected and actual experience	(148,241)
Change in assumptions	4,046
Benefit payments	<u>(13,604)</u>
Net changes	<u>(120,117)</u>
Balance at June 30, 2018	<u>\$ 155,484</u>

Changes in assumptions

The discount rate was changed from 3.56% as of the beginning of the measurement period to 3.62% as of June 30, 2018. This change in assumption decreased the total OPEB liability. Other changes in assumptions include adjustments to initial per capita costs and slight changes to the near term health trend rates.

Sensitivity of total OPEB liability to changes in the discount rate

The following presents the total OPEB liability related to the LGOP, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current discount rate.

	1% Decrease	Current Discount Rate	1% Increase
	<u>(2.62%)</u>	<u>(3.62%)</u>	<u>(4.62%)</u>
Total OPEB liability	<u>\$ 165,123</u>	<u>\$ 155,484</u>	<u>\$ 146,460</u>

UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

(6) OTHER POST EMPLOYMENT BENEFITS (continued)

Sensitivity of total OPEB liability to changes in the healthcare cost trend rate

The following presents the total OPEB liability related to the LGOP, as well as what the total OPEB liability would be if it were calculated using a health care cost trend rate (6.75% decreasing to 3.81%) that is 1-percentage-point lower (5.75% decreasing to 2.81%) or 1-percentage-point higher (7.75% decreasing to 4.81%) than the current healthcare cost trend rate.

	1% Decrease (2.81%)	Current Discount Rate (3.81%)	1% Increase (4.81%)
Total OPEB liability	\$ 143,239	\$ 155,484	\$ 169,773

OPEB expense

For the fiscal year ended June 30, 2019, the Agency recognized OPEB expense of \$19,568.

Deferred outflows of resources and deferred inflows of resources

For the fiscal year ended June 30, 2019, the Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB benefits in the LGOP from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 131,202
Changes in assumptions	3,581	10,627
Contributions subsequent to the measurement date of June 30, 2018	14,329	-
	\$ 17,910	\$ 141,829

* The amount shown above for "Contributions subsequent to the measurement date of June 30, 2018," will be recognized as a reduction (increase) to total OPEB liability in the following measurement period.

The amounts shown above for "Employer payments subsequent to the measurement date" will be recognized as a reduction to total OPEB liability in the following measurement period.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

(6) OTHER POST EMPLOYMENT BENEFITS (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ended June 30, 2020	\$ (18,114)
2021	\$ (18,114)
2022	\$ (18,114)
2023	\$ (18,114)
2024	\$ (18,114)
Thereafter	\$ (47,678)

In the table shown above, positive amounts will increase OPEB expense while negative amounts will decrease OPEB expense.

(7) RISK MANAGEMENT

The Agency participates in the Tennessee Municipal League (TML) Risk Management Pool, for the following risks of loss: commercial general liability, bodily injury, property damage, physical damage, and personal injury liability for vehicle operation, employer's liability and worker's compensation. Worker's compensation is based on previous year's salaries at a predefined rate; however at the end of the policy year (December 31) a worker's compensation audit is conducted. At that time the Agency could be subject to additional payment or a refund of premiums.

The Agency's participation in the TML Risk Management Pool is similar to purchasing commercial insurance, in that the agreement provides for payment of premiums and does not provide for additional member assessments. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years. The Agency carries commercial insurance for employee dishonesty. There were no claims filed against this policy in the past year.

The responsibilities of the Agency include:

- Pay all contributions or other sums due to TML.
- Allow attorneys appointed by TML to represent the Agency and assist and cooperate in the defense and settlement of claims against the Agency.
- Follow all loss reduction and prevention procedures established by TML where possible.
- Furnish to TML such operating and underwriting information as may be requested.
- Report as promptly as possible, all incidents which could result in TML being required to pay a claim for loss or injuries.
- Allow TML to inspect and appraise any damaged property before its repair or disposition.
- Cooperate with the pool in any dispute resolutions with other insurance companies.

The responsibilities of TML include:

- TML will defend any suit against the Agency or covered party seeking damages even if any of the allegations of the suit are groundless, false or fraudulent.
- TML's duty to pay on behalf of or to indemnify a covered party other than the Agency does not apply to any act, error or omission that constitutes malfeasance in office, willful and wanton neglect of duty, dishonesty on the part of a covered party, or the willful violation of a statute or ordinance by any official, employee, or agent of the Agency.

**UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

(8) COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Agency expects such amounts, if any, to be immaterial.

(9) LINE OF CREDIT

The Agency renewed a line of credit with Bank of Putnam County on July 1, 2019, for a term of eighteen months ending on December 16, 2020, to provide working capital for the Agency. The maximum available line of credit balance was \$2,000,000. The line of credit has a fixed interest rate of 5%. The balance on the line of credit at June 30, 2019, was \$748,013.

	Beginning Balance	Adjustments and Additions	Adjustments and Retirements	Ending Balance
Line of credit	\$ 989,685	\$ -	\$ (241,672)	\$ 748,013

The Agency has pledged as collateral land and buildings located at Indian Mound and Chance residential centers, various vehicles owned by the Agency, accounts and other rights to payment, instruments and chattel paper, general intangibles, documents, government payments and programs, investment property and deposit accounts.

Interest has been included as a direct expense of the local program and administration activity in the amount of \$28,637.

(10) LEASES

The Agency has entered into leases for office space including the central office location as well as offices within each of the counties served by the Agency. None of these leases have terms which are noncancellable. Lease expenditures for the year ended June 30, 2019, were \$409,201.

(11) LITIGATION AND CLAIMS

Agency management is not aware of any litigation or claims that would be material to the Agency's financial statements.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

(12) SHARED ADMINISTRATION AND COST POOL AGREEMENT

On August 21, 2018, the Agency and Upper Cumberland Development District (District) entered into a shared administration and cost pool agreement. Under this agreement the District and the Agency will share administrative, management and financial operations personnel and create a cost pool for shared operations. The District and the Agency will remain separate organizations in all respects, and shall retain and operate separate and distinct programs which will each remain an exclusive program of the respective entity, serving the citizens of the Upper Cumberland, businesses and industries, and local governments.

(13) SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 22, 2020, the date which these financial statements were available for issue.

REQUIRED SUPPLEMENTARY INFORMATION

**UPPER CUMBERLAND HUMAN RESOURCE AGENCY
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
(ASSET) AND RELATED RATIOS BASED ON PARTICIPATION
IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS
LAST FISCAL YEAR ENDING JUNE 30**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
TOTAL PENSION LIABILITY (ASSET)					
Service cost	\$ 385,303	\$ 403,133	\$ 380,258	\$ 404,868	\$ 417,766
Interest	280,006	335,166	370,974	429,784	470,346
Difference between expected and actual experience	117,205	(159,342)	75,435	(110,823)	(339,795)
Change in assumptions	-	-	-	124,802	-
Benefit payments, including refunds of employee contributions	<u>(33,199)</u>	<u>(96,528)</u>	<u>(60,760)</u>	<u>(73,543)</u>	<u>(135,346)</u>
Net change in total pension liability	749,315	482,429	765,907	775,088	412,971
Beginning	<u>3,364,702</u>	<u>4,114,017</u>	<u>4,596,446</u>	<u>5,362,353</u>	<u>6,137,441</u>
Ending (a)	<u>\$ 4,114,017</u>	<u>\$ 4,596,446</u>	<u>\$ 5,362,353</u>	<u>\$ 6,137,441</u>	<u>\$ 6,550,412</u>
PLAN FIDUCIARY NET POSITION					
Contributions - employer	\$ 315,430	\$ 292,707	\$ 294,017	\$ 300,121	\$ 266,093
Contributions - employee	222,448	223,782	224,785	229,451	203,436
Net investment income	600,086	144,292	139,527	662,313	571,728
Benefit payments, including refunds of employee contributions	(33,199)	(96,528)	(60,760)	(73,543)	(135,346)
Administrative expense	<u>(5,214)</u>	<u>(7,694)</u>	<u>(11,288)</u>	<u>(12,913)</u>	<u>(12,817)</u>
Net change in plan fiduciary net position	1,099,551	556,559	586,281	1,105,429	893,094
Beginning	<u>3,379,281</u>	<u>4,478,832</u>	<u>5,035,391</u>	<u>5,621,672</u>	<u>6,727,101</u>
Ending (b)	<u>\$ 4,478,832</u>	<u>\$ 5,035,391</u>	<u>\$ 5,621,672</u>	<u>\$ 6,727,101</u>	<u>\$ 7,620,195</u>
NET PENSION LIABILITY (ASSET) (a-b)					
Net pension (asset) liability	<u>\$ (364,815)</u>	<u>\$ (438,945)</u>	<u>\$ (259,319)</u>	<u>\$ (589,660)</u>	<u>\$ (1,069,783)</u>
Plan fiduciary net position as a percentage of total pension liability	108.87%	109.55%	104.84%	109.61%	116.33%
Covered employee payroll	\$ 4,448,938	\$ 4,475,647	\$ 4,495,668	\$ 4,588,994	\$ 4,068,698
Net pension asset as a percentage of covered-employee payroll	-8.20%	-9.81%	-5.77%	-12.85%	-26.29%

NOTES TO SCHEDULE

Changes in assumptions

In 2017, amounts reported as changes in assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, salary growth and mortality improvements.

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 information are available.

**UPPER CUMBERLAND HUMAN RESOURCE AGENCY
SCHEDULE OF CONTRIBUTIONS BASED ON PARTICIPATION
IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS
LAST FISCAL YEAR ENDING JUNE 30**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarially determined contribution	\$ 315,430	\$ 292,707	\$ 294,017	\$ 217,977	\$ 184,719	\$ 227,309
Contributions in relation to the actuarially determined contribution	<u>315,430</u>	<u>292,707</u>	<u>294,017</u>	<u>300,120</u>	<u>266,093</u>	<u>227,309</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (82,143)</u>	<u>\$ (81,374)</u>	<u>\$ -</u>
Covered employee payroll	\$ 4,448,938	\$ 4,475,647	\$ 4,495,668	\$ 4,588,994	\$ 4,068,698	\$ 3,475,673
Contributions as a percentage of covered employee payroll	7.09%	6.54%	6.54%	6.54%	6.54%	6.54%

NOTES TO SCHEDULE

Valuation date

Actuarially determined contribution rates for 2019 were calculated based on the June 30, 2017, actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed (not to exceed twenty years)
Remaining amortization period	Varies by year
Asset valuation	10-year smoothed within a 20% corridor to market value
Inflation	2.5%
Salary increases	Graded salary ranges from 8.72 to 3.44 based on age, including inflation
Investment rate of return	7.25%, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customizable table based on actual experience including an adjustment for some anticipated improvement
Cost of Living Adjustment	2.25%

Change in assumptions

In 2017, the following assumptions were changed: decreased inflation rate from 3.00% to 2.50%; decreased the investment rate of return from 7.50% to 7.25%; decreased the cost-of-living adjustment from 2.50% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4.00%; and modified mortality assumptions.

10 years information are available.

**UPPER CUMBERLAND HUMAN RESOURCE AGENCY
SCHEDULE OF CHANGES IN TOTAL OPEB
LIABILITY AND RELATED RATIOS
LAST FISCAL YEAR ENDING JUNE 30**

	2018	2019
TOTAL OPEB LIABILITY		
Service cost	\$ 25,913	\$ 24,357
Interest	8,403	10,436
Changes in benefit terms	-	2,889
Difference between expected and actual experience	-	(148,241)
Change in assumptions	(13,707)	4,046
Benefit payments	(13,771)	(13,604)
 Net change in total OPEB liability	 6,838	 (120,117)
 Beginning	 268,763	 275,601
 Ending	 \$ 275,601	 \$ 155,484
 Covered employee payroll	 \$ 5,564,732	 \$ 3,475,673
 Total OPEB liability as a percentage of covered payroll	 4.95%	 4.47%

NOTES TO SCHEDULE

There are no assets accumulating, in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

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.

OTHER SUPPLEMENTARY INFORMATION

**UPPER CUMBERLAND HUMAN RESOURCE AGENCY
SCHEDULE OF INDIRECT COSTS
YEAR ENDED JUNE 30, 2019**

INDIRECT COST POOL

Salaries	\$ 328,899
Fringe benefits	116,927
Professional services	107,310
Dues and subscriptions	6,994
Supplies	13,330
Travel	2,888
Training	1,304
Policy council and board member	2,295
Vehicle operations	1,827
Occupancy	69,198
Telephone and utilities	12,305
Maintenance and janitorial	2,114
Equipment rental	11,212
Insurance	13,759
Miscellaneous	<u>2,994</u>
Total indirect costs	<u>\$ 693,356</u>

**UPPER CUMBERLAND HUMAN RESOURCE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

<u>Grantor/Pass-Through Grantor</u>	<u>CFDA No.</u>	<u>Contract No.</u>	<u>Beginning Accrued (Deferred)</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending Accrued (Deferred)</u>	<u>Passed through to Subrecipients</u>
Federal Awards							
U.S. DEPT. OF AGRICULTURE							
Passed through Tennessee Dept. of Human Services							
Human Services							
Child and Adult Care Food Program	10.558		\$ 60,591	\$ 976,123	\$ 988,448	\$ 72,916	\$ -
Passed through Tennessee Dept. of Education							
Residential Centers (School Breakfast)	10.553		2,205	24,135	24,231	2,301	-
Residential Centers (School Lunch)	10.553		3,449	35,137	35,319	3,631	-
Total Child Nutrition Cluster			<u>5,654</u>	<u>59,272</u>	<u>59,550</u>	<u>5,932</u>	<u>-</u>
Passed through Tennessee Dept. of Agriculture							
Emergency Food Assistance Program	10.568		28,677	66,984	72,849	34,542	-
Total U.S. Dept. of Agriculture			<u>94,922</u>	<u>1,102,379</u>	<u>1,120,847</u>	<u>113,390</u>	<u>-</u>
U.S. DEPT. OF HOUSING & URBAN DEVELOPMENT							
Passed through Tennessee Dept. of Health							
Housing Opportunities for Persons with AIDS	14.241		16,280	75,388	80,918	21,810	-
Total U.S. Dept. of Housing and Urban Development			<u>16,280</u>	<u>75,388</u>	<u>80,918</u>	<u>21,810</u>	<u>-</u>
U.S. DEPT. OF LABOR							
Passed through Tennessee Dept. of Labor/Workforce Dev.							
Employment Service/Wagner-Peyser Funded Activities	17.207		25,653	25,653	-	-	-
Total Employment Service Cluster			<u>25,653</u>	<u>25,653</u>	<u>-</u>	<u>-</u>	<u>-</u>
Passed through Tennessee Dept. of Labor/Workforce Dev.							
Senior Community Service Employment Program	17.235		49,628	233,201	228,079	44,506	-
Total U.S. Dept. of Labor			<u>75,281</u>	<u>258,854</u>	<u>228,079</u>	<u>44,506</u>	<u>-</u>

**UPPER CUMBERLAND HUMAN RESOURCE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

<u>Grantor/Pass-Through Grantor</u>	<u>CFDA No.</u>	<u>Contract No.</u>	<u>Beginning Accrued (Deferred)</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending Accrued (Deferred)</u>	<u>Passed through to Subrecipients</u>
U.S. DEPT. OF TRANSPORTATION							
Passed through Tennessee Dept. of Transportation							
Federal Transit - Capital Investment Grants	20.500		\$ -	\$ (31,349)	\$ 595,490	\$ 626,839	\$ -
Total Federal Transit Cluster			-	(31,349)	595,490	626,839	-
Formula Grants for Rural Areas	20.509		1,162,419	2,733,961	2,512,529	940,987	-
Job Access	20.516		50,343	50,343	43,100	43,100	-
New Freedom Program	20.521		325,209	450,423	324,876	199,662	-
Total Transit Services Programs Cluster			375,552	500,766	367,976	242,762	-
Total U.S. Dept. of Transportation			1,537,971	3,203,378	3,475,995	1,810,588	-
U.S. DEPT. OF ENERGY							
Passed through Tennessee Dept. of Human Services							
Weatherization Assistance for Low-Income Persons	81.042		86,619	103,416	214,840	198,043	-
Total U.S. Dept. of Energy			86,619	103,416	214,840	198,043	-
U.S. DEPT. OF HEALTH AND HUMAN SERVICES							
Head Start	93.600		82,844	601,753	624,917	106,008	-
Passed through Upper Cumberland Development District							
Special Programs for the Aging Title III, Part B -							
Grants for Supportive Services and Senior Centers	93.044		5,004	73,003	80,879	12,880	-
Special Programs for the Aging Title III, Part C -							
Nutrition Services - Congregate Meals	93.045		175,600	258,334	146,619	63,885	-
Nutrition Services - Home Delivered Meals	93.045		136,178	233,058	182,944	86,064	-
Nutrition Services Incentive Program	93.053		25,000	28,654	4,626	972	-
Total aging cluster			341,782	593,049	415,068	163,801	-

**UPPER CUMBERLAND HUMAN RESOURCE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

<u>Grantor/Pass-Through Grantor</u>	<u>CFDA No.</u>	<u>Contract No.</u>	<u>Beginning Accrued (Deferred)</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending Accrued (Deferred)</u>	<u>Passed through to Subrecipients</u>
U.S. DEPT. OF HEALTH AND HUMAN SERVICES (continued)							
Passed through Upper Cumberland Development District (continued)							
National Family Caregiver Support, Title III, Part E	93.052		\$ 23,758	\$ 52,588	\$ 36,707	\$ 7,877	\$ -
Passed through Oasis Center							
Affordable Care Act Personal Responsibility Education Prog.	93.092		625	7,927	8,527	1,225	-
Passed through Tennessee Dept. of Human Services							
Low-Income Home Energy Assistance	93.568		352,940	4,615,543	5,238,534	975,931	-
Community Services Block Grant	93.569		216,902	740,005	791,269	268,166	-
Total 477 Cluster			216,902	740,005	791,269	268,166	-
Social Services Block Grant	93.667		47,767	260,871	289,439	76,335	-
Passed through United Way							
HIV Care Formula Grants	93.917		10,565	60,092	66,412	16,885	-
Total U.S. Dept. of Health and Human Services			1,077,183	6,931,828	7,470,873	1,616,228	-
U.S. DEPT. OF HOMELAND SECURITY							
Passed through United Way							
Emergency Food and Shelter National Board Program	97.024		(2,353)	24,506	24,506	(2,353)	-
Total U.S. Dept. of Homeland Security			(2,353)	24,506	24,506	(2,353)	-
Total Expenditures of Federal Awards			\$ 2,885,903	\$ 11,699,749	\$ 12,616,058	\$ 3,802,212	\$ -

**UPPER CUMBERLAND HUMAN RESOURCE AGENCY
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED JUNE 30, 2019**

Grantor/Pass-Through Grantor	CFDA No.	Contract No.	Beginning Accrued (Deferred)	Cash Receipts	Expenditures	Ending Accrued (Deferred)	Passed through to Subrecipients
State Awards							
TENNESSEE DEPT. OF PROBATION AND PAROLE Community Corrections			\$ 72,282	\$ 432,758	\$ 467,320	\$ 106,844	\$ -
TENNESSEE DEPT. OF CHILDREN'S SERVICES							
Community Intervention - Juvenile Services			38,466	195,535	188,031	30,962	-
Court Appointed Special Advocates			13,756	92,468	90,515	11,803	-
Special Education			2,491	9,831	7,340	-	-
			<u>54,713</u>	<u>297,834</u>	<u>285,886</u>	<u>42,765</u>	<u>-</u>
TENNESSEE DEPT. OF LABOR/WORKFORCE DEV.							
Disabled Veterans Outreach			3,312	3,312	-	-	-
Local Veterans Employment Representative			3,662	3,662	-	-	-
			<u>6,974</u>	<u>6,974</u>	<u>-</u>	<u>-</u>	<u>-</u>
TENNESSEE DEPT. OF TRANSPORTATION							
New Freedom			102,602	154,809	88,619	36,412	-
Job Access			25,171	25,171	78,355	78,355	-
Public Transportation for Non Urbanized Areas - CARTS			556,806	1,293,032	1,261,825	525,599	-
			<u>684,579</u>	<u>1,473,012</u>	<u>1,428,799</u>	<u>640,366</u>	<u>-</u>
UPPER CUMBERLAND DEVELOPMENT DISTRICT							
Options for Community Living			-	80,446	124,035	43,589	-
Total Expenditures of State Awards			<u>818,548</u>	<u>2,291,024</u>	<u>2,306,040</u>	<u>833,564</u>	<u>-</u>
Total Expenditures of Federal and State Awards			<u>\$ 3,704,451</u>	<u>\$ 13,990,773</u>	<u>\$ 14,922,098</u>	<u>\$ 4,635,776</u>	<u>\$ -</u>

**UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL
AND STATE AWARDS
JUNE 30, 2019**

(1) BASIS OF PRESENTATION

The schedule of expenditures of federal and state awards includes the federal and state grant activity for the Upper Cumberland Human Resource Agency (Agency) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. The Agency has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**UPPER CUMBERLAND HUMAN RESOURCE AGENCY
SCHEDULE OF NONCASH ASSISTANCE
YEAR ENDED JUNE 30, 2019**

<u>Grantor/Pass-Through Grantor</u>	<u>CFDA No.</u>	<u>Balance June 30, 2018</u>	<u>Receipts</u>	<u>Price Adjustments</u>	<u>Loss Adjustments</u>	<u>Expenditures</u>	<u>Balance June 30, 2019</u>
U.S. DEPT. OF AGRICULTURE							
Passed through Tennessee Dept. of Agriculture							
Emergency Food Assistance Program (Food Commodities)		\$ 166,990	\$ 572,704	\$ 17,546	\$ (4,962)	\$ 465,211	\$ 287,067
Total of CFDA 10.568 included on Schedule of Expenditures of Federal Awards						<u>72,849</u>	
Total Food Distribution Cluster						<u>\$ 538,060</u>	

UPPER CUMBERLAND HUMAN RESOURCE AGENCY
NOTES TO SCHEDULE OF NONCASH ASSISTANCE
JUNE 30, 2019

(1) BASIS OF PRESENTATION

The accompanying schedule of noncash assistance includes the grant activity of the Upper Cumberland Human Resource Agency (Agency) under commodity programs of the federal government for the year ended June 30, 2019. 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, changes in net position, or cash flows of the Agency.

The balance at June 30, 2018, represents the beginning inventory of commodities held by the Agency at the end of the prior period.

Receipts represent commodities received from the grantor Agency during the current period.

Federal expenditures represent commodities distributed by the Agency during the current period.

The balance at June 30, 2019, represents the ending inventory of commodities held by the Agency at the end of the current period.



**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***

**To the Board of Directors
Upper Cumberland Human Resource Agency**

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 the major fund of the Upper Cumberland Human Resource Agency as of and for the year ended June 30, 2019, 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 22, 2020.

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 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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.

Johnson, Wiley & Meacham, P.C.

January 22, 2020
Chattanooga, Tennessee



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE REQUIRED WITH THE UNIFORM GUIDANCE**

**To the Board of Directors
Upper Cumberland Human Resource Agency**

Report on Compliance for Each Major Federal Program

We have audited Upper Cumberland Human Resource Agency's 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, 2019. The Agency's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contract, and grants 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and 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 District'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.

Opinion on Each Major Federal Program

In our opinion, Upper Cumberland Human Resource 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, 2019.

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 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 deficiencies, significant deficiencies, or material weaknesses. 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Johnson, Wickey & Meucham, P.C.

January 22, 2020
Chattanooga, Tennessee

**UPPER CUMBERLAND HUMAN RESOURCE AGENC
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

A. SUMMARY OF AUDIT RESULTS

1. The independent auditors' report expresses an unmodified opinion on whether the financial statements of Upper Cumberland Human Resource Agency were prepared in accordance with GAAP.
2. No significant deficiencies were reported and no material weaknesses were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Upper Cumberland Human Resource Agency were disclosed by the audit.
4. No significant deficiencies were reported and no material weaknesses were identified during the audit of the major federal award program.
5. The auditors' report on the major federal awards program for Upper Cumberland Human Resource Agency expresses an unmodified opinion.
6. Audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) are reported in this schedule.
7. The programs tested as major programs were:
 - Child and Adult Care Food Program – CFDA 10.558
 - Low-Income Home Energy Assistance – CFDA 93.568
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. Upper Cumberland Development District was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

**UPPER CUMBERLAND HUMAN RESOURCE AGENCY
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

FINDINGS – FINANCIAL STATEMENTS AUDIT

2018-001 Closing of Books

Current Status: Resolved

2018-002 Material Journal Entries

Current Status: Resolved

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2018-003 WIOA Youth Work Experience Earmarking

Current Status: Resolved

