

SIGNAL CENTERS, INC.

Chattanooga, Tennessee

FINANCIAL STATEMENTS AND
SUPPLEMENTAL DATA

June 30, 2011

Warren & Tallent CPAs PLLC
Sweetwater, Tennessee

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INDEPENDENT AUDITORS' REPORT ON
FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

To the Board of Directors of

Signal Centers, Inc.:

We have audited the accompanying statement of financial position of Signal Centers, Inc. (a nonprofit organization) as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Signal Centers, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated December 20, 2011, on our consideration of Signal Centers, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial

reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Signal Centers, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the supplemental data on pages 19-21 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements taken as a whole.

Warren & Tallent CPAs PLLC

Warren & Tallent CPAs PLLC
Sweetwater, Tennessee
December 20, 2011

SIGNAL CENTERS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS

ASSETS:

Cash	\$ 88,131
Grants and other receivables	3,029,801
Unconditional promises to give	152,246
Other investments	65,064
Endowment investments	92,604
Prepaid expenses	66,153
Property and equipment	<u>2,384,256</u>
 Total Assets	 \$ <u><u>5,878,255</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts payable	\$ 2,378,947
Accrued payroll and taxes	107,287
Compensated absences	107,523
Long term debt	383,800
Refundable advance	<u>231,430</u>
 Total Liabilities	 \$ <u><u>3,208,987</u></u>

NET ASSETS:

Unrestricted	\$ 2,215,324
Temporarily restricted	361,340
Permanently restricted	<u>92,604</u>
 Total Net Assets	 \$ <u><u>2,669,268</u></u>
 Total Liabilities and Net Assets	 \$ <u><u>5,878,255</u></u>

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

SIGNAL CENTERS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

UNRESTRICTED NET ASSETS:

Support:

Individual contributions	\$ 18,772
Corporate contributions	16,200
	<u>\$ 34,972</u>

Revenue:

Grant revenue	\$ 15,453,427
United Way	333,758
Fees for service	79,830
Other	15,936
Gain on disposition of fixed assets	71,804
	<u>\$ 15,954,755</u>

Total unrestricted support and revenue \$ 15,989,727

Net assets released from restrictions \$ 482,659

Total unrestricted support, revenue and reclassifications \$ 16,472,386

EXPENSES:

Program services	\$ 15,002,065
Supporting services	1,370,920
	<u>\$ 16,372,985</u>

Increase in unrestricted net assets \$ 99,401

TEMPORARILY RESTRICTED ASSETS:

Contributions	\$ 380,553
United Way	152,246
Net assets released from restrictions	<u>(482,659)</u>

Increase in temporarily restricted net assets \$ 50,140

PERMANENTLY RESTRICTED NET ASSETS:

Contributions and interest	<u>1,506</u>
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Increase in permanently restricted net assets \$ 1,506

INCREASE IN NET ASSETS \$ 151,047

NET ASSETS:

Beginning	\$ <u>2,518,221</u>
Ending	<u>\$ 2,669,268</u>

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

SIGNAL CENTERS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	PROGRAM SERVICES				Total Program	SUPPORTING SERVICES	Total
	Adult Center Services	Assistive Technology Services	Children's Services	Childcare Quality and Education Services		Management and General	
Salaries and Wages	\$ 115,776	165,268	947,286	2,146,657	3,374,987	733,980	4,108,967
Employee Benefits	25,104	27,210	164,027	292,228	508,569	135,914	644,483
Payroll Taxes	9,798	14,375	85,314	180,409	289,896	57,109	347,005
Total Personal Costs	\$ 150,678	206,853	1,196,627	2,619,294	4,173,452	927,003	5,100,455
Professional Services	\$ 1,005	665	53,745	266,433	321,848	21,008	342,856
Supplies	23,507	61,387	83,294	571,049	739,237	54,594	793,831
Communications	3,028	1,450	18,147	322,551	345,176	23,884	369,060
Occupancy	14,887	22,439	157,023	54,654	249,003	-	249,003
Printing and Subscriptions	667	274	3,102	181,159	185,202	15,055	200,257
Travel and Conferences	3,257	4,232	14,643	432,377	454,509	37,120	491,629
Grants and Awards	51,213	-	-	8,400,794	8,452,007	1,148	8,453,155
Marketing	-	-	200	-	200	8,329	8,529
Other Operating Expenses	5,675	11,310	19,590	38,536	75,111	87,874	162,985
Total expenses before depreciation	\$ 253,917	308,610	1,546,371	12,886,847	14,995,745	1,176,015	16,171,760
Depreciation	\$ -	2,511	3,809	-	6,320	194,905	201,225
Total expenses	\$ 253,917	311,121	1,550,180	12,886,847	15,002,065	1,370,920	16,372,985

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

SIGNAL CENTERS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase in net assets	\$ 151,047
Adjustments to reconcile increase in net assets to net cash provided by operating activities -	
Depreciation	201,225
Net (increase) decrease in operating assets -	
Accounts receivable	413,091
Unconditional promises to give	(9,329)
Prepaid expenses	17,477
Net increase (decrease) in operating liabilities -	
Accounts payable	(1,076,074)
Accrued payroll and taxes	(56,900)
Compensated absences	<u>(18,851)</u>
Net cash used by operating activities	<u>\$ (378,314)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investment	\$ (12)
Property and equipment disposals-net of accumulated depreciation	293,443
Property and equipment purchases	<u>(543,352)</u>
Net cash used by investing activities	<u>\$ (249,921)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

New borrowings	\$ 400,000
Debt reduction	(281,732)
Repayment of refundable advance	<u>(75,000)</u>
Net cash provided by financing activities	<u>\$ 43,268</u>

NET DECREASE IN CASH \$ (584,967)

CASH AND CASH EQUIVALENTS:

Beginning	\$ <u>673,098</u>
Ending	<u>\$ 88,131</u>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOWS
INFORMATION:**

Cash paid during the year for interest	<u>\$ 24,938</u>
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(The accompanying notes are an integral part of these statements.)

SIGNAL CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization –

Signal Centers, Inc. is a nonprofit corporation whose mission is to provide community-based programs of education and support for the children, adults, and families with physical, educational, and socio-economic challenges to promote their independence and achievement of full potential. The Organization is exempt from federal income taxes under the provisions of Section 501(C)(3) of the Internal Revenue Code.

The Organization's ability to continue operations at its current level is dependent on its success at renegotiating its current, as well as new, contracts and the availability of funding by the governments for the type programs offered by the Organization.

Basis of presentation –

The financial statements of Signal Centers, Inc. have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities. In accordance with FASB Accounting Standard Codification (ASC) 958, the Organization is reporting information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is received. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Estimates –

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported support, revenues and expenses. Actual results could vary from the estimates that were used.

SIGNAL CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Promises to give –

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Donated services, supplies, and property and equipment –

Donated property and equipment and services, which meet the criteria for recognition, are reflected as contributions at their estimated fair values at the date of donation. Donated property and equipment is recorded as unrestricted support in the absence of donor restrictions as to how long the asset must be used.

Donated volunteer services requiring specific expertise are recognized as contributions in the period in which the services are provided.

In addition, individuals volunteer their time and perform a variety of tasks that assist the Organization with its charitable intent. These services are not considered to meet the criteria for recognition and, therefore, are not recorded in the financial statements.

Property, equipment and depreciation –

The Organization follows the State of Tennessee guidelines and capitalizes long-lived assets with an original cost of \$5,000 or more. Donated property is recorded as a contribution at its estimated fair value at the date of donation.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Depreciation expense of \$201,225 was charged to operations for the period ended June 30, 2011.

Accounts receivable –

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The direct write-off method is used for bad debts which does not produce a material difference from the allowance method. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to bad debt expense.

Cash equivalents –

For purposes of the cash flow statement, the Organization considers all unrestricted, highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

SIGNAL CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Investments –

The Organization follows ASC 958-320. Under ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Fair value of financial instruments –

Current accounting guidelines establish a framework for measuring fair value under generally accepted accounting principles. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal and most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

The Organization classifies its investments into Level 1, which refers to securities traded in an active market; Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available or Level 1 securities where there is a contractual restriction; and Level 3, which refers to securities not traded in an active market and for which no significant observable market inputs are available. The Organization's investments are classified as follows, based on fair values –

Money market accounts are valued using a market approach (Level 1 input) during the year ended June 30, 2011. There were no assets or liabilities valued at Level 2 or Level 3.

SIGNAL CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(2) FEDERAL AGENCIES:

Grant contracts are typically awarded for one-year terms which usually coincide with the Organization's fiscal year. Additionally, contract amounts may be amended during the award period to increase or decrease award amounts.

Revenues from grants are recognized when qualifying expenditures are made unless otherwise provided by the applicable grant agreements. Revenues from fees for services contracts are recognized when qualifying services are provided. Revenues and the related receivables are as follows –

<u>Provider</u>	<u>Contract/Grant Number</u>	<u>Earned Revenue</u>	<u>Receivable From Provider</u>
Grants:			
U.S. Department of Agriculture	03-47-64173-00-1	\$ 410,630	\$ 1,831
U.S. Department of Education	GR-10-28248	157,601	38,972
	GR-10-28242-01	45,000	4,700
	GR-10-28242-01	20,000	6,283
	GR-10-28178-01	43,494	4,785
	GR-11-31538-03	71,000	163,086
U.S. Department of Human Services	GR-11-31681	9,137,060	1,978,674
	GR-10-29023	4,199,006	804,380
	GG1237141	<u>82,100</u>	<u>891</u>
		<u>\$ 14,165,891</u>	<u>\$ 3,003,602</u>

SIGNAL CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization –

Signal Centers, Inc. is a nonprofit corporation whose mission is to provide community-based programs of education and support for the children, adults, and families with physical, educational, and socio-economic challenges to promote their independence and achievement of full potential. The Organization is exempt from federal income taxes under the provisions of Section 501(C)(3) of the Internal Revenue Code.

The Organization's ability to continue operations at its current level is dependent on its success at renegotiating its current, as well as new, contracts and the availability of funding by the governments for the type programs offered by the Organization.

Basis of presentation –

The financial statements of Signal Centers, Inc. have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities. In accordance with FASB Accounting Standard Codification (ASC) 958, the Organization is reporting information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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Estimates –

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported support, revenues and expenses. Actual results could vary from the estimates that were used.

SIGNAL CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(4) ENDOWMENT FUNDS - (Continued):

at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund not classified in permanently-restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by applicable state laws

In accordance with applicable state laws, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The expected total return from income and the appreciation of investments
- The purpose of the Organization and the donor-restricted endowment fund
- Other resources of the Organization
- General economic conditions
- The investment policies of the Organization
- The possible effect of inflation and deflation

Endowment Net Assets Composition

	<u>Permanently Restricted</u>
Donor-restricted endowment funds	\$ 92,604
Changes in Endowment Net Assets	
	<u>Permanently Restricted</u>
Endowment net assets, July 1, 2010	\$ 91,098
Investment return:	
Investment income	12
Contributions	<u>1,494</u>
Endowment net assets, June 30, 2011	<u>\$ 92,604</u>

SIGNAL CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(4) ENDOWMENT FUNDS - (Continued):

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the applicable state law requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. At June 30, 2011 there was no fair value of endowment funds that were less than the original gifts.

Strategies Employed for Achieving Objectives

To satisfy its long-term objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for distribution annually from its endowment funds up to 7% of the previous year's weighted average corpus balance at the discretion of the Board of Trustees, based on each year's institutional objectives. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(5) PENSION PLAN:

Signal Centers, Inc. has a defined contribution plan that covers all full-time employees for employee contributions and those who have completed one year of service for employer matching contributions and an additional fixed contribution. Each employee can contribute immediately upon full-time employment status. After one year, contributions are matched 100% up to a maximum of 2% annual compensation and the plan contributes 4% of annual compensation regardless of employee participation. Participants are 100% vested to receive any employer contribution and match after completion of three years of service. Pension plan expense totaled \$225,424 for the period ended June 30, 2011.

SIGNAL CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(6) REFUNDABLE ADVANCES:

Signal Centers, Inc. has entered into an agreement with the State of Tennessee in order to pay back advances for the year ending June 30, 2011, \$75,000 of the refundable advance was paid. These advances were previously funded to the Organization through a grant with the Tennessee Department of Human Services. These fees include no interest. Semi-annual payments are due in varying amounts, with annual maturities as follows –

For the year ending June 30, 2012	\$ 75,000
2013	75,000
2014	81,430
	<u>\$ 231,430</u>

(7) LONG-TERM DEBT:

Long-term debt consists of the following –

Note to First Tennessee Bank, payable in monthly installments of \$1,942, including interest at 5.19%, due July 2013, secured by real property	\$ 42,600
Note to First Tennessee Bank, payable in monthly installments of \$2,654, including interest at 5.65%, through May 2018, secured by real Property	181,672
Auto loan to Chase, payable in monthly installments of \$198, including interest at 5.14% through January 2016	<u>9,528</u>
	<u>\$ 233,800</u>

Maturities of long-term debt are as follows –

For the year ending June 30, 2012	\$ 45,683
2013	46,474
2014	26,938
2015	28,489
2016	28,924
Thereafter	<u>57,292</u>
	<u>\$ 233,800</u>

SIGNAL CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(8) FUNCTIONAL ALLOCATION OF EXPENSES:

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(9) PROMISES TO GIVE:

Unconditional promises to give as of June 30, 2011, consist of the uncollected balances from various United Way campaigns for 2011 are due as follows –

For the year ending June 30, 2012	\$ <u>152,246</u>
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(10) COMPENSATED ABSENCES:

Employees earn vacation, which may accumulate to a maximum of 30 days, at the rate of one to two days for each month of service. However, employees funded by grants must take all accrued vacation days by June 30 of each year. One day of no vesting sick leave is earned each month, subject to a maximum of 120 days accumulation. A provision has been made for compensated absences relative to vacation leave.

(11) TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of contributions restricted by the donor for specific purposes or for future use. Such contributions are reported as temporarily restricted net assets and are reclassified to unrestricted net assets when the restrictions have been satisfied. At June 30, 2011, temporarily restricted net assets are available to be used for the following purposes –

United Way for next fiscal year	\$	152,246
Assistive Technology Center		(1,677)
Child Care Resource Center		27,886
Children’s Services Hamilton County		87,777
Children’s Services Bradley County		378
Children’s Services McMinn County		1,628
Evelyn Nichols Christmas Fund		480
FOSC Scholarship Fund		<u>92,622</u>
	\$	<u>361,340</u>

SIGNAL CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(12) LINE OF CREDIT:

The Organization has a line of credit with First Tennessee Bank with a maximum limit of \$400,000 with interest at 4%. The loan is secured by real property. As of June 30, 2011, the out standing balance on this line was \$150,000.

(13) LEASES:

The Organization has entered into operating leases for the rental of a vehicle and equipment.

Maximum lease commitments under these leases are as follows --

For the year ending June 30, 2012	\$	5,676
2013		5,676
2014		<u>5,676</u>
		<u>\$ 17,028</u>

The Organization leases a building in Athens for childcare purposes. The rental agreement is on a month to month basis. Total rent expense for the year ending June 30, 2011 was \$1,750.

(14) ADVERTISING COST:

Advertising costs were expensed as incurred. For the year ended June 30, 2011 advertising costs were \$24,857.

(15) SUBSEQUENT EVENTS:

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 20, 2011, the date the financial statements were available to be issued.

SUPPLEMENTAL DATA

SIGNAL CENTERS, INC.
SCHEDULE OF STATE GRANTS
FOR THE YEAR ENDED JUNE 30, 2011

<u>Provider/ Program Title</u>	<u>Grant or Contract Number</u>	<u>Receivable (Unearned) Balance June 30, 2010</u>
Tennessee Department of Agriculture:		
Child and Adult Food Care	03-47-64173-00-1	\$ 55,216
Child and Adult Food Care	03-47-64173-00-1	-
		<u>\$ 55,216</u>
Tennessee Department of Human Services:		
Child Care Resource and Referral	GR-09-25256-00	\$ 2,356,852
Child Care Resource and Referral	GR-09-25256-00	-
Provider Self-Assessment & Mentoring	GR-010-29023-00	911,613
Provider Self-Assessment & Mentoring	GR-010-29023-00	-
TN Technology Access Project	GR-06-17704-02	9,364
TN Technology Access Project	GR-06-17704-02	-
Geriatric Program	N/A	8,738
Geriatric Program	N/A	-
		<u>\$ 3,286,567</u>
Tennessee Department of Education:		
Grant for Early Intervention Services	GR-08-21347-00	\$ 52,781
Grant for Early Intervention Services	GR-10-28044	-
Vocational Rehab	GR-05-16338-03	23,342
Vocational Rehab	GR-10-248248	-
Assistive Technology Reutilization Program	345-312-10	6,353
Assistive Technology Reutilization Program	345-312-10	-
Assistive Technology Reutilization - ARRA	345-307-10	252
Assistive Technology Reutilization - ARRA	345-307-10	-
		<u>\$ 82,728</u>
Total State Grants		<u>\$ 3,424,511</u>

SIGNAL CENTERS, INC.
SCHEDULE OF STATE GRANTS
FOR THE YEAR ENDED JUNE 30, 2011

Cash Receipts	Expenditures/ Amount Earned	Receivable (Unearned) Balance June 30, 2011
\$ 55,216	\$ -	\$ -
408,799	410,630	1,831
<u>\$ 464,015</u>	<u>\$ 410,630</u>	<u>\$ 1,831</u>

\$ 2,356,852	\$ -	\$ -
7,158,387	9,137,061	1,978,674
911,613	-	-
3,394,626	4,199,006	804,380
9,364	-	-
38,709	43,494	4,785
8,738	-	-
104,275	105,166	891
<u>\$ 13,982,564</u>	<u>\$ 13,484,727</u>	<u>\$ 2,788,730</u>

52,781	-	-
232,914	396,000	163,086
23,342	-	-
161,284	200,256	38,972
6,353	-	-
13,717	20,000	6,283
252	-	-
40,817	45,517	4,700
<u>531,460</u>	<u>661,773</u>	<u>213,041</u>
<u>\$ 14,978,039</u>	<u>\$ 14,557,130</u>	<u>\$ 3,003,602</u>

SINGLE AUDIT SECTION

SIGNAL CENTERS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Identifying Number</u>	<u>Federal Expenditures</u>
<u>MAJOR FEDERAL PROGRAMS:</u>			
U.S. Department of Health and Human Services:			
Passed through Tennessee Department of Human Services -			
Child Care and Development Block Grant:	93.575		
Child Care Resource and Referral Services		GR-11-31681	\$ 9,127,000
Child Care Initiatives		GR-10-29023	4,199,006
Total Child Care and Development Block Grant			<u>\$ 13,326,006</u>
Total Major Federal Awards			<u>\$ 13,326,006</u>
<u>NONMAJOR FEDERAL PROGRAM:</u>			
U.S. Department of Agriculture:			
Passed through Tennessee Department of Human Services -			
Child and Adult Care Food Program:	10.558		
Child and Adult Care Food Program - Homes		GR-03-47-64173-00-1	\$ 351,860
Child and Adult Care Food Program - Childrens		GR-03-47-55944-00-9	47,697
Child and Adult Care Food Program - Adults		GR-03-47-40034-00-8	11,073
Total Child and Adult Care Food Program			<u>\$ 410,630</u>
U.S. Department of Education:			
Passed through Tennessee Department of Human Services -			
Learning Anytime Anywhere Partnerships	84.339A	GR-10-28289-01	\$ 45,000
Assistive Technology	84.224	GR-10-28242-01	20,000
Assistive Technology	84.224	GR-10-28178-01	43,494
Total Assistive Technology			<u>\$ 63,494</u>
Vocational Rehabilitation Grants to States	84.126	GR-10-28248-01	<u>\$ 157,601</u>
Passed through Tennessee Department of Education: Infants and Toddlers Disabilities	84.181A	GR-11-31538-03	<u>\$ 71,000</u>
U.S. Department of Health and Human Services:			
Passed through Hamilton County Government:			
Adult Day Care Services	93.667	GG-1237141	<u>\$ 82,100</u>
Total Nonmajor Federal Awards			<u>829,825</u>
Total Federal Expenditures			<u><u>\$ 14,155,831</u></u>

SIGNAL CENTERS, INC
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Note 1. Basis of Presentation

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

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, Signal Centers, Inc. provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Child Care and Development Block Grant	93.575	\$ 5,160,906

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**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 of

Signal Centers, Inc.:

We have audited the financial statements of Signal Centers, Inc. as of and for the year ended June 30, 2011, and have issued our report thereon dated December 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify

all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Signal Centers, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item C.

This report is intended solely for the information and use of the board of directors, management and the governmental funding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Warren & Tallent CPAs PLLC

Warren & Tallent CPAs PLLC
Sweetwater, Tennessee
December 20, 2011

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of

Signal Centers, Inc.:

Compliance

We have audited the compliance of Signal Centers, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. Signal Centers, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Signal Centers, Inc.'s management. Our responsibility is to express an opinion on Signal Centers, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Signal Centers, Inc.'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 Signal Centers, Inc.'s compliance with those requirements.

In our opinion, Signal Centers, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item C.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item C. 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.

The management of Signal Centers, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Signal Centers, Inc.'s responses and, accordingly, we express no opinion on the responses.

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

Warren & Tallent CPAs PLLC

Warren & Tallent CPAs PLLC
Sweetwater, Tennessee
December 20, 2011

SIGNAL CENTERS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

A. SUMMARY OF AUDIT RESULTS

The auditor's report expresses an unqualified opinion on the financial statements of Signal Centers, Inc.

No significant deficiencies in internal control were disclosed during the audit of the financial statements.

No instances of noncompliance material to the financial statements of Signal Centers, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

No material weaknesses in internal control were disclosed during the audit of the major federal award programs. A significant deficiency in internal control over compliance was identified and is detailed in section C. below.

The auditor's report on compliance for the major federal award programs for Signal Centers, Inc. expresses an unqualified opinion on all major programs.

There is one audit finding that is required to be reported in accordance with Section 510 (a) of OMB Circular A-133.

The programs tested as a major programs were:
Child Care and Development Block Grant-CFDA #93.575

The threshold for distinguishing Types A and B programs was \$424,675.

Signal Centers, Inc. was determined to be a high-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

None

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

A deficiency in internal control over compliance was identified. The organization failed to file with the Federal Audit Clearing (FAC) house per section 320 of OMB Circular A-133 within the appropriate time period for the prior two years. Management has subsequently filed with the FAC for both prior years.