

# **MACON PROGRAM FOR PROGRESS, INC.**

Franklin, North Carolina

Financial Statements

Year Ended June 30, 2007

**MACON PROGRAM FOR PROGRESS, INC.**

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# MACON PROGRAM FOR PROGRESS, INC.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Macon Program for Progress, Inc.  
Franklin, North Carolina

We have audited the accompanying statement of financial position of Macon Program for Progress, Inc. (a nonprofit organization) as of June 30, 2007, 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. The prior year summarized comparative information has been derived from the Organization's 2006 financial statements and, in our report dated October 2, 2006, we expressed an unqualified opinion on those financial statements.

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 Macon Program for Progress, Inc. as of June 30, 2007, 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 November 28, 2007 on our consideration of Macon Program for Progress, 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 important for assessing the results of our audit.

To the Board of Directors  
Macon Program for Progress, Inc.  
Page 2

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Painter, Russell & Associates, PLLC*

Asheville, North Carolina  
November 28, 2007

**MACON PROGRAM FOR PROGRESS, INC.**

Statement of Financial Position  
June 30, 2007  
(With Comparative Totals for 2006)

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current assets:		
Cash and equivalents	\$ 707,040	\$ 326,404
Grants receivable	152,885	219,628
Accounts receivable		280
Taxes receivable	14,140	14,360
Prepaid expenses	<u>30,303</u>	<u>39,295</u>
Total current assets	904,368	599,967
Property and equipment	<u>2,037,027</u>	<u>2,141,778</u>
Other assets:		
Reserve for escrow	<u>43,675</u>	<u>50,601</u>
Total assets	<u>\$ 2,985,070</u>	<u>\$ 2,792,346</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 82,244	\$ 77,059
Accounts payable	151,897	145,347
Accrued liabilities	119,709	144,114
Escrow deposits	<u>43,675</u>	<u>50,601</u>
Total current liabilities	397,525	417,121
Long-term debt, net of current maturities	<u>210,682</u>	<u>292,980</u>
Total liabilities	<u>608,207</u>	<u>710,101</u>
Net assets:		
Unrestricted:		
Undesignated	268,839	231,347
Investment in property and equipment	<u>1,744,101</u>	<u>1,771,739</u>
Total unrestricted	363,923	2,003,086
Temporarily restricted	<u>363,923</u>	<u>79,159</u>
Total net assets	<u>2,376,863</u>	<u>2,082,245</u>
Total liabilities and net assets	<u>\$ 2,985,070</u>	<u>\$ 2,792,346</u>

The accompanying notes are an integral part of these financial statements.

**MACON PROGRAM FOR PROGRESS, INC.**

Statement of Activities  
Year Ended June 30, 2007  
(With Comparative Totals for 2006)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2007</u>	<u>Total 2006</u>
<b>Public support and other revenues:</b>				
Grants and contracts	\$ 4,841,270	\$ 363,923	\$ 5,205,193	\$ 5,075,299
Contributions	13,971		13,971	10,023
In-kind contributions	16,959		16,959	6,093
Client fees	134,826		134,826	139,809
Fund-raising	4,250		4,250	7,353
Investment income	21,928		21,928	9,598
Other				6,925
Net assets released from restriction	<u>79,159</u>	<u>(79,159)</u>	<u>                    </u>	<u>                    </u>
Total public support and other revenues	<u>5,112,363</u>	<u>284,764</u>	<u>5,397,127</u>	<u>5,255,100</u>
<b>Expenses:</b>				
Program services	4,254,538		4,254,538	4,530,261
Supporting services	<u>847,971</u>		<u>847,971</u>	<u>892,814</u>
Total expenses	<u>5,102,509</u>	<u>                    </u>	<u>5,102,509</u>	<u>5,423,075</u>
Increase (decrease) in net assets	9,854	284,764	294,618	(167,975)
Net assets at beginning of year	<u>2,003,086</u>	<u>79,159</u>	<u>2,082,245</u>	<u>2,250,220</u>
Net assets at end of year	<u>\$ 363,923</u>	<u>\$ 363,923</u>	<u>\$ 2,082,245</u>	<u>\$ 2,082,245</u>

The accompanying notes are an integral part of these financial statements.

## MACON PROGRAM FOR PROGRESS, INC.

Statement of Functional Expenses  
Year Ended June 30, 2007  
(With Comparative Totals for 2006)

	Program Services					Supporting Services			2007 Total	2006 Total	
	Head Start & Early Head Start	Smart Start	Housing	Community Services	Child and Adult Food	Total	Management & General	Fund- Raising			Total
Salaries	\$ 1,848,104	\$ 107,057	\$ 58,119	\$ 266,647	\$ 23,332	\$ 2,303,259	\$ 248,302	\$	\$ 248,302	\$ 2,551,561	\$ 2,748,795
Payroll taxes	141,380	8,190	4,446	20,398	1,785	176,199	18,995		18,995	195,194	208,685
Employee benefits	191,671	9,574	8,795	26,150	3,228	239,418	228,240		228,240	467,658	367,230
Total salaries and related expenses	2,181,155	124,821	71,360	313,195	28,345	2,718,876	495,537		495,537	3,214,413	3,324,710
Contractual	12,642	1,050	500	100		14,292	9,831		9,831	24,123	13,405
Travel	27,756	7,937	2,737	43,334		81,764	4,331		4,331	86,095	116,041
Insurance	26,953	849		572		28,374	39,214		39,214	67,588	68,691
Space costs	27,907			5,306		33,213	54,620		54,620	87,833	91,219
Telephone and communications	8,012	97	150	1,140		9,399	22,641		22,641	32,040	35,844
Postage	1,744	46	1,695	430		3,915		249	249	4,164	6,294
Materials and supplies	205,596	28,682	4,422	27,176	13,333	279,209	28,643	1,768	30,411	309,620	371,492
Advertising	2,936		60	50		3,046	1,738		1,738	4,784	4,752
Repairs and maintenance	58,082	2,942		9,838		70,862	75,530	135	75,665	146,527	74,115
Food	7,897	17,563		171	150,197	175,828	1,222	100	1,322	177,150	186,648
Housing assistance payments			521,159			521,159				521,159	610,173
Schooling costs	9,926	478		42,298		52,702				52,702	44,085
Staff/board training	21,762	1,819	1,200	325		25,106	2,645		2,645	27,751	40,314
Professional fees	62,126		41	104		62,271	27,322		27,322	89,593	135,221
Dues and subscriptions	7,066	1,349		1,285		9,700	3,878		3,878	13,578	11,193
Other	26,798			166		26,964		8,668	8,668	35,632	66,694
Total expenses before interest and depreciation	2,688,358	187,633	603,324	445,490	191,875	4,116,680	767,152	10,920	778,072	207,757	222,184
Interest							18,580		18,580	18,580	22,712
Depreciation	106,227	4,360	2,952	24,319		137,858	51,024	295	51,319	189,177	199,472
Total expenses	<u>\$ 2,794,585</u>	<u>\$ 191,993</u>	<u>\$ 606,276</u>	<u>\$ 469,809</u>	<u>\$ 191,875</u>	<u>\$ 4,254,538</u>	<u>\$ 836,756</u>	<u>\$ 11,215</u>	<u>\$ 847,971</u>	<u>\$ 5,102,509</u>	<u>\$ 5,423,075</u>

The accompanying notes are an integral part of these financial statements.

**MACON PROGRAM FOR PROGRESS, INC.**

Statement of Cash Flows  
Year Ended June 30, 2007  
(With Comparative Totals for 2006)

	2007	2006
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets	\$ 294,618	\$ (167,975)
Adjustments to reconcile changes in net assets to net cash provided from (used for) operating activities:		
Depreciation	189,177	199,472
Gain on sale of asset		(925)
Changes in working capital - sources (uses)		
Grants receivable	66,743	39,472
Accounts receivable	280	2,120
Taxes receivable	220	12,509
Reserve for escrow	6,926	(14,868)
Prepaid expenses	8,992	(2,188)
Accounts payable	6,550	(38,801)
Accrued liabilities	(24,405)	(66,714)
Escrow deposits	(6,926)	14,868
Net cash provided from (used for) operating activities	542,175	(23,030)
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(84,426)	(64,069)
Proceeds from sale of property and equipment		1,889
Net cash used for investing activities	(84,426)	(62,180)
<b>Cash flows from financing activities:</b>		
Principal payments on long-term debt	(77,113)	(72,993)
Net increase (decrease) in cash and equivalents	380,636	(158,203)
Cash and equivalents at beginning of year	326,404	484,607
Cash and equivalents at end of year	\$ 707,040	\$ 326,404
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for interest	\$ 18,580	\$ 22,712

The accompanying notes are an integral part of these financial statements.

# MACON PROGRAM FOR PROGRESS, INC.

Notes to Financial Statements

June 30, 2007

## **Note 1 - Summary of Significant Accounting Policies**

### Organization

Macon Program for Progress, Inc. (Organization) was incorporated on October 20, 1964, as a nonprofit corporation. The purposes of the Organization are to provide education and care for pre-school children, care for older adults and employment training for low-income individuals and to improve living conditions and alleviate poverty in Macon County, North Carolina. The Organization's programs are funded by federal, state and local funds.

### Tax-exempt Status

The Organization is incorporated as a nonprofit corporation under the laws of the State of North Carolina. It has qualified for exemption from federal income taxes under section 501(c)(3) of the Internal Revenue Code and is not a private foundation.

### Financial Statement Presentation

The Organization reports in compliance with Statement of Financial Accounting Standards (SFAS) No. 117 "Financial Statements of Not-For-Profit Organizations" 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. The three classes of net assets are defined as follows:

- ñ Unrestricted Net Assets: Unrestricted net assets represent resources whose use is not limited or restricted by donors. They generally arise as a result of exchange transactions, unrestricted contributions, or restricted contributions whose restrictions have expired.
- ñ Temporarily Restricted Net Assets: Temporarily restricted net assets represent resources whose use is limited by donors for the purpose and/or time in which they may be expended. Eventually, temporarily restricted net assets are reclassified to unrestricted as their time and purpose requirements are met.
- ñ Permanently Restricted Net Assets: Permanently restricted net assets represent resources that must be maintained permanently. Like temporarily restricted net assets, permanent restrictions may be imposed only by the donor. However, permanently restricted net assets generally do not get reclassified, since, by definition, their restrictions never expire. The income may be unrestricted or may also be restricted according to donors' wishes.

## **Note 1 - Summary of Significant Accounting Policies (continued)**

### Recognition of Donor Restrictions

Support 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 recognized. 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 donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

### Donated Services and Materials

A substantial number of volunteers have donated a significant amount of time to the Organization's operations and program services. Contributed services that create or enhance non-financial assets or require specialized skills and are provided by individuals possessing those skills will be recognized as support. Donated materials are reflected as in-kind contributions in the accompanying financial statements at their estimated fair value at date of receipt. Donated services, such as eye exams, and donated materials, such as quilts, totaled \$16,959 and \$6,093 for the years ended June 30, 2007 and 2006, respectively.

### Cash and Equivalents

The Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

### Receivables

Grants receivable consist of amounts due from governmental and other agencies for services performed before year-end. Accounts receivable consist of amounts due from individuals for childcare fees. An allowance for doubtful accounts has not been established, as management believes that all amounts are collectible.

### Property and Equipment

The Organization's policy is to capitalize property and equipment with a cost of \$5,000 or more. Property and equipment purchased is recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the useful lives ranging from five to twenty-five years.

## **Note 1 - Summary of Significant Accounting Policies (continued)**

### Cost Pools

The Organization uses two cost pools (fringe and indirect) to accumulate and allocate costs that are not readily chargeable directly to a specific program. Costs allocated from these pools are allocated to the various programs based upon a percentage of each program's salaries to total salaries of all programs.

### Functional Expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their nature and expenditure classification. Other expenses that are common to several functions are allocated by statistical means.

### Use of Estimates

The preparation of financial statements in accordance 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 those estimates.

### Prior Year Information

The financial statements include certain prior year information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2006, from which the summarized information was derived.

## **Note 2 – Restrictions on Assets**

Temporarily restricted net assets are available for the following purposes:

<u>At June 30</u>	<u>2007</u>	<u>2006</u>
HUD	\$ 157,236	\$
Daycare	2,204	
EHS Classroom	5,450	9,241
Wrap Around	98,279	
Zero - Three	26,202	19,437
Food Program	14,463	
Support our Students	877	7,659
Smart Start	40,170	
Literacy	532	913
Medicaid Billing	18,490	5,981
Community Service Block Grant	20	
Parents as Teachers		<u>35,928</u>
<u>Total temporarily restricted net assets</u>	<u>\$ 363,923</u>	<u>\$ 79,159</u>

## **Note 3 - Property and Equipment**

A description of property and equipment follows:

<u>At June 30</u>	<u>2007</u>	<u>2006</u>
At cost:		
Land and land improvements	\$ 216,594	\$ 132,168
Buildings	3,153,574	3,153,574
Equipment and furnishings	500,485	500,485
Vehicles	<u>550,933</u>	<u>550,933</u>
	4,421,586	4,337,160
Less, accumulated depreciation	<u>2,384,559</u>	<u>2,195,382</u>
<u>Property and equipment, net</u>	<u>\$ 2,037,027</u>	<u>\$ 2,141,778</u>

Depreciation expense for the year ended June 30, 2007 and 2006 was \$189,177 and \$199,472, respectively.

## **Note 4 – Reserve for Escrow**

Included in other assets are escrow cash accounts for participants in the HUD Self-Sufficiency Program. At June 30, 2007 and 2006 the total of these accounts was \$43,675 and \$50,601, respectively.

### **Note 5 – Long-term Debt**

Long-term debt is described as follows:

<u>At June 30</u>	<u>2007</u>	<u>2006</u>
Wachovia - 180 monthly payments of \$4,601, including interest at a rate of 5.26%, secured by a deed of trust, due February 2009	\$ 102,564	\$ 150,865
Wachovia - 180 monthly payments of \$860, including interest at a rate of 5.53%, secured by a deed of trust, due September 2010	32,976	41,192
Wachovia - 180 monthly payments of \$2,513, including interest at a rate of 5.77%, secured by a deed of trust, due September 2013	<u>157,386</u>	<u>177,982</u>
	292,926	370,039
Less, current maturities	<u>82,244</u>	<u>77,059</u>
<u>Long-term debt, net of current maturities</u>	<u>\$ 210,682</u>	<u>\$ 292,980</u>

Scheduled principal repayments on notes payable for the next five years are as follows:

<u>Years Ending June 30</u>	
2008	\$ 82,244
2009	82,578
2010	33,887
2011	30,668
2012	<u>63,549</u>
<u>Total principal payments</u>	<u>\$ 292,926</u>

### **Note 6 - Retirement Plan**

The Organization participates in a tax-sheltered annuity retirement plan. The employer contributes 1.5% of employee compensation for employees who meet certain minimum eligibility requirements. The employer also matches up to 3% of compensation for employees making contributions to the plan. The Organization's contributions for the years ended June 30, 2007 and 2006 were \$80,656 and \$96,054, respectively.

### **Note 7 – Self-Insured Health Plan**

The Organization maintains a self-insured health plan. Funding for the benefits of the plan is derived from the funds of the Organization and contributions made by covered employees. Medical claims filed under the plan are paid by the Organization. The costs of claims paid under the plan for the years ended June 30, 2007 and 2006 were \$280,505 and \$191,330, respectively. The Organization also has an excess loss contract with an insurance company. Under the terms of this contract, the insurance company will pay claims, per covered person, that exceed \$15,000 up to \$985,000 in each contract period.

### **Note 8 – Indirect Cost**

The provisional indirect cost rate of 14.3% for the Organization was approved by the U.S. Department of Health and Human Services. The basis for allocating indirect costs is direct salaries and wages including vacation, holiday, sick pay, and other paid absences but excluding all other fringe benefits. For the years ended June 30, 2007 and 2006 the various programs of the Organization were charged \$344,074 and \$358,364 based upon that indirect cost rate.

### **Note 9 – Summary Disclosure of Significant Contingencies**

#### **Federal and State Assisted Programs**

The Organization has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

#### **Risk Management**

The Organization is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; employees; and natural disasters. The Organization carries commercial insurance coverage for all risks of loss.

### **Note 10 – Commitments**

The Organization is obligated under lease contracts for space, equipment and vehicles. The leases are classified as operating leases in accordance with the criteria contained in Statement of Financial Accounting Standards No. 13 “Accounting for Leases.”

The following is a schedule of future minimum lease payments under non-cancelable operating leases as of June 30, 2007.

**Note 10 – Commitments (continued)**

<u>Years Ending June 30</u>	<u>Amount</u>
2008	\$ 27,167
2009	9,029
2010	7,445
2011	6,163
2012	2,316
Thereafter	<u>1,158</u>
<u>Minimum lease commitments</u>	<u>\$ 53,278</u>

Total rent expense in 2007 and 2006, for all operating lease, was approximately \$49,978 and \$50,664, respectively.

**Note 11 – Related Parties**

The Organization created a for-profit corporation (Orchard View Associates, Inc.) to act as the general partner in a limited partnership that owns the Orchard View Apartment complex in Franklin, North Carolina. Orchard View Associates, Inc. owns a one percent general partnership interest in the complex and is the managing partner. The day-to-day management of operations of the complex is contracted to a professional property manager who is accountable to the Organization through Orchard View Associates, Inc. As part of the Organization's public housing programs, it determines the amount of the housing assistance payments for the tenants of this complex and disburses those rental payments to the property management. The Organization's ownership interest in this subsidiary is not combined or consolidated in these financial statements.

The Organization has the responsibility to appoint the board of directors of Macon Housing Development Corporation, a non-profit corporation that owns the Oak Forest Apartments complex in Franklin, North Carolina. This complex is managed by a professional management company that is not related to the Organization. The amounts of the housing assistance payments for the tenants of this complex are determined by the Organization who also disburses the rental payments to the management company. The Organization's appointive interest in this complex is not substantial enough to warrant consolidation of the financial interest of the complex in these financial statements.

## **COMPLIANCE SECTION**

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  
Macon Program for Progress, Inc.  
Franklin, North Carolina

We have audited the financial statements of Macon Program for Progress, Inc. (a nonprofit organization) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 28, 2007. 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 Macon Program for Progress, 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 Macon Program for Progress, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting. Finding 07-1.

To the Board of Directors  
Macon Program for Progress, Inc.  
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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Macon Program for Progress, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Macon Program for Progress, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Macon Program for Progress, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of directors, others within the entity, and 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.

*Painter, Russell & Associates, PLLC*

Asheville, North Carolina  
November 28, 2007



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors  
Macon Program for Progress, Inc.  
Franklin, North Carolina

Compliance

We have audited the compliance of Macon Program for Progress, 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, 2007. Macon Program for Progress, 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 Macon Program for Progress, Inc.'s management. Our responsibility is to express an opinion on Macon Program for Progress, 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 Macon Program for Progress, 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 on Macon Program for Progress, Inc.'s compliance with those requirements.

In our opinion, Macon Program for Progress, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control over Compliance

The management of Macon Program for Progress, 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 Macon Program for Progress, 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, 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 Macon Program for Progress, Inc.'s internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

*Painter, Russell & Associates, PLLC*

**MACON PROGRAM FOR PROGRESS, INC.**

Schedule of Expenditures of Federal and State Awards  
Year Ended June 30, 2007

<u>Federal-State Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>FEDERAL AWARDS</b>		
US Department of Health and Human Services:		
Head Start/Early Head Start	93.600	\$ 3,106,627
Passed Through NC Department of Human Services:		
Community Service Block Grant	93.569	<u>120,000</u>
Subtotal US Department of Health and Human Services		3,226,627
US Department of Housing and Urban Development:		
Section 8 Housing Choice Vouchers	14.871	767,670
US Department of Agriculture:		
Passed Through NC Department of Environment, Health and Natural Resources, Division of Maternal and Child Health:		
Child and Adult Care Food Program	10.558	210,641
US Department of Labor:		
Passed Through Southwestern NC Planning and Economic Development Commission:		
Workforce Investment Act	17.258	<u>131,000</u>
Total expenditures of federal awards		<u>4,335,938</u>

**MACON PROGRAM FOR PROGRESS, INC.**

Schedule of Expenditures of Federal and State Awards (continued)  
Year Ended June 30, 2007

Federal-State Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	State Expenditures
NC Department of Human Resources:		
Smart Start		\$ 84,000
Parents as Teachers		45,575
More at Four		143,800
Support our Students		77,000
Passed through Southwestern Child Development Commission:		
Zero – Three		220,520
Head Start Wraparound		256,059
Passed Through Southwestern NC Planning & Economic Development Commission:		
Zero – Three		<u>916</u>
Total expenditures of state awards		<u>827,870</u>
Total expenditures of federal and state awards		<u><u>\$ 5,163,808</u></u>

**MACON PROGRAM FOR PROGRESS, INC.**

Notes to Schedule of Expenditures of Federal and State Awards  
June 30, 2007

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of Macon Program for Progress, 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.”*

**MACON PROGRAM FOR PROGRESS, INC.**

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2007

I. Summary of Auditor's Results

- A. The auditors' report expresses an unqualified opinion on the financial statements of Macon Program for Progress, Inc.
- B. There was one significant deficiency reported relating to the audit of the financial statements reported in the 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.
- C. No instances of noncompliance material to the financial statements of Macon Program for Progress, Inc. were disclosed during the audit.
- D. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- E. The auditors' report on compliance for the major federal award programs for Macon Program for Progress, Inc. expresses an unqualified opinion on major federal programs.
- F. There were no findings disclosed relative to the audit of the major federal awards programs for Macon Program for Progress, Inc.
- G. The programs tested as major programs for Macon Program for Progress, Inc. for the fiscal year ended June 30, 2007 were:
  - 1. Head Start/Early Head Start                      CFDA# - 93.600
  - 2. Child and Adult Food Program                      CFDA# - 10.558
- H. The threshold used for distinguishing between Type A and B programs was \$300,000.
- I. Macon Program for Progress, Inc. was determined to be a low-risk auditee.

**MACON PROGRAM FOR PROGRESS, INC.**

Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2007

II. Financial Statement Findings

Finding 07-1:

*Condition:* It is the policy of Macon Program for Progress, Inc. that all journal entries not originating from subsidiary ledgers shall be authorized by the Finance Director. During the audit we noted that the Finance Director has the ability to post journal entries to the general ledger. To provide proper segregation of duties, no individual should have the ability to initiate, approve and record transactions.

*Recommendation:* We recommend that a member of senior management review journal entries on a regular basis.

*Response:* Management has revised the policy to reflect the Executive Director will review journal entries on a quarterly basis.

III. Federal Award Findings and Questioned Costs

No audit findings were reported.

**MACON PROGRAM FOR PROGRESS, INC.**

Summary Schedule of Prior Audit Findings  
June 30, 2007

There were no prior audit findings.