

MACON PROGRAM FOR PROGRESS, INC.

Franklin, North Carolina

Financial Statements

Year Ended June 30, 2008

MACON PROGRAM FOR PROGRESS, INC.

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MACON PROGRAM FOR PROGRESS, INC.

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-13
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 <i>Government Auditing Standards</i>	14-15
Report on Compliance with Requirements Applicable To Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	16-17
Schedule of Expenditures of Federal and State Awards	18-19
Notes to Schedule of Expenditures of Federal and State Awards	20
Schedule of Findings and Questioned Costs	21-22
Summary Schedule of Prior Audit Findings	23



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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, 2008, 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 2007 financial statements and, in our report dated November 28, 2007, 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, 2008, 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 4, 2008, 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 conducted for the purpose of forming an opinion on the basic financial statements of Macon Program for Progress, Inc. 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 Governments, 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
December 4, 2008

MACON PROGRAM FOR PROGRESS, INC.

Statement of Financial Position
June 30, 2008
(With Comparative Totals for 2007)

	2008	2007
Assets		
Current assets:		
Cash and equivalents	\$ 968,810	\$ 707,040
Grants receivable	271,749	152,885
Taxes receivable	29,933	14,140
Prepaid expenses	73	30,303
Total current assets	1,270,565	904,368
Property and equipment, net	1,967,172	2,037,027
Other assets:		
Reserve for escrow	34,616	43,675
Total assets	\$ 3,272,353	\$ 2,985,070
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term debt	\$ 83,639	\$ 82,244
Accounts payable	146,305	151,897
Accrued liabilities	184,640	119,709
Escrow deposits	34,616	43,675
Total current liabilities	449,200	397,525
Long-term debt, net of current maturities	127,856	210,682
Total liabilities	577,056	608,207
Net assets:		
Unrestricted:		
Undesignated	673,874	268,839
Investment in property and equipment	1,755,677	1,744,101
Total unrestricted	2,429,551	2,012,940
Temporarily restricted	265,746	363,923
Total net assets	2,695,297	2,376,863
Total liabilities and net assets	\$ 3,272,353	\$ 2,985,070

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

MACON PROGRAM FOR PROGRESS, INC.

Statement of Activities
Year Ended June 30, 2008
(With Comparative Totals for 2007)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2008</u>	<u>Total 2007</u>
Public support and other revenues:				
Grants and contracts	\$ 5,318,688	\$ 265,746	\$ 5,584,434	\$ 5,205,193
Contributions	7,555		7,555	13,971
In-kind contributions	7,638		7,638	16,959
Client fees	115,347		115,347	134,826
Fund-raising	7,103		7,103	4,250
Investment income	21,195		21,195	21,928
Net assets released from restriction	<u>363,923</u>	<u>(363,923)</u>		
Total public support and other revenues	<u>5,841,449</u>	<u>(98,177)</u>	<u>5,743,272</u>	<u>5,397,127</u>
Expenses:				
Program services	4,493,544		4,493,544	4,254,538
Supporting services	<u>931,294</u>		<u>931,294</u>	<u>847,971</u>
Total expenses	<u>5,424,838</u>		<u>5,424,838</u>	<u>5,102,509</u>
Increase (decrease) in net assets	416,611	(98,177)	318,434	294,618
Net assets at beginning of year	<u>2,012,940</u>	<u>363,923</u>	<u>2,376,863</u>	<u>2,082,245</u>
Net assets at end of year	<u>\$ 2,429,551</u>	<u>\$ 265,746</u>	<u>\$ 2,695,297</u>	<u>\$ 2,376,863</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, 2008
(With Comparative Totals for 2007)

	Program Services					Supporting Services			2008 Total	2007 Total	
	Head Start & Early Head Start	Smart Start	Housing	Community Services	Child Food	Total	Management & General	Fund- Raising			Total
Salaries	\$ 1,933,822	\$ 156,013	\$ 57,527	\$ 262,667	\$ 22,032	\$ 2,432,061	\$ 298,927	\$	\$ 298,927	\$ 2,730,988	\$ 2,551,561
Payroll taxes	139,130	11,224	4,139	18,898	1,585	174,976	21,506		21,506	196,482	195,194
Employee benefits	<u>169,674</u>	<u>13,929</u>	<u>4,530</u>	<u>21,898</u>	<u>1,903</u>	<u>211,934</u>	<u>323,139</u>		<u>323,139</u>	<u>535,073</u>	<u>467,658</u>
Total salaries and related expenses	2,242,626	181,166	66,196	303,463	25,520	2,818,971	643,572		643,572	3,462,543	3,214,413
Contractual	930	8		90		1,028	10,266		10,266	11,294	24,123
Travel	33,339	7,986	2,130	47,220		90,675	2,600		2,600	93,275	86,095
Insurance	24,093	851		648		25,592	39,888		39,888	65,480	67,588
Space costs	53,348	9,940				63,288	31,934		31,934	95,222	87,833
Telephone and communications	9,460	33	121	2,138		11,752	20,066		20,066	31,818	32,040
Postage	687	153	1,781	863		3,484	2,085	93	2,178	5,662	4,164
Materials and supplies	232,718	60,483	4,184	15,142	13,849	326,376	22,455	333	22,788	349,164	309,620
Advertising	3,656			222		3,878	393		393	4,271	4,784
Repairs and maintenance	39,134	11,507		5,532		56,173	52,000	250	52,250	108,423	146,527
Food	5,256	29,808		817	172,770	208,651	1,268	209	1,477	210,128	177,150
Housing assistance payments			547,393			547,393				547,393	521,159
Schooling costs	8,968	99		37,416		46,483			46,483	46,483	52,702
Staff/board training	21,553	2,426		3,718	150	27,847	2,401		2,401	30,248	27,751
Professional fees	40,130	144	518	238		41,030	26,953		26,953	67,983	89,593
Dues and subscriptions	8,432	2,111		1,373		11,916	3,548		3,548	15,464	13,578
Other	<u>42,619</u>			<u>477</u>		<u>43,096</u>		<u>7,229</u>	<u>7,229</u>	<u>50,325</u>	<u>35,632</u>
Total expenses before interest and depreciation	2,766,949	306,715	622,323	419,357	212,289	4,327,633	859,429	8,114	867,543	5,195,176	4,894,752
Interest							14,263		14,263	14,263	18,580
Depreciation	<u>131,800</u>	<u>6,840</u>	<u>2,952</u>	<u>24,319</u>		<u>165,911</u>	<u>49,193</u>	<u>295</u>	<u>49,488</u>	<u>215,399</u>	<u>189,177</u>
Total expenses	<u>\$ 2,898,749</u>	<u>\$ 313,555</u>	<u>\$ 625,275</u>	<u>\$ 443,676</u>	<u>\$ 212,289</u>	<u>\$ 4,493,544</u>	<u>\$ 922,885</u>	<u>\$ 8,409</u>	<u>\$ 931,294</u>	<u>\$ 5,424,838</u>	<u>\$ 5,102,509</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, 2008
(With Comparative Totals for 2007)

	2008	2007
Cash flows from operating activities:		
Increase in net assets	\$ 318,434	\$ 294,618
Adjustments to reconcile changes in net assets to net cash provided from operating activities:		
Depreciation	215,399	189,177
Changes in working capital - sources (uses)		
Grants receivable	(118,864)	66,743
Accounts receivable		280
Taxes receivable	(15,793)	220
Reserve for escrow	9,059	6,926
Prepaid expenses	30,230	8,992
Accounts payable	(5,592)	6,550
Accrued liabilities	64,931	(24,405)
Escrow deposits	(9,059)	(6,926)
Net cash provided from operating activities	488,745	542,175
Cash flows from investing activities:		
Purchase of property and equipment	(145,544)	(84,426)
Cash flows from financing activities:		
Principal payments on long-term debt	(81,431)	(77,113)
Net increase in cash and equivalents	261,770	380,636
Cash and equivalents at beginning of year	707,040	326,404
Cash and equivalents at end of year	\$ 968,810	\$ 707,040
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 14,263	\$ 18,580

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

MACON PROGRAM FOR PROGRESS, INC.

Notes to Financial Statements
June 30, 2008

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 \$7,638 and \$16,959 for the years ended June 30, 2008 and 2007, 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)

Advertising

Advertising costs are expensed as incurred. For the years ended June 30, 2008 and 2007, costs charged to expense were \$4,271 and \$4,784, respectively.

Cost Pools

The Organization uses three cost pools (fringe, indirect and leave) 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, 2007, from which the summarized information was derived.

Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

Note 2 – Restrictions on Assets

Temporarily restricted net assets are available for the following purposes:

<u>At June 30</u>	<u>2008</u>	<u>2007</u>
HUD	\$ 70,496	\$ 157,236
Food Program	32,179	14,463
Support our Students	1,049	877
Smart Start	141,055	40,170
Medicaid Billing	20,967	18,490
Daycare		2,204
EHS Classroom		5,450
Wrap Around		98,279
Zero - Three		26,202
Literacy		532
Community Service Block Grant		20
	<hr/>	<hr/>
Total temporarily restricted net assets	\$ 265,746	\$ 363,923

Note 3 - Property and Equipment

A description of property and equipment follows:

<u>At June 30</u>	<u>2008</u>	<u>2007</u>
At cost:		
Land and land improvements	\$ 259,335	\$ 216,594
Buildings	3,191,574	3,153,574
Equipment and furnishings	534,010	500,485
Vehicles	378,748	550,933
	<hr/>	<hr/>
	4,363,667	4,421,586
Less, accumulated depreciation	<hr/>	<hr/>
	2,396,495	2,384,559
	<hr/>	<hr/>
Property and equipment, net	\$ 1,967,172	\$ 2,037,027

Depreciation expense for the year ended June 30, 2008 and 2007 was \$215,399 and \$189,177, 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, 2008 and 2007 the total of these accounts was \$34,616 and \$43,675, respectively.

Note 5 – Long-term Debt

Long-term debt is described as follows:

<u>At June 30</u>	<u>2008</u>	<u>2007</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	\$ 51,626	\$ 102,564
Wachovia - 180 monthly payments of \$860, including interest at a rate of 5.53%, secured by a deed of trust, due September 2010	24,290	32,976
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>135,579</u>	<u>157,386</u>
	211,495	292,926
Less, current maturities	<u>83,639</u>	<u>82,244</u>
<u>Long-term debt, net of current maturities</u>	<u>\$ 127,856</u>	<u>\$ 210,682</u>

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

<u>Years Ending June 30</u>	
2009	\$ 83,639
2010	33,887
2011	30,752
2012	63,217
2013	<u>0</u>
<u>Total principal payments</u>	<u>\$ 211,495</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, 2008 and 2007 were \$84,485 and \$80,656, 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, 2008 and 2007 were \$346,172 and \$280,505, 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 14.7% 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, 2008 and 2007 the various programs of the Organization were charged \$367,435 and \$344,074 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.”

Note 10 – Commitments (continued)

The following is a schedule of future minimum lease payments under non-cancelable operating leases as of June 30, 2008.

<u>Years Ending June 30</u>	<u>Amount</u>
2009	\$ 31,489
2010	9,581
2011	6,697
2012	1,158
2013	<u>0</u>
<u>Minimum lease commitments</u>	<u>\$ 48,925</u>

Total rent expense in 2008 and 2007, for all operating leases, was approximately \$51,737 and \$49,978, 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.

Note 12 – Change in Accounting Estimate

In the current year, management reassessed the useful lives of certain property and equipment items. Mobile modular units were being depreciated by the straight-line method over 25 years. Management determined the estimated useful lives should have been 15 years. The correction resulted in an additional amount of \$25,338 of depreciation expense for the year ended June 30, 2008.

COMPLIANCE SECTION



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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, 2008, and have issued our report thereon dated December 4, 2008. 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.

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.

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.

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

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 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 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*.

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
December 4, 2008



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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, 2008. 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, 2008.

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 the 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 internal control over compliance was for the limited purpose described in the preceding paragraph 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 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
December 4, 2008

MACON PROGRAM FOR PROGRESS, INC.

Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2008

<u>Federal-State Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
FEDERAL AWARDS		
US Department of Health and Human Services:		
Head Start/Early Head Start	93.600	\$ 3,217,134
Passed Through NC Department of Health and Human Services:		
Community Service Block Grant	93.569	<u>120,000</u>
Subtotal US Department of Health and Human Services		3,337,134
US Department of Housing and Urban Development:		
Section 8 Housing Choice Vouchers	14.871	679,301
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	234,407
US Department of Labor:		
Passed Through Southwestern NC Planning and Economic Development Commission:		
Workforce Investment Act	17.258	<u>121,000</u>
Total expenditures of federal awards		<u>4,371,842</u>

MACON PROGRAM FOR PROGRESS, INC.

Schedule of Expenditures of Federal and State Awards (continued)
Year Ended June 30, 2008

Federal-State Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	State Expenditures
STATE AWARDS		
NC Department of Health and Human Services:		
Passed through Region A Partnership for Children:		
Smart Start		\$ 84,000
Parents as Teachers		45,575
More at Four		376,289
Passed through Southwestern Child Development Commission:		
Zero – Three		320,944
Head Start Wraparound		213,347
Passed Through Southwestern NC Planning & Economic Development Commission:		
Zero – Three		<u>506</u>
Total NC Department of Health and Human Services		1,040,661
Department of Juvenile Justice and Delinquency Prevention:		
Support our Students		<u>67,897</u>
Total expenditures of state awards		<u>1,108,558</u>
Total expenditures of federal and state awards		<u>\$ 5,480,400</u>

MACON PROGRAM FOR PROGRESS, INC.

Notes to Schedule of Expenditures of Federal and State Awards
June 30, 2008

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 (Continued)
Year Ended June 30, 2008

Section II Financial Statement Findings

No audit findings were reported.

Section 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, 2008

Finding 2007-1

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 a member of senior management review journal entries on a regular basis.

Current status: Item is not repeated in the current year.