

MACON PROGRAM FOR PROGRESS, INC.

Franklin, North Carolina

Financial Statements

Year Ended June 30, 2010

MACON PROGRAM FOR PROGRESS, INC.

OFFICERS

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Vivian Cobb
Mike Little

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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, 2010, 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 2009 financial statements and, in our report dated December 2, 2009, 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, 2010, 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 10, 2010, 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 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.

To the Board of Directors
Macon Program for Progress, Inc.
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Our audit was conducted for the purpose of forming an opinion on the financial statements 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Painter, Russell & Associates, PLLC

Asheville, North Carolina
December 10, 2010

MACON PROGRAM FOR PROGRESS, INC.

Statement of Financial Position
June 30, 2010
(With Comparative Totals for 2009)

	2010	2009
Assets		
Current assets:		
Cash and equivalents	\$ 1,346,610	\$ 1,000,614
Grants receivable	232,425	474,213
Taxes receivable	29,524	15,113
Other receivables	452	
Prepaid expenses	1,727	247
Total current assets	1,610,738	1,490,187
Property and equipment	1,987,270	1,968,839
Reserve for escrow	16,226	38,082
Total assets	\$ 3,614,234	\$ 3,497,108
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term debt	\$ 31,029	\$ 33,887
Accounts payable	158,173	181,630
Accrued liabilities	253,976	216,180
Escrow deposits	16,226	38,082
Total current liabilities	459,404	469,779
Long-term debt, net of current maturities	67,101	98,257
Total liabilities	526,505	568,036
Net assets:		
Unrestricted:		
Undesignated	933,748	826,775
Investment in property and equipment	1,889,140	1,836,695
Total unrestricted	2,822,888	2,663,470
Temporarily restricted	264,841	265,602
Total net assets	3,087,729	2,929,072
Total liabilities and net assets	\$ 3,614,234	\$ 3,497,108

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

MACON PROGRAM FOR PROGRESS, INC.

Statement of Activities
Year Ended June 30, 2010
(With Comparative Totals for 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2010</u>	<u>Total 2009</u>
Public support and other revenues				
Grants and contracts	\$ 1,126,926	\$ 4,766,811	\$ 5,893,737	\$ 5,707,355
Contributions	6,595		6,595	21,145
In-kind contributions	6,164		6,164	1,388
Client fees	82,299		82,299	104,957
Fund-raising	7,374		7,374	6,620
Investment income	2,107		2,107	5,221
Loss on sale of property and equipment	(12,816)		(12,816)	
Net assets released from restriction	<u>4,767,572</u>	<u>(4,767,572)</u>		
Total public support and other revenues	<u>5,986,221</u>	<u>(761)</u>	<u>5,985,460</u>	<u>5,846,686</u>
Expenses				
Program services	4,853,311		4,853,311	4,694,501
Supporting services	<u>973,492</u>		<u>973,492</u>	<u>918,410</u>
Total expenses	<u>5,826,803</u>		<u>5,826,803</u>	<u>5,612,911</u>
Increase (decrease) in net assets	159,418	(761)	158,657	233,775
Net assets at beginning of year	<u>2,663,470</u>	<u>265,602</u>	<u>2,929,072</u>	<u>2,695,297</u>
Net assets at end of year	<u>\$ 2,822,888</u>	<u>\$ 264,841</u>	<u>\$ 3,087,729</u>	<u>\$ 2,929,072</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, 2010
(With Comparative Totals for 2009)

	Program Services						Supporting Services			2010 Total	2009 Total
	Head Start & Early Head Start	Smart Start	Housing	Community Services	Child Food	Total	Management & General	Fund- Raising	Total		
Salaries	\$ 2,122,358	\$ 169,146	\$ 57,951	\$ 266,622	\$ 24,896	\$ 2,640,973	\$ 334,103	\$ 336	\$ 334,439	\$ 2,975,412	\$ 2,855,651
Payroll taxes	151,157	12,047	4,127	18,989	1,773	188,093	23,795	24	23,819	211,912	204,605
Employee benefits	169,859	13,324	4,235	21,400	1,971	210,789	316,540	28	316,568	527,357	535,571
Total salaries and related expenses	2,443,374	194,517	66,313	307,011	28,640	3,039,855	674,438	388	674,826	3,714,681	3,595,827
Contractual	19,978			4,000		23,978	10,624		10,624	34,602	41,779
Travel	35,943	2,637	397	35,468		74,445	2,686		2,686	77,131	96,576
Insurance	18,086	28		3,150		21,264	28,844	191	29,035	50,299	60,961
Space costs	63,103	9,813		7,842		80,758	30,174	335	30,509	111,267	97,179
Telephone and communications	34,820	389	179	2,114		37,502	23,580		23,580	61,082	47,975
Postage	2,460	42	1,784	1,756		6,042		159	159	6,201	5,862
Materials and supplies	177,282	41,845	2,577	11,707	14,482	247,893	32,871	1,067	33,938	281,831	287,263
Advertising	8,123	595		435		9,153	148		148	9,301	3,566
Repairs and maintenance	40,512	7,592	5	13,978		62,087	60,148		60,148	122,235	134,450
Food	5,061	31,349		338	192,712	229,460	1,242	404	1,646	231,106	223,036
Housing assistance payments			643,037			643,037				643,037	580,927
Schooling costs	18,571			96,187		114,758		102	102	114,860	69,138
Staff/board training	52,080	3,276	25	4,907		60,288	2,607		2,607	62,895	39,547
Professional fees	23,333	137	10	5,834		29,314	30,990		30,990	60,304	47,199
Dues and subscriptions	5,232	373		2,513		8,118	4,713	1,292	6,005	14,123	12,461
Other	7,749	1,207	26	14,704		23,686	1,776	9,214	10,990	34,676	76,086
Total expenses before interest and depreciation	2,955,707	293,800	714,353	511,944	235,834	4,711,638	904,841	13,152	917,993	5,629,631	5,419,832
Interest							6,464		6,464	6,464	9,633
Depreciation	105,127	5,124		31,422		141,673	48,740	295	49,035	190,708	183,446
Total expenses	<u>\$ 3,060,834</u>	<u>\$ 298,924</u>	<u>\$ 714,353</u>	<u>\$ 543,366</u>	<u>\$ 235,834</u>	<u>\$ 4,853,311</u>	<u>\$ 960,045</u>	<u>\$ 13,447</u>	<u>\$ 973,492</u>	<u>\$ 5,826,803</u>	<u>\$ 5,612,911</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, 2010
(With Comparative Totals for 2009)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Increase in net assets	\$ 158,657	\$ 233,775
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	190,708	183,446
Loss on sale of property and equipment	12,816	
Changes in working capital - sources (uses)		
Grants receivable	241,788	(202,464)
Taxes receivable	(14,411)	14,820
Other receivables	(452)	
Prepaid expenses	(1,480)	(174)
Reserve for escrow	(21,856)	3,466
Accounts payable	(23,457)	35,325
Accrued liabilities	37,796	31,540
Escrow deposits	21,856	(3,466)
Net cash provided by operating activities	<u>601,965</u>	<u>296,268</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(221,955)</u>	<u>(185,113)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	<u>(34,014)</u>	<u>(79,351)</u>
Net increase in cash and equivalents	345,996	31,804
Cash and equivalents at beginning of year	<u>1,000,614</u>	<u>968,810</u>
Cash and equivalents at end of year	<u>\$ 1,346,610</u>	<u>\$ 1,000,614</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 6,464</u>	<u>\$ 9,633</u>

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

MACON PROGRAM FOR PROGRESS, INC.

Notes to Financial Statements

June 30, 2010

Note 1 - Summary of Significant Accounting Policies

Organization

Macon Program for Progress, Inc. (Organization) was incorporated on October 20, 1964. The purposes of the Organization are to provide education and care for pre-school children, provide employment training for low-income individuals, and 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.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The Organization reports in compliance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Not-for-Profit Entities: Presentation of Financial Statements* 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:

- 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.
- 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.

Note 1 - Summary of Significant Accounting Policies (continued)

Financial Statement Presentation (continued)

- 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.

Recognition of Donor Restrictions

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 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. No amounts have been reflected in the accompanying financial statements for contributed services since the requirements for recognition were not met. Donated materials are reflected as in-kind contributions in the accompanying financial statements at their estimated fair value at date of receipt. Donated materials totaled \$6,164 and \$1,388 for the years ended June 30, 2010 and 2009, 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. Other receivables 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.

Note 1 - Summary of Significant Accounting Policies (continued)

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 market 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.

Support and Revenues

Certain revenues received under government grant programs are subject to audit by the providing agency. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor or designated by the Board of Directors.

Advertising

Advertising costs are expensed as incurred. For the years ended June 30, 2010 and 2009, costs charged to expense were \$9,301 and \$3,566, respectively.

Cost Pools

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

Allocated 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.

Note 1 - Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The fair value of substantially all reported assets and liabilities which represent financial instruments, none of which are held for trading purposes, approximate the carrying values of such amounts.

Comparative Financial 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, 2009, 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>2010</u>	<u>2009</u>
HUD	\$ 205,917	\$ 222,774
Food Program	51,570	41,779
Community Service Block Grant – ARRA	7,203	
NCDENR	151	
Support our Students	<u> </u>	<u>1,049</u>
<u>Temporarily restricted net assets</u>	<u>\$ 264,841</u>	<u>\$ 265,602</u>

In the current year, it was discovered that \$291,261 of temporarily restricted net assets for the year ended June 30, 2009 should have been unrestricted. Beginning net assets in these financial statements have been reclassified from the amounts previously reported.

Note 3 - Property and Equipment

A description of property and equipment follows:

<u>At June 30</u>	<u>2010</u>	<u>2009</u>
Land and land improvements	\$ 265,845	\$ 259,335
Buildings	3,360,727	3,357,902
Equipment and furnishings	452,802	468,739
Vehicles	386,664	388,828
Construction in progress	<u>30,865</u>	<u> </u>
	4,496,903	4,474,804
Less, accumulated depreciation	<u>2,509,633</u>	<u>2,505,965</u>
<u>Property and equipment</u>	<u>\$ 1,987,270</u>	<u>\$ 1,968,839</u>

Depreciation expense for the year ended June 30, 2010 and 2009 was \$190,708 and \$183,446, respectively.

Note 4 - Reserve for Escrow

Reserve for escrow is comprised of cash accounts for participants in the HUD Self-Sufficiency Program. At June 30, 2010 and 2009 the total of these accounts was \$16,226 and \$38,082, respectively.

Note 5 - Long-term Debt

Long-term debt is described as follows:

<u>At June 30</u>	<u>2010</u>	<u>2009</u>
Wachovia - 180 monthly payments of \$860, including interest at a rate of 5.53%, secured by a deed of trust, due October 2010	\$ 5,376	\$ 15,099
Wachovia - 150 monthly payments of \$2,513, including interest at a rate of 5.77%, secured by a deed of trust, due December 2014	<u>92,754</u>	<u>117,045</u>
	98,130	132,144
Less, current maturities	<u>31,029</u>	<u>33,887</u>
<u>Long-term debt, net of current maturities</u>	<u>\$ 67,101</u>	<u>\$ 98,257</u>

Note 5 - Long-term Debt (continued)

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

<u>Years Ending June 30</u>	
2011	\$ 31,029
2012	27,173
2013	28,783
2014	11,145
2015	
<u>Total principal payments</u>	<u>\$ 98,130</u>

Note 6 - Line of Credit

The Organization maintains a line of credit with a local bank to meet short-term working capital needs. Maximum borrowings on this line of credit are \$50,000. The Organization has no significant compensating balance requirements or commitment fees related to this line. Interest is payable monthly at a prime rate, with a minimum of 4.0%. At June 30, 2010, there was no outstanding balance on the line of credit.

Note 7 - Commitments

The Organization is obligated under lease contracts for center space and office equipment with various monthly payments and maturity dates.

The following is a schedule of future minimum lease payments under non-cancelable operating leases as of June 30, 2010.

<u>Years Ending June 30</u>	<u>Amount</u>
2011	\$ 46,062
2012	13,502
2013	8,810
2014	7,651
2015	
<u>Minimum lease commitments</u>	<u>\$ 76,025</u>

Total rent expense for the years ended June 30, 2010 and 2009, for all operating leases, was approximately \$66,187 and \$67,651, respectively.

Note 8 - 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 would 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 risks of loss.

Source of Grants

For the year ended June 30, 2010, the Organization was the recipient of funds from the 2009 Recovery and Reinvestment Act (ARRA). These funds have a contract period generally from October 1, 2009 through September 30, 2010 and must be fully expended by September 30, 2010. ARRA funds are not guaranteed to be renewed by the federal awarding agency and there have been no renewals as of the date of these financial statements. For the year ended June 30, 2010, ARRA funds received totaled \$297,815 from federal agencies, which are included in grants and contracts on the statement of activities.

Note 9 - 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 3.5% of compensation for employees making contributions to the plan. The Organization's contributions for the years ended June 30, 2010 and 2009 were \$104,368 and \$90,543, respectively.

Note 10 - Self-Insured Health Plan

The Organization maintains a self-insured health plan. Funding for the benefits of the plan is derived from the funds deposited by 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, 2010 and 2009 were \$327,644 and \$346,207, respectively. The Organization has recognized a liability in the amount of \$105,171 and \$71,618 at June 30, 2010 and 2009, respectively. This liability is included in accrued liabilities and represents both claims that have been processed but not paid as of year-end as well as an estimated amount for claims not yet reported and/or processed. 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 \$20,000 up to \$2,000,000 in each contract period.

Note 11 - Indirect Cost

The provisional indirect cost rate of 14.9% 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, 2010 and 2009 the various programs of the Organization were charged \$405,321 and \$390,344 based upon that indirect cost rate.

Note 12 - 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 in these financial statements.

Note 13 - Income Taxes

Uncertain Tax Positions

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Organization's Return of Organization Exempt from Income Tax (Form 990) for 2006, 2007, and 2008 are subject to examination by the IRS, generally for three years after they were filed.

Note 14 - Subsequent Events

Management has evaluated subsequent events through December 10, 2010, which is the date the financial statements were available to be issued. In September 2010, Lowes, Inc. donated property with a tax value of \$1,465,040 to the Organization. A new corporation, Apartments at Orchard View, Inc., was formed by the Organization to hold the property.

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. as of and for the year ended June 30, 2010, and have issued our report thereon dated December 10, 2010. 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 *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.

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

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, 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

Asheville, North Carolina
December 10, 2010



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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
Macon Program for Progress, Inc.
Franklin, North Carolina

Compliance

We have audited Macon Program for Progress, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Macon Program for Progress, Inc.'s major federal programs for the year ended June 30, 2010. 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 of 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

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

Internal Control Over Compliance

Management of Macon Program for Progress, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Macon Program for Progress, 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.

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

Asheville, North Carolina
December 10, 2010

MACON PROGRAM FOR PROGRESS, INC.

Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2010

<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	\$ 3,347,756
Head Start/Early Head Start - ARRA	93.708	193,010
Passed Through NC Department of Health and Human Services:		
Community Service Block Grant	93.569	120,000
Community Service Block Grant - ARRA	93.710	<u>76,881</u>
Subtotal US Department of Health and Human Services		3,737,647
US Department of Housing and Urban Development:		
Section 8 Housing Choice Vouchers	14.871	687,050
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	250,390
US Department of Labor:		
Passed Through Southwestern NC Planning and Economic Development Commission:		
Workforce Investment Act - Adult program	17.258	74,129
Workforce Investment Act - ARRA	17.258	14,704
Workforce Investment Act - Dislocated worker program	17.260	82,026
Workforce Investment Act - ARRA	17.260	<u>7,743</u>
Total expenditures of federal awards		<u>4,853,689</u>

MACON PROGRAM FOR PROGRESS, INC.

Schedule of Expenditures of Federal and State Awards (continued)
Year Ended June 30, 2010

<u>Federal-State Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>State Expenditures</u>
STATE AWARDS		
NC Department of Health and Human Services: Passed through Region A Partnership for Children: Smart Start - Parents as Teachers		\$ 45,575
Passed through Southwestern Child Development Commission: Zero - Three		324,834
Head Start Wraparound		<u>203,946</u>
Total expenditures of state awards		<u>574,355</u>
Total expenditures of federal and state awards		<u>\$ 5,428,044</u>

MACON PROGRAM FOR PROGRESS, INC.

Notes to Schedule of Expenditures of Federal and State Awards
June 30, 2010

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, 2010

Section I Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting

Material weakness(es) identified _____ yes X no

Significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal awards

Internal control over major programs

Material weakness(es) identified _____ yes X no

Significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditors' report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? _____ yes X no

Programs tested as major were:

Head Start/Early Head Start	CFDA#	93.600
Head Start/Early Head Start - ARRA	CFDA#	93.708
Workforce Investment		
Adult program	CFDA#	17.258
Adult program - ARRA	CFDA#	17.258
Dislocated worker program	CFDA#	17.260
Dislocated worker program - ARRA	CFDA#	17.260

The threshold for distinguishing Type A and Type B programs was \$300,000.

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, 2010

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, 2010

No prior year audit findings were reported.