

**PACE
Community
Action Agency, Inc.**

**Consolidated Financial
Statements
for the Year Ended
December 31, 2007
(With Single Audit Section)**



**COMER
NOWLING AND
ASSOCIATES, PC**

Certified Public Accountants

PACE COMMUNITY ACTION AGENCY, INC.
(Vincennes, Indiana)
FINANCIAL STATEMENTS

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Independent Auditor's Report

Board of Directors
PACE Community Action Agency, Inc. and Subsidiary
Vincennes, Indiana

We have audited the accompanying consolidated statement of financial position of PACE Community Action Agency, Inc. and Subsidiary as of December 31, 2007 and the related consolidated statement of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PACE Community Action Agency, Inc. and Subsidiary as of December 31, 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 May 14, 2008 on our consideration of PACE Community Action Agency, Inc.'s internal control over financial reporting and 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 or on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an

audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal 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 audits of the basic financial statements and, in our opinion, is fairly stated, in all material aspects, in relation to the basic financial statements taken as a whole.

Comer, Nowling And Associates, P.C.

Comer, Nowling And Associates, P.C.

May 14, 2008

PACE COMMUNITY ACTION AGENCY, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2007

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$	287,892
Grants receivable		393,300
Other receivables		103,207
Inventory		4,144
Prepaid expenses		61,273
		849,816
Total current assets		849,816

PROPERTY AND EQUIPMENT:

Property and equipment, net of accumulated depreciation and amortization		832,528
		832,528

OTHER ASSETS:

Due from Pace Adventures Childcare		31,135
Investment in subsidiaries		(32,802)
		(1,667)
Total other assets		(1,667)

Total assets		\$ 1,680,677
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$	349,472
Advance funds		6,089
Accrued payroll and payroll expenses		90,521
Accrued annual leave		47,018
Due to other funds		92,740
EFTCU line of credit		71,485
Current portion of long-term debt		7,021
		664,346
Total current liabilities		664,346

**LONG-TERM DEBT, NET OF
CURRENT PORTION:**

109,910

NET ASSETS

906,421

Total liabilities and net assets		\$ 1,680,677
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See accompanying notes to financial statements.

**PACE COMMUNITY ACTION AGENCY, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2007**

UNRESTRICTED NET ASSETS

Revenues and Other Support

Federal government revenue	\$ 7,171,667
State and local government revenue	106,381
Other grant income	32,140
Fees and program income	88,534
Contributions	51,361
Loss on disposal of equipment	(4,274)
Interest income	10,783
Rental income	6,800
Investment income - subsidiaries	(34,802)
Inkind contributions	258,260
	<hr/>
Total revenues and other support	7,686,850

Operating Expenses:

Community Services Block Grant	315,672
Energy assistance	2,116,797
Leveraging incentive	11,571
Weatherization assistance program	480,096
Healthy families	227,173
Head Start	3,320,102
Family planning	700,146
Women, infants and children	218,185
Home investment partnership	100,493
McKinney project	13,527
Other programs	174,475
Management and general	8,063
Fundraising	3,028
Subsidiary	8,518
	<hr/>
Total operating expenses	7,697,846

Increase (decrease) in net assets (10,996)

NET ASSETS AT BEGINNING OF YEAR

917,417

NET ASSETS AT END OF YEAR

\$ 906,421

See accompanying notes to financial statements.

PACE COMMUNITY ACTION AGENCY, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Community Services <u>Block Grant</u>	Energy Assistance	Leveraging Incentives Program	Weatherization Assistance Program	Healthy Families	<u>Head Start</u>
OPERATING EXPENSES						
Personnel	\$ 159,512	\$ 178,656	\$ -	\$ 132,309	\$ 151,874	\$ 1,857,138
Employee benefits	18,593	16,608	-	15,350	11,362	186,126
Payroll taxes	13,754	15,869	-	11,358	13,539	167,852
Accounting fees	736	3,744	-	1,314	425	7,338
Legal fees	744	-	-	-	-	1,500
Supplies	23,220	21,023	-	46,025	6,305	341,579
Telephone	9,797	14,948	-	4,211	4,236	66,040
Postage	1,132	6,834	-	451	246	4,109
Occupancy	28,475	37,548	-	8,744	15,005	303,918
Equipment maintenance	-	-	-	1,292	-	19,725
Printing and publications	4,068	6,319	-	979	1,433	28,088
Dues and filing fees	3,629	-	-	-	-	-
Contract labor	2,476	-	-	59,413	11,117	8,965
Training and education	13,881	-	-	-	374	12,183
Travel	13,419	1,902	-	5,412	8,767	69,097
Depreciation	8,281	-	-	5,406	-	30,561
Insurance	2,209	2,277	-	6,322	1,394	41,890
Data processing	5,205	1,968	-	926	1,407	17,906
Direct assistance	-	1,809,101	11,571	180,584	(311)	156,087
Interest expense	-	-	-	-	-	-
Other expenses	6,541	-	-	-	-	-
Total Expenses Reported by Function	\$ 315,672	\$ 2,116,797	\$ 11,571	\$ 480,096	\$ 227,173	\$ 3,320,102

See accompanying notes to financial statements.

<u>Family Planning</u>	<u>Women, Infants and Children</u>	<u>Home Investment Partnership</u>	<u>McKinney Project</u>	<u>Other Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Subsidiary</u>	<u>Totals</u>
\$ 396,741	\$ 132,825	\$ 13,660	\$ 5,569	\$ 670	\$ (5,134)	\$ 758	\$ 1,822	\$ 3,026,400
13,358	5,325	1,813	844	92	-	8	-	269,479
35,141	11,563	1,162	628	52	(602)	64	-	270,380
1,100	383	-	-	-	-	-	-	15,040
-	-	-	1,280	-	-	-	-	3,524
16,093	5,945	881	762	4,737	-	167	132	466,869
13,871	8,173	325	138	22	-	16	60	121,837
2,958	1,646	132	103	-	-	7	10	17,628
74,147	36,344	772	284	30	-	38	72	505,377
-	-	-	-	17	-	-	-	21,034
5,353	929	127	87	-	-	-	440	47,823
-	-	223	34	-	-	-	-	3,886
3,000	361	50,012	2,537	44,406	-	-	700	182,987
899	-	-	-	-	-	-	-	27,337
6,214	620	99	372	95	-	-	474	106,471
932	-	-	-	-	14,500	-	1,442	61,122
3,571	2,046	54	67	12	-	-	13	59,855
8,456	1,466	161	33	20	-	-	251	37,799
118,275	10,559	29,822	-	120,955	1,000	-	-	2,437,643
-	-	-	-	-	991	-	3,331	4,322
37	-	1,250	789	3,367	(2,692)	1,970	(229)	11,033
<u>\$ 700,146</u>	<u>\$ 218,185</u>	<u>\$ 100,493</u>	<u>\$ 13,527</u>	<u>\$ 174,475</u>	<u>\$ 8,063</u>	<u>\$ 3,028</u>	<u>\$ 8,518</u>	<u>\$ 7,697,846</u>

**PACE COMMUNITY ACTION AGENCY, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007**

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase (decrease) in net assets	\$ (10,996)
Adjustments to reconcile increase in net assets to net cash used in operating activities:	
Depreciation	61,122
Increase (decrease) in cash from changes in:	
Grants receivable	(25,662)
Other receivables	(19,220)
Inventory	(238)
Prepaid expenses	(6,823)
Accounts payable	(109,834)
Advance funds	(37,645)
Accrued payroll and payroll expenses	11,926
Accrued annual leave	6,716
Due to other funds	<u>13,885</u>
Net cash used in operating activities	<u>(116,769)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment in subsidiaries	(35,252)
Acquisition of property and equipment	<u>(133,468)</u>
Net cash used in investing activities	<u>(168,720)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from EFTCU line of credit	71,485
Proceeds from EFTCU notes payable	119,200
Principle payments against EFTCU notes payable	<u>(2,269)</u>
Net cash provided by financing activities	<u>188,416</u>
Net increase (decrease) in cash and cash equivalents	(97,073)

**CASH AND CASH EQUIVALENTS,
BEGINNING OF YEAR**

384,965

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 287,892

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for interest	<u>\$ 3,654</u>
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See accompanying notes to financial statements.

PACE COMMUNITY ACTION AGENCY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of PACE Community Action Agency, Inc. (the “Organization”), and its wholly-owned subsidiary, PACE Ventures Holding, Inc. All material inter-company transactions have been eliminated in consolidation.

NATURE OF OPERATIONS

PACE Community Action Agency, Inc. (the “Organization”) was incorporated as Wabash Valley Human Services, Inc. and commenced operations as a not-for-profit corporation in 1965, under the laws of the State of Indiana. Effective January 1, 2007, the Organization changed its name to PACE Community Action Agency, Inc. The Organization currently serves the counties of Daviess, Greene, Knox and Sullivan with limited services provided in Vigo County. In addition, the Organization is governed by a volunteer Board of Directors with advisory and policy councils serving to guide the various programs administered. The primary goal of the Organization is to enable economically and socially disadvantaged people to achieve self-sufficiency and become less dependent on public assistance. Programs and services offered provide opportunities for all age groups, particularly those who are low-income and meet program guidelines.

On January 3, 2007, the Organization formed PACE Ventures Holding, Inc., a C corporation (the “Subsidiary”) as a wholly owned subsidiary under the laws of the State of Indiana. Currently, the Subsidiary provides computer training for community residents and non-profit financial, human resource and consulting services for non-profit organizations. In addition, the Subsidiary has two (2) wholly owned subsidiaries. PACE Ventures, LLC was formed on December 28, 2006 to provide janitorial and cleaning services to business and residential customers in southern Indiana and Illinois. PACE Adventures Childcare LLC was formed on August 8, 2007 to purchase an existing daycare business and facility in the Vincennes, Indiana area. Income or losses from business activity performed by PACE Ventures, LLC and PACE Adventures Childcare, LLC are reflected as increases and decreases in the investment in subsidiaries balance in the statement of consolidated financial position. In addition, income or losses from LLC activity is presented in the investment in subsidiary income balance in the consolidated statement of activities.

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.

INVENTORY

Materials and supplies purchased throughout the year are charged to expense as the cost is incurred. Any items remaining on hand at year end are recognized as inventory in the financial statements at their actual cost.

PACE COMMUNITY ACTION AGENCY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION

The Organization receives grants from the State of Indiana (State) and the federal government to carry out certain program activities. The grants are received under contracts which require the Organization to submit to the State appropriate records of services provided to eligible individuals. Revenues under the contracts are recognized as the services are provided.

The Subsidiary recognizes revenue as it is earned and billed.

PROPERTY AND EQUIPMENT

The Organization's property and equipment are stated at cost and depreciated over estimated useful lives of five to forty years using the straight-line method. The following is a summary of the lives for each class of asset:

Buildings	40 years
Equipment	5-10 years
Vehicles	5-10 years

Expenditures for improvements and major renewals are capitalized. When property is sold, retired or otherwise disposed of, the related cost and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is credited or charged to income. Expenditures for maintenance and repairs are expensed when incurred. Depreciation expense incurred for the year ended December 31, 2007 was \$59,680.

The Subsidiary's property is stated at cost and depreciated over an estimated useful life of thirty years. The Subsidiary provides for depreciation in amounts sufficient to relate the cost of depreciable assets to operations using the straight-line method. It is the Subsidiary's general practice to charge maintenance and repairs to expense in the current period. Depreciation expense incurred by the Subsidiary for the year ended December 31, 2007 was \$1,442.

CONCENTRATION OF CREDIT RISK

The Organization's cash and cash equivalents are on deposit with five financial institutions having branches in the local area. Each account is insured by the FDIC for up to \$100,000. At various times throughout the year, the Organization maintained balances in excess of the insured limits. At December 31, 2007, the Organization's uninsured cash balances totaled \$176,343.

Revenues from federal and state government agencies that provide grant and contract funding to the Organization as of December 31, 2007, represented 94% of the Organization's total revenue and support for the year.

PACE COMMUNITY ACTION AGENCY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAX STATUS

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

Income tax expense for the Subsidiary will include federal and state taxes currently payable and deferred taxes arising from temporary differences between income for financial reporting and income tax purposes. No such differences existed as of December 31, 2007. There was no provision for income tax since the Subsidiary incurred a loss for the year.

CONTRIBUTIONS

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

CONTRIBUTED SERVICES

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance non-financial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. The Organization pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, solicitations, and various committee assignments. No amounts have been recorded in the financial statements for non-professional volunteer time.

FINANCIAL STATEMENT PRESENTATION

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report 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.

PACE COMMUNITY ACTION AGENCY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IN-KIND CONTRIBUTIONS

In addition to receiving cash contributions, the Organization receives in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair market value of certain in-kind donations as an expense in its financial statements, and similarly increase revenue and other support by the same amount. For the year ended December 31, 2007, this adjustment amounted to approximately \$258,260 and is included in other revenue and support on the Consolidated Statements of Activities.

The Organization has recorded in-kind contributions for professional services on the Consolidated Statement of Activities in accordance with Statement of Financial Accounting Standards No. 116 (SFAS 116), *Accounting for Contributions Received and Contributions Made*. SFAS 116 requires that only contributions of services received that create or enhance a non-financial assets or require specialized skill by the individual possessing those skills and would typically need to be purchased if not provided by donation be recorded. The requirements of SFAS 116 are different from the in-kind requirements of the Organization's grant funding sources.

Of the \$258,260 of in-kind contributions and related expenses recorded in the Organization's Consolidated Statement of Activities for the year ended December 31, 2007, contributed services meeting the requirements of SFAS 116 are \$7,000. During 2007, the Organization also received other in-kind contributions totaling \$456,733 from non-professional volunteers, primarily for its Head Start program which are not recorded in the Consolidated Statement of Activities.

GOVERNMENT GRANTS

Support funded by grants is recognized as the Organization performs the contracted services under grant agreements. Grant revenue is recognized as earned as the eligible expenses are incurred. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required. Amounts required prior to expenditures being incurred are reflected as advance funds on the Statement of Financial Position.

CASH AND CASH EQUIVALENTS

For purposes of the Statement of Cash Flows, the organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

PACE COMMUNITY ACTION AGENCY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GRANTS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

The grants receivable represent amounts the Organization has filed claims for the year ended and were awaiting payment. A substantial majority of receivables are due from government sources. The amount deemed uncollectible is zero. Therefore, no bad debt allowance is considered necessary.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

EXPENSE ALLOCATION

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

NOTE 2 – PROPERTY AND EQUIPMENT

The Organization's property and equipment are as follows at December 31, 2007:

Buildings	\$ 680,000
Vehicles	427,914
Equipment	107,085
	<u>1,214,999</u>
Accumulated depreciation	(567,738)
	<u>647,261</u>
Land	19,570
	<u>\$ 666,831</u>

PACE COMMUNITY ACTION AGENCY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2 – PROPERTY AND EQUIPMENT (continued)

The Subsidiary's property and equipment are as follows at December 31, 2007:

Building		\$ 134,900
Building improvements		27,139
		162,039
Accumulated depreciation		(1,442)
		160,597
Land		5,100
		\$ 165,697

NOTE 3 – EMPLOYEE BENEFITS

The Organization currently maintains a 403(b) defined contribution plan. At the present time, the plan does not provide for an employer match of any voluntary employee contributions. Therefore, no employee benefits expense associated with this plan is reflected on the Statement of Activities.

NOTE 4 – OPERATING LEASES

The Organization leases multiple operating facilities under cancelable operating lease arrangements which expire at various times through May 2011. The arrangements are only cancelable should Federal funding for the program using the facility cease or become unavailable. In addition, the Organization leases office equipment under a non-cancelable lease which expires in December of 2011. Rental expense for these leases included in the statements of activities for the year ended December 31, 2007, was approximately \$316,091.

Future minimum lease payments for long-term leases are as follows for the years ended December 31,:

2008		\$ 230,878
2009		70,066
2010		59,403
2011		13,047
2012		-0-
Thereafter		-0-
		\$ 376,394

PACE COMMUNITY ACTION AGENCY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 5 – GRANTS RECEIVABLE

Grants receivable consisted of the following as of December 31, 2007:

Indiana Family and Social Service Administration	\$ 36,921
Indiana Family Health Council	61,259
Indiana State Department of Health	34,289
Indiana Housing and Community Development	260,767
Other	64
	<u>\$ 393,300</u>

NOTE 6 – LINE OF CREDIT – BANK

The Organization has a \$75,000 line of credit with Evansville Teachers Federal Credit Union (ETFCU). Interest is payable at a fixed rate of 5.5% with the line secured by all other accounts held at EFTCU. The line of credit was renewed in February 2007 and matures in January 2008. At December 31, 2007, the balance was \$71,485.

NOTE 7 - ALLOCATION OF COSTS

The Organization allocates joint costs to benefiting programs using various allocation methods, depending on the type of joint cost being allocated. Joint costs are those costs incurred for the common benefit of all agency programs, which cannot be readily identified with a final cost objective. The Organization's cost allocation methods are as follows:

Personnel. Agency personnel with multiple program duties (Executive Director, Associate Director, accounting personnel, etc.) record the time they spend working on specific programs on their time sheets. The time specifically identifiable to a particular program is charged to that program.

Occupancy Costs. Occupancy costs (maintenance costs, utilities, insurance, rent, repair costs, etc.) are allocated based on the number of square feet of space each program occupies. Space occupied by staff with multiple program duties is allocated based upon time worked in each program.

Copy Costs. A record is maintained of copies made for each program. Copy costs are charged monthly to programs based upon the number of copies made.

Insurance. Insurance is allocated to benefiting programs depending on the equipment, space or number of employees covered by the insurance.

PACE COMMUNITY ACTION AGENCY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 7 - ALLOCATION OF COSTS (continued)

Other Joint Costs. Other joint costs (telephone, computer usage, etc.) are allocated to agency programs based upon usage by each program.

NOTE 8 - LONG-TERM DEBT

The Organization had no long term debt as of December 31, 2007.

Long-term debt of the Subsidiary consists of the following as of December 31, 2007:

Note payable – 6.75% note payable to Evansville Teachers Federal Credit Union dated August 22, 2007 payable in monthly installments of \$913 with interest maturing in August 2022, secured by a building.	\$ 101,827
Note payable – 7.5% note payable to Evansville Teachers Federal Credit Union dated August 22, 2007 payable in monthly installments of \$321 with interest maturing in August 2012, unsecured.	<u>15,104</u>
	<u>\$ 116,931</u>

The future maturities of long-term debt are as follows for the years ended December 31,

2008	\$ 7,021
2009	7,533
2010	8,082
2011	8,670
2012	8,002
Thereafter	<u>77,623</u>
	<u>\$ 116,931</u>

NOTE 9 - STATEMENT OF FINANCIAL ACCOUNTING STANDARD NO. 144

SFAS No. 144, “*Accounting for the Impairment or Disposal of Long-Lived Assets*,” requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS No. 144 has not materially affected the Organization’s net change in unrestricted net assets, statement of financial position or statement of cash flows.



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Independent Auditor's Report on Supplementary Information

Board of Directors
PACE Community Action Agency, Inc. and Subsidiary
Vincennes, Indiana

Our report on our audit of the consolidated financial statements of PACE Community Action Agency, Inc. and Subsidiary as of December 31, 2007 appears on page one. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information (shown on pages 17 and 18) is presented for purposes of additional analysis of the consolidated financial statements rather than to present the statements of financial position and results of activities of the individual organizations. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole for the year ended December 31, 2007.

Comer, Nowling And Associates, P.C.

Comer, Nowling And Associates, P.C.
May 14, 2008

PACE COMMUNITY ACTION AGENCY, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2007

ASSETS

	<u>Parent</u>	<u>Subsidiary</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
CURRENT ASSETS:				
Cash and cash equivalents	\$ 286,132	\$ 1,760	\$ -	\$ 287,892
Grants receivable	393,300	-	-	393,300
Other receivables	103,115	92	-	103,207
Inventory	4,144	-	-	4,144
Prepaid expenses	61,273	-	-	61,273
Total current assets	<u>847,964</u>	<u>1,852</u>	<u>-</u>	<u>849,816</u>
PROPERTY AND EQUIPMENT:				
Property and equipment, net of accumulated depreciation and amortization	<u>666,831</u>	<u>165,697</u>	<u>-</u>	<u>832,528</u>
OTHER ASSETS:				
Due from PACE Adventures Childcare	31,135	-	-	31,135
Due from PACE Ventures Holding	42,682	-	(42,682)	-
Investment in subsidiaries	<u>2,438</u>	<u>(32,802)</u>	<u>(2,438)</u>	<u>(32,802)</u>
Total other assets	<u>76,255</u>	<u>(32,802)</u>	<u>(45,120)</u>	<u>(1,667)</u>
Total assets	<u>\$ 1,591,050</u>	<u>\$ 134,747</u>	<u>\$ (45,120)</u>	<u>\$ 1,680,677</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:				
Accounts payable	\$ 349,432	\$ 40	\$ -	\$ 349,472
Advance funds	6,089	-	-	6,089
Accrued payroll and payroll expenses	90,521	-	-	90,521
Accrued annual leave	47,018	-	-	47,018
Due to other funds	92,703	37	-	92,740
EFTCU line of credit	71,485	-	-	71,485
Due to PACE Community Action Agency	-	42,682	(42,682)	-
Current portion of long-term debt	<u>-</u>	<u>7,021</u>	<u>-</u>	<u>7,021</u>
Total current liabilities	<u>657,248</u>	<u>49,780</u>	<u>(42,682)</u>	<u>664,346</u>
LONG-TERM DEBT, NET OF CURRENT PORTION:	<u>-</u>	<u>109,910</u>	<u>-</u>	<u>109,910</u>
NET ASSETS	<u>933,802</u>	<u>(24,943)</u>	<u>(2,438)</u>	<u>906,421</u>
Total liabilities and net assets	<u>\$ 1,591,050</u>	<u>\$ 134,747</u>	<u>\$ (45,120)</u>	<u>\$ 1,680,677</u>

See Independent Auditor's Report on Supplementary Information on page 16.

PACE COMMUNITY ACTION AGENCY, INC.
CONSOLIDATING STATEMENT OF ACTIVITY AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2007

UNRESTRICTED NET ASSETS	Parent	Subsidiary	Eliminations	Consolidated Total
Revenues and Other Support				
Federal government revenue	\$ 7,171,667	-	-	\$ 7,171,667
State and local government revenue	106,381	-	-	106,381
Other grant income	32,140	-	-	32,140
Fees and program income	79,395	9,139	-	88,534
Contributions	51,361	-	-	51,361
Loss on disposal of equipment	(4,274)	-	-	(4,274)
Interest income	10,783	-	-	10,783
Rental income	-	6,800	-	6,800
Investment income (loss) - subsidiaries	-	(34,802)	-	(34,802)
Inkind contributions	258,260	-	-	258,260
Total revenues and other support	<u>7,705,713</u>	<u>(18,863)</u>	<u>-</u>	<u>7,686,850</u>
Operating Expenses:				
Community Services Block Grant	315,672	-	-	315,672
Energy assistance	2,116,797	-	-	2,116,797
Leveraging incentive	11,571	-	-	11,571
Weatherization assistance program	480,096	-	-	480,096
Healthy families	227,173	-	-	227,173
Head Start	3,320,102	-	-	3,320,102
Family planning	700,146	-	-	700,146
Women, infants and children	218,185	-	-	218,185
Home investment partnership	100,493	-	-	100,493
McKinney project	13,527	-	-	13,527
Other programs	174,475	-	-	174,475
Management and general	8,063	-	-	8,063
Fundraising	3,028	-	-	3,028
Subsidiary	-	8,518	-	8,518
Total operating expenses	<u>7,689,328</u>	<u>8,518</u>	<u>-</u>	<u>7,697,846</u>
Increase (decrease) in net assets	16,385	(27,381)	-	(10,996)
NET ASSETS AT BEGINNING OF YEAR	917,417	-	-	917,417
CONTRIBUTED CAPITAL	-	2,438	(2,438)	-
NET ASSETS AT END OF YEAR	<u>\$ 933,802</u>	<u>\$ (24,943)</u>	<u>(2,438)</u>	<u>\$ 906,421</u>

See Independent Auditor's Report on Supplementary Information on page 16.

SINGLE AUDIT SECTION

PACE COMMUNITY ACTION AGENCY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant or Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture			
Passed through the Indiana State Department of Health			
Women Infants and Children	10.557	MCH 552-2	\$ 210,645
Child and Adult Care Food Program	10.558		141,838
			<u>352,483</u>
U.S. Department of Housing and Urban Development			
Passed through the Indiana Housing & Community			
Development Authority			
HOME Investment Partnership Program	14.239	OR-006-023	69,983
HOME Investment Partnership Program(Rental Rehab)	14.239	CH-007-009	1,721
HOME Investment Partnership Program(CHDO Wks)	14.239	CW-007-006	7,647
			<u>79,351</u>
U.S. Department of Energy			
Passed through the Indiana Housing & Community			
Development Authority			
Weatherization Assistance for Low-Income Persons	81.042	WX-006-023	66,979
Weatherization Assistance for Low-Income Persons	81.042	WX-007-023	112,259
			<u>179,238</u>
Federal Emergency Management Agency			
Emergency Food & Shelter Program-Daviess	83.523	21-2648-00	12,751
Emergency Food & Shelter Program-Knox	83.523	21-2708-00	6,500
Emergency Food & Shelter Program-Greene	83.523	21-2680-00	7,001
Emergency Food & Shelter Program-Sullivan	83.523	21-2790-00	8,988
			<u>35,240</u>
U.S. Department of Health and Human Services			
Direct Program:			
Early Head Start and Head Start Program	93.600	05CH4082/42-43	2,926,171
Passed through the Indiana Family and Social			
Services Administration (IFSSA):			
Temporary Assistance for Needy Families	93.558	42-05-60-1675	220,930
Family Planning	93.667	42-07-1P-1675	79,582
Passed through the Indiana Housing & Community			
Development Authority			
Weatherization/ Energy Assistance for			
Low-Income Families	93.568	LI/WL 007-023	2,427,706
Community Services Block Grant	93.569	CS-007-023	315,663
Passed through the Indiana Family Health Council			
Family Planning Title V	93.994		64,774
Family Planning Title X	93.217		490,529
			<u>6,525,355</u>
Total Expenditures of Federal Awards			<u>\$ 7,171,667</u>

See accompanying note to schedule of expenditures of federal awards.

PACE COMMUNITY ACTION AGENCY, INC.
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2007

Note 1 – Basis of Presentation

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

**PACE COMMUNITY ACTION AGENCY, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2007**

No findings were noted in the prior year audit report.



BUSINESS PLANNING
FINANCIAL STATEMENTS
BUSINESS VALUATIONS
TAX PLANNING
TAX PREPARATION

**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
PACE Community Action Agency, Inc.
Vincennes, Indiana

We have audited the financial statements of PACE Community Action Agency, Inc. (PACE) (a nonprofit organization), as of and for the year ended December 31, 2007, and have issued our report thereon dated May 14, 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 PACE's internal control over financial reporting (internal control) 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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 accounting principles generally accepted in the United States of America 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.

Our consideration of internal control was for the limited purpose described in the second 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 that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the PACE's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations,

contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

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

Comer, Nowling And Associates, P.C.

Comer, Nowling And Associates, P.C.

May 14, 2008



COMER NOWLING AND ASSOCIATES, P.C.

BUSINESS PLANNING
FINANCIAL STATEMENTS
BUSINESS VALUATIONS
TAX PLANNING
TAX PREPARATION

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
PACE Community Action Agency, Inc.
Vincennes, Indiana

Compliance

We have audited the compliance of PACE Community Action Agency, Inc. (PACE) (a nonprofit organization) 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 its major federal programs for the year ended December 31, 2007. PACE's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of PACE's management. Our responsibility is to express an opinion on PACE'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 PACE'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 PACE's compliance with those requirements.

In our opinion, PACE complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

The management of PACE 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 PACE's internal control over compliance with requirements that could have a direct and material effect on a major federal program (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control 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.

A control deficiency exists when the design or operation of a control does not allow management or employees within a timely period, in the normal course of performing their assigned functions, to prevent or detect noncompliance with applicable requirements of laws, regulations, contracts and grant agreements that would have a direct and material effect on a major federal program. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects PACE's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants such that there is more than a remote likelihood that the Organization's noncompliance 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 material noncompliance with applicable requirements of laws, regulations, contracts and grants in relation to a major federal program will not be prevented or detected by the Organization's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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

Comer, Nowling And Associates, P.C.

Comer, Nowling And Associates, P.C.

May 14, 2008

**PACE COMMUNITY ACTION AGENCY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2007**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes ___ No x
- Significant deficiencies identified? Yes ___ No x

Noncompliance material to financial statements noted? Yes ___ No x

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes ___ No x
- Significant deficiencies identified? Yes ___ No x

Type of auditors report issued: Unqualified

Any audit findings disclosed required to be reported in
Accordance with Section 510(a) of Circular A-133 Yes ___ No x

Programs tested as major program:

CFDA Number

Name of Federal Program or Cluster

93.568

U.S. Department of Health & Human Services—Energy
Assistance Program

Dollar threshold used to distinguish between type A and type B programs \$300,000

Auditee qualified as low-risk auditee? Yes X No ___

Section II – Financial Statement Findings

None.

Section III – Federal Awards Findings

None.