

**2014**  
**Financial Statements**  
**With**  
**Auditor's Letters**

**PROGRESS INC.**

**FINANCIAL STATEMENTS**  
**WITH SUPPLEMENTARY INFORMATION**

**JUNE 30, 2014**

(With Independent Auditor's Report Thereon)

**PROGRESS INC.**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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## PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Progress Inc.

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of Progress Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Progress Inc. as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Other Information**

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 awards, as required by Tennessee Comptroller of the Treasury, *Auditing and Accounting for Local Governmental Units, and Other Organizations*, is presented for purposes of additional analysis 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2014, on our consideration of 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* in considering Progress Inc.'s internal control over financial reporting and compliance.

### **Emphasis of Matter**

As discussed in Note 14 to the financial statements, adjustments were applied to restate the July 1, 2013, balances of some accounts. In our opinion, such adjustments are appropriate and have been properly applied. Our opinion is not modified with respect to that matter.

*Patterson Handley & Ballentine*

October 14, 2014

**PROGRESS INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2014**

**ASSETS**

Current Assets:

Cash	\$ 75,858	
Certificates of deposit	412,030	
Accounts receivable - state agencies	542,777	
Accounts receivable - other	83,129	
Total current assets		\$ 1,113,794

Property and Equipment:

Property and equipment - cost	2,994,908	
Less: accumulated depreciation	(1,411,215)	
Total property and equipment		1,583,693

Other Asset:

Security deposits		7,630
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Assets Whose Use Is Limited:

Cash	15,949	
Cash held on behalf of others	208,487	
Grant receivable	33,300	
Total assets whose use is limited		257,736

Total Assets		<u>\$ 2,962,853</u>
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See accompanying notes to the financial statements.



**PROGRESS INC.**  
**STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
**JUNE 30, 2014**

**LIABILITIES AND NET ASSETS**

Current Liabilities:

Cash held on behalf of others	\$ 208,487	
Installment notes payable - current portion	131,423	
Line of credit	150,237	
Accounts payable	66,456	
Accrued expenses	350,310	
Total current liabilities		\$ 906,913

Installment notes payable - less current portion	112,938
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Total liabilities	1,019,851
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Net Assets:

Unrestricted	1,893,753	
Temporarily restricted	49,249	

Total net assets	1,943,002
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Total liabilities and net assets	\$ 2,962,853
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**PROGRESS INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	Unrestricted	Temporarily Restricted	Total
Support and Revenues:			
State grants and contracts	\$ 7,951,937	\$ 66,650	\$ 8,018,587
Contributions	77,191	-	77,191
Food stamps	69,410	-	69,410
Room and board fees	32,635	-	32,635
Supported employment worksites	40,114	-	40,114
Investment income	2,725	-	2,725
SmART Sales	6,392	-	6,392
Miscellaneous	11,301	-	11,301
Net assets released from restrictions	54,459	(54,459)	-
Total support and revenues	8,246,164	12,191	8,258,355
Expenses:			
Program services:			
Rehabilitation and residential housing	7,168,493	-	7,168,493
Supporting services:			
General and administrative	1,092,842	-	1,092,842
Fundraising	134,307	-	134,307
Total supporting services	1,227,149	-	1,227,149
Total expenses	8,395,642	-	8,395,642
Decrease in net assets	(149,478)	12,191	(137,287)
Net assets - beginning of year, as previously reported	1,921,757	37,058	1,958,815
Prior period adjustment	121,474	-	121,474
Net assets - beginning of year, restated	2,043,231	37,058	2,080,289
Net assets - end of year	\$ 1,893,753	\$ 49,249	\$ 1,943,002

See accompanying notes to the financial statements.



**PROGRESS INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	Program Services	Supporting Services		Total
	Rehabilitation & Residential Housing	General and Administrative	Fundraising	Expenses
Salaries	\$ 5,356,821	600,837	94,673	\$ 6,052,331
Employee benefits	802,203	93,155	14,028	909,386
Total salaries and related expenses	6,159,024	693,992	108,701	6,961,717
Professional services and fees	166,062	75,294	14,067	255,423
Insurance	56,878	73,499	-	130,377
Communications	52,571	11,261	1,849	65,681
Utilities	66,967	9,309	-	76,276
Food	74,059	2,289	279	76,627
Rent	156,804	12,677	103	169,584
Interest	1,656	22,215	-	23,871
Travel	-	973	-	973
Transportation	245,691	16,742	385	262,818
Awards	5,684	15,516	839	22,039
Office supplies	24,462	10,353	3,560	38,375
Repairs and maintenance	55,555	15,738	-	71,293
Dues and subscriptions	634	1,544	736	2,914
Licenses and permits	1,591	3,698	-	5,289
Seminars and workshops	3,210	211	700	4,121
Postage and printing	9,451	10,151	536	20,138
Technology	-	6,079	-	6,079
Human resources	192	15,325	-	15,517
Promotional and marketing	23,274	889	2,552	26,715
Miscellaneous	15	146	-	161
Total expenses before depreciation	7,103,780	997,901	134,307	8,235,988
Depreciation	64,713	94,941	-	159,654
Total expenses	\$ 7,168,493	\$ 1,092,842	\$ 134,307	\$ 8,395,642

See accompanying notes to the financial statements.

**PROGRESS INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

Cash Flows From Operating Activities:

Decrease in net assets	\$ (137,287)
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Adjustments to reconcile decrease in net assets  
to net cash provided by operating activities:

Depreciation	\$	159,654
Gain on sale of property and equipment		(3,300)
Changes in:		
Grant receivable		(33,300)
Accounts receivable - state agencies		234,956
Accounts receivable - other		80,379
Other assets		4,055
Assets whose use is limited		(224,436)
Cash held on behalf of others		208,487
Accounts payable		11,305
Accrued expenses		24,199
		461,999

Net cash provided by operating activities	324,712
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Cash Flows from Investing Activities:

Purchase of certificates of deposit	(456,592)
Certificates of deposit redeemed	454,000
Proceeds from sale of property and equipment	3,300
Purchases of property and equipment	(172,535)
Net cash used in investing activities	(171,827)

Cash Flows from Financing Activities:

Change in line of credit	(109,763)
Proceeds from issuance of installment notes payable	44,800
Payments on installment notes payable	(119,706)
Net cash used in financing activities	(184,669)

Net decrease in cash	(31,784)
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Cash - beginning of year	107,642
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Cash - end of year	\$ 75,858
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**SUPPLEMENTAL CASH FLOW INFORMATION:**

Interest paid during the year ended June 30, 2014, was \$23,871.

**PROGRESS INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 1 - Summary of Significant Accounting Policies**

**Description of Business and Program Services**

In these notes, the terms "Organization", "we", "us" or "our" mean Progress Inc. We are a community organization committed to providing opportunities in supported and independent living through in-home residential settings, community-based employment, and developmental services to persons who have intellectual disabilities, and seniors. We accomplish this through securing all indicated resources and ensuring their effective use for the individuals we serve. We are further committed to serving as a vehicle for communicating the desires and needs of the persons we serve and to enhance the image of those persons in the community.

**Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, our net assets and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the organization and/or passage of time. When a 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.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations which require the assets to be permanently maintained. Generally, the donors of these assets permit us to use all or part of the income earned and any related investments for general or specific purposes. We had no permanently restricted net assets as of June 30, 2014.

**Revenue**

We recognize revenue as it is received or promised to us in accordance with generally accepted accounting principles for non-profit organizations. We receive a substantial amount of support from the State of Tennessee.

**Revenue Concentration**

We receive approximately 76% of our total support and revenue from the Tennessee Department of Finance and Administration – Division of Intellectual Disabilities Services and Bureau of TennCare. In the event of a significant reduction in the level of this support, our programs and activities could be affected.

**Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, we consider all unrestricted cash and investment instruments purchased with a maturity of three months or less to be cash equivalents. At June 30, 2014, we had no cash equivalents.

**Grant Receivable**

We recognize grant revenue when the grant is awarded. At June 30, 2014, no allowance was considered necessary for uncollectible grant receivables based upon our analysis of past collection experience with grantors.



**PROGRESS INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

NOTE 1 - Summary of Significant Accounting Policies (continued)

Investments

We use a framework for measuring fair value and disclosing fair values. We define fair value at the price which would be received to sell an asset in an orderly transaction between market participants at the measurement date. We use this framework for all assets and liabilities measured and reported on a fair value basis and enable the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Each asset and liability carried at fair value is classified into one of the following categories:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities
- Level 2 - Observable market based inputs or unobservable inputs corroborated by market data
- Level 3 - Unobservable inputs not corroborated by market data.

At June 30, 2014, all of our investments were based on level 1 inputs at the active market prices.

Property and Equipment

Property and equipment are stated at cost, or if contributed, at fair market value at the date of the gift. Assets with a cost in excess of \$500 are capitalized. Depreciable assets are being depreciated using the straight-line method over the estimated useful lives of the assets, which range from two to thirty years. Maintenance and repairs are charged to expense as incurred, and betterments are capitalized.

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. At June 30, 2014, no assets were considered to be impaired.

Donated Services and Goods

Donated inventory items are reported as in-kind revenue and expense in accordance with the criteria of generally accepted accounting principles, at the estimated fair market value at the date of donation. During the year ended June 30, 2014, we received donated scrap materials to be sold in our Scrap Made Art (SmART) store. We assessed fair market value at the date of donation to be \$0, therefore we did not record any in-kind revenue in the year ended June 30, 2014.

Functional Allocation of Expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

Advertising is expensed as incurred. Total advertising expense for the year ended June 30, 2014, was \$26,715.

Income Taxes

We are a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code, and are classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements. We do not believe there are any uncertain tax positions. Further, we do not believe that we have any unrelated business income, which would be subject to federal taxes. We are not subject to examination by U.S. federal or state taxing authorities for years before 2011.

**PROGRESS INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 1 - Summary of Significant Accounting Policies (continued)**

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions affecting certain reported amounts and disclosures. Actual results could differ from those estimates.

**Fair Values of Financial Instruments**

The fair values of current assets, current liabilities, other assets and restricted cash approximate to the carrying values due to the short maturities of these instruments.

The fair values of installment notes payable approximate to the carrying values and are estimated based on current rates offered to us.

**NOTE 2 - Accounts Receivable**

It is our policy to record accounts receivable when the amount becomes known. Allowance is made for uncollectible accounts receivable based upon our analysis of past collection experience and other judgmental factors. At June 30, 2014, no allowance was considered necessary.

We classify accounts receivable into the following categories:

Accounts receivable - state agencies - Amounts represent a request for payment for services rendered under state contracts.

Accounts receivable - residents - Amounts represent expenses paid by Progress Inc. on behalf of residents. Currently there are no amounts due from residents.

Accounts receivable - other - Amounts represent contracted receivables from various agencies and companies for client services.

At June 30, 2014, 87% of our accounts receivable were due from the State of Tennessee.

**NOTE 3 - Certificate of Deposit**

A summary of the certificates of deposit held at June 30, 2014, is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
Certificate of deposit	.25%	8/19/14	\$ 206,081
Certificate of deposit	.25%	8/20/14	205,949
			<u>\$ 412,030</u>

The carrying amounts of the certificates of deposit approximate fair values at June 30, 2014.

The fair value of the above investments is based on level 1 inputs, which are values readily obtained by publicly quoted prices. Investment income is comprised of interest of \$2,725.

**PROGRESS INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 4 - Property and Equipment**

The following is a summary of property and equipment at June 30, 2014:

Building and building improvements	\$ 2,358,905
Furniture and fixtures	178,783
Vehicles	428,614
Land and land improvements	<u>28,606</u>
	2,994,908
Less: accumulated depreciation	<u>(1,411,215)</u>
	<u>\$ 1,583,693</u>

**NOTE 5 - Accounts Payable and Accrued Expenses**

The following is a summary of accounts payable at June 30, 2014:

Accounts payable	\$ 58,337
Sales tax payable	583
Benefits payable	<u>7,536</u>
	<u>\$ 66,456</u>

At June 30, 2014, 15% of our accounts payable were due to one vendor.

As of June 30, 2014, accrued expenses consisted of the following:

Accrued period payroll costs	\$ 278,542
Accrued vacation	<u>71,768</u>
	<u>\$ 350,310</u>

**NOTE 6 - Temporarily Restricted Net Assets**

The following is a summary of temporarily restricted net assets at June 30, 2014:

TIMAS Grant	<u>\$ 49,249</u>
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**NOTE 7 - Representative Payee**

We act as representative payee for many of our clients by receiving their Social Security benefits and administering payments on their behalf. We have recorded an asset and a liability account on the Statement of Financial Position as Cash Held on Behalf of Others to reflect the cash held by us for use by our clients. At June 30, 2014, cash held on behalf of others is \$208,487.



**PROGRESS INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 8 - Line of Credit**

We have a line of credit payable to a bank that matures on December 17, 2014. At June 30, 2014, we have drawn \$150,237 from the \$300,000 total amount available. Interest is due monthly at the bank's base rate (3.25% at June 30, 2014) but is subject to a floor rate of no less than 5.00%. The line of credit is secured by all of our assets.

**NOTE 9 - Installment Notes Payable**

As of June 30, 2014, installment notes payable is as follows:

Note payable to Pinnacle Bank with a maturity of September 18, 2017. Monthly payments of \$2,271 are required based on 41 months amortization with interest at 5.60%. The note is collateralized by all of our assets.	\$ 44,743
Note payable to Pinnacle Bank with a maturity of May 6, 2016. Monthly payments of \$450 are required based on 36 months amortization with interest at 4.99%. The note is collateralized by all of our assets.	9,838
Note payable to Pinnacle Bank with a maturity of March 30, 2016. Monthly payments of \$9,368 are required based on 60 months amortization with an interest rate of 5.45%. The note is collateralized by all of our assets.	187,153
Note payable to Pinnacle National Bank with a maturity of August 23, 2014. Monthly payments of \$1,321 are required based on 24 months amortization with interest at 5.25%. The note is collateralized by all of our assets.	2,627
	244,361
Less: current maturities	(131,423)
	<u>\$ 112,938</u>

The following is a list of future maturities:

<u>Year Ending June 30,</u>	
2015	\$ 131,423
2016	112,938
2017	-
2018	-
2019	-
	<u>\$ 244,361</u>

**NOTE 10 - Leases**

We have two residential homes that we own for which we receive rental income from clients. We also receive rental income from two homes that are owned by an unrelated church. For the year ended June 30, 2014, the total amount of rental income recognized under these agreements was \$32,635.

The following is a schedule of future minimum lease payments for rental income as of June 30, 2014:

<u>Year Ending June 30</u>	
2015	\$ 27,300

**PROGRESS INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 10 - Leases (continued)**

We entered into a lease for real property with the State of Tennessee during the year ended June 30, 1997, which will expire in the year 2056. This is a lease agreement and not considered a donor relationship. There are no minimum fixed lease payments under the lease, but all improvements to the property will be surrendered to the lessor at the expiration of the lease, at the lessor's option. The surrender of leasehold improvements does not constitute restrictions of our assets. Being that there was no donation of assets to purchase the leasehold improvements nor subsequent restriction of them, the leasehold improvement do not meet the definition of temporarily restricted net assets. We will amortize these improvements over the life of the lease and the net book value at the end of the lease will be \$0, when they are disposed.

We lease office space, residential homes, and office equipment under lease arrangements classified as operating leases. Under our residential home lease agreements, we co-sign with our clients. If the home has two occupants, we pay one-third of the lease. If the home has three occupants we do not pay any of the lease. Rent expense under the operating leases amounted to \$189,722, of which \$169,584 is shown in rent expense and \$20,138 is shown in postage and printing expense, for the year ended June 30, 2014.

The following is a schedule of future minimum lease payments under the non-cancellable operating leases as of June 30, 2014:

<u>Year Ending June 30</u>	
2015	\$ 304,343
2016	21,870
2017	15,150
2018	159
	<u>\$ 341,522</u>

**NOTE 11 - SmART**

During the year ended June 30, 2014, we started Scrap Made Art (SmART), a store in which donated scrap items are sold to artists to use in art pieces. During the year ended June 30, 2014, our sales from SmART were \$6,392.

**NOTE 12 - Employee Benefit Plan**

We have a 401(k) retirement plan that covers all employees who are 21 years of age and have completed three months of eligibility services. The Plan allows the employees to contribute up to the maximum allowed by the Internal Revenue Code. We contribute an amount equal to each participating employee's contribution up to 3% of the employee's compensation for the year. Employees may make contributions to the Plan up to the maximum amount allowed by the Internal Revenue Code if they wish. During the year ended June 30, 2014, contributions to the retirement plan totaled \$77,193.

**NOTE 13 - Concentrations of Credit Risk**

We maintain cash balances at several banks located in Nashville, Tennessee. Amounts at each institution are insured up to \$250,000 by the Federal Deposit Insurance Corporation. At June 30, 2014, we had cash balances of \$75,858 in unrestricted accounts. At June 30, 2014, we had certificates of deposit totaling \$412,030. Cash balances maintained for clients, in a fiduciary capacity, were \$208,487, for the year ended June 30, 2014. At June 30, 2014, we had \$0 in uninsured deposits.

**PROGRESS INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 14 – Prior Period Adjustment**

A prior period adjustment was made to correct errors in previously reported unrestricted net assets. The effect of the restatement was an increase to unrestricted net assets of \$121,474 and a decrease to accrued expenses by the same amount. This adjustment was due to a misunderstanding of the components of the tax accruals already included in the routine year-end accrual generated by our external payroll system and imported into our accounting system.

**NOTE 15 - Subsequent Events**

We have evaluated events subsequent to the year ending June 30, 2014. As of October 14, 2014, the date that the financial statements were available to be issued, no other events subsequent to the statement of financial position date are considered necessary to be included in the financial statements for the year ended June 30, 2014.

**PROGRESS INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/ Pass-Through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<u>Federal Financial Assistance</u>						
Tennessee Department of Transportation	20.513	CDMTR-029	\$ -	\$ 59,900	\$ 59,900	\$ -
TOTAL FEDERAL AWARDS			-	59,900	59,900	-

**NOTE:** This schedule was prepared on an accrual basis.

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





## PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of  
Progress Inc.

We have audited, in accordance with the 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, the financial statements of Progress Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 14, 2014.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Progress Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Progress Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Progress Inc.'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. See 2014-1.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Progress Inc.'s financial statements are free from 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*.

#### **Progress Inc.'s Response to Findings**

The Progress Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Progress Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.



### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Patterson Hande & Bellentine*

October 14, 2014

**PROGRESS INC.**  
**SCHEDULE OF FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of Progress Inc.
2. One material weakness disclosed during the audit of the financial statements is reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. See 2014-1.

**FINDINGS—FINANCIAL STATEMENTS AUDIT**

2014-1

Criteria:	The Organization is required to properly accrue payroll taxes at year end.
Condition:	Payroll taxes were being accrued twice in general ledger with transactions generated by the external payroll software and a secondary accrual recorded at year-end. The error was discovered and recalculated by management during the audit process.
Cause:	There was a misunderstanding of the components of the tax accruals included in the routine accrual generated by the external payroll system and imported to the Organization's accounting system.
Effect:	Payroll tax accruals and related expenses were overstated.
Recommendations:	The Organization should record a prior period adjustment to adjust the accrual to actual.
Response:	We have recorded the prior period adjustment to remove secondary accrual of payroll taxes. We have corrected this issue in our software so this secondary accrual does not happen again in future years.