

2016

Financial Statements

PROGRESS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2016

(With Independent Auditor's Report Thereon)

PROGRESS, INC.
FINANCIAL STATEMENTS
JUNE 30, 2016

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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 of the statement of financial position as of June 30, 2016, 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, 2016, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2016, 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, 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.

Patten Hardee + Bellefleur

October 10, 2016

PROGRESS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

ASSETS

Cash	\$ 44,919	
Cash - restricted	347,231	
Cash held on behalf of others	225,686	
Money market	117,478	
Accounts receivable - state agencies	598,688	
Accounts receivable - other	96,221	
Contributions receivable - restricted	277,369	
Property and equipment - cost	3,024,765	
Less: accumulated depreciation	(1,704,124)	
Security deposits	<u>2,140</u>	
Total assets		<u>\$ 3,030,373</u>

LIABILITIES AND NET ASSETS

Cash held on behalf of others	\$ 225,686	
Line of credit	255,891	
Accounts payable	87,314	
Accrued expenses	623,912	
Installment notes payable	<u>3,932</u>	
Total liabilities		\$ 1,196,735
Unrestricted	1,209,038	
Temporarily restricted	<u>624,600</u>	
Total net assets		<u>1,833,638</u>
Total liabilities and net assets		<u>\$ 3,030,373</u>

PROGRESS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenues:			
State grants and contracts	\$ 7,676,372	\$ -	\$ 7,676,372
Contributions	115,626	185,038	300,664
Food stamps	53,016	-	53,016
Room and board fees	52,547	-	52,547
Supported employment worksites	1,000	-	1,000
Investment income	305	-	305
SmART Sales	86,820	-	86,820
Miscellaneous	5,592	-	5,592
Net assets released from restrictions	12,684	(12,684)	-
	<u>8,003,962</u>	<u>172,354</u>	<u>8,176,316</u>
Total support and revenues			
Expenses:			
Program services:			
Rehabilitation and residential housing	6,937,812	-	6,937,812
Supporting services:			
General and administrative	1,345,882	-	1,345,882
Fundraising	144,829	-	144,829
	<u>1,490,711</u>	<u>-</u>	<u>1,490,711</u>
Total supporting services			
Total expenses	<u>8,428,523</u>	<u>-</u>	<u>8,428,523</u>
Increase (decrease) in net assets	(424,561)	172,354	(252,207)
Net assets - beginning of year	<u>1,633,599</u>	<u>452,246</u>	<u>2,085,845</u>
Net assets - end of year	<u>\$ 1,209,038</u>	<u>\$ 624,600</u>	<u>\$ 1,833,638</u>

See accompanying notes to the financial statements.

PROGRESS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Program Services	Supporting Services		Total
	Rehabilitation & Residential Housing	General and Administrative	Fundraising	Expenses
Salaries	\$ 5,064,731	667,487	98,741	\$ 5,830,959
Employee benefits	827,353	97,016	16,913	941,282
Total salaries and related expenses	5,892,084	764,503	115,654	6,772,241
Professional services and fees	225,810	306,146	8,710	540,666
Insurance	80,673	30,247	-	110,920
Communications	61,717	11,104	1,577	74,398
Utilities	66,181	9,676	-	75,857
Food	55,979	1,282	410	57,671
Rent	168,187	26,904	3,081	198,172
Interest	2,460	16,394	-	18,854
Travel	-	707	-	707
Transportation	224,255	8,340	-	232,595
Awards	3,833	14,147	513	18,493
Office supplies	16,545	7,725	4,264	28,534
Repairs and maintenance	46,341	11,428	-	57,769
Dues and subscriptions	350	7,131	1,374	8,855
Licenses and permits	1,245	2,914	-	4,159
Seminars and workshops	1,386	485	590	2,461
Postage and printing	9,920	8,470	8,041	26,431
Technology	306	7,003	-	7,309
Human resources	1,096	10,531	-	11,627
Promotional and marketing	8,007	-	615	8,622
Miscellaneous	4,020	-	-	4,020
Total expenses before depreciation	6,870,395	1,245,137	144,829	8,260,361
Depreciation	67,417	100,745	-	168,162
Total expenses	\$ 6,937,812	\$ 1,345,882	\$ 144,829	\$ 8,428,523

See accompanying notes to the financial statements.

PROGRESS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

Cash Flows From Operating Activities:

Decrease in net assets \$ (252,207)

Adjustments to reconcile increase in net assets
to net cash used in operating activities:

Depreciation	\$ 168,162	
Reinvested investment income	(117,131)	
Changes in:		
Accounts receivable - state agencies	(45,318)	
Accounts receivable - other	9,211	
Other assets	1,300	
Assets whose use is limited	(163,441)	
Cash held on behalf of others	(8,913)	
Accounts payable	26,497	
Accrued expenses	259,636	
	130,003	
Net cash used in operating activities		(122,204)

Cash Flows from Investing Activities:

Certificates of deposit redeemed	116,651	
Purchases of property and equipment	(10,363)	
Disposals of property and equipment	-	
Net cash provided by investing activities		106,288

Cash Flows from Financing Activities:

Change in line of credit	37,344	
Payments on installment notes payable	(113,493)	
Net cash used in financing activities		(76,149)

Net decrease in cash (92,065)

Cash - beginning of year 136,984

Cash - end of year \$ 44,919

SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid during the year ended June 30, 2016, was \$18,854.

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016.

Revenue

We recognize revenue as it is received or promised to us in accordance with generally accepted accounting principles for non-profit organizations.

Revenue Concentration

We receive approximately 79% 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.

Liquidity and Maturity

The assets listed on the statement of financial position are presented below in order of liquidity:

- Cash
- Money market
- Accounts receivable - state agencies
- Accounts receivable - other
- Property and equipment
- Security deposits
- Cash - restricted
- Cash held on behalf of others
- Contributions receivable - restricted

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - Summary of Significant Accounting Policies (continued)

Liquidity and Maturity (continued)

The liabilities listed on the statement of financial position are presented below in order of maturity:

Cash held on behalf of others
Installment notes payable – (See NOTE 8)
Line of credit
Accounts payable
Accrued expenses

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, 2016, we had no cash equivalents.

Grant Receivable

We recognize grant revenue when the grant is awarded. At June 30, 2016, no allowance was considered necessary for uncollectible grant receivables based upon our analysis of past collection experience with grantors.

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.

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 \$1,000 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, 2016, no assets were considered to be impaired.

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - Summary of Significant Accounting Policies (continued)

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, 2016, 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, 2016.

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, 2016, was \$8,622.

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.

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

An allowance for doubtful accounts is made for uncollectible accounts receivable based upon our analysis of past collection experience and other judgmental factors. At June 30, 2016, 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 us on behalf of residents. Currently, there are no amounts due from residents.

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 - Accounts Receivable (continued)

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

At June 30, 2016, 82% of our accounts receivable were due from three organizations.

NOTE 3 - Property and Equipment

The following is a summary of property and equipment at June 30, 2016:

Building and building improvements	\$ 2,373,940
Furniture and fixtures	182,147
Vehicles	440,072
Land and land improvements	<u>28,606</u>
	3,024,765
Less: accumulated depreciation	<u>(1,704,124)</u>
	<u>\$ 1,320,641</u>

NOTE 4 - Accounts Payable and Accrued Expenses

The following is a summary of accounts payable at June 30, 2016:

Accounts payable	\$ 83,070
Sales tax payable	773
Benefits payable	<u>3,071</u>
	<u>\$ 86,914</u>

At June 30, 2016, 37% of our accounts payable was due to two vendors.

As of June 30, 2016, accrued expenses consisted of the following:

Accrued payroll costs	\$ 246,050
Accrued legal fees	277,240
Accrued vacation	<u>100,622</u>
	<u>\$ 623,912</u>

NOTE 5 - Temporarily Restricted Net Assets

The following is a summary of temporarily restricted net assets at June 30, 2016:

Capital campaign	\$ 624,600
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PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 - 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, 2016, cash held on behalf of others is \$225,686.

NOTE 7 - Line of Credit

We have a line of credit payable to a bank that matures on February 28, 2017. At June 30, 2016, we have drawn \$255,891 from the \$350,000 total amount available. Interest is due monthly at the bank's base rate (5.00% at June 30, 2016) 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 8 - Installment Note Payable

As of June 30, 2016, installment note 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.	\$ 3,932
	<u>3,932</u>
Less: current maturities	<u>(3,932)</u>
	<u>\$ -</u>

The following is a list of future maturities:

<u>Year Ending June 30,</u>	
2017	\$ 3,932
	<u>\$ 3,932</u>

NOTE 9 - 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, 2016, the total amount of rental income recognized under these agreements was \$52,547.

The following is a schedule of future minimum lease payments for rental income as of June 30, 2015:

<u>Year Ending June 30</u>	
2017	\$ <u>28,800</u>

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 improvements 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 have not recorded any in-kind revenue or expense for the fair market value of the leased land due to the amount being undeterminable.

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 – Leases (continued)

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 \$224,603, of which \$198,172 is shown in rent expense and \$26,431 is shown in postage and printing expense, for the year ended June 30, 2016.

The following is a schedule of future minimum lease payments under the non-cancellable operating leases as of June 30, 2016:

<u>Year Ending June 30</u>	
2017	\$ 223,363
2018	<u>4,759</u>
	<u>\$ 228,121</u>

NOTE 10 – Contingency

In November 2015, Progress Inc. was named in a lawsuit regarding the payment of overtime to several of its employees. After considering all potential outcomes, Progress Inc. decided to settle in July 2016. As a result, Progress Inc. accrued \$277,240 in legal expenses at June 30, 2016 for the settlement.

NOTE 11 - SmART

During the year ended June 30, 2015, 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, 2016, our sales from SmART were \$86,820.

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. 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, 2016, contributions to the retirement plan totaled \$66,133.

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, 2016, we had cash balances of \$247,403 in unrestricted accounts. At June 30, 2016, we had a money market totaling \$117,478. Cash balances maintained for clients, in a fiduciary capacity, were \$225,686, for the year ended June 30, 2016. At June 30, 2016, we had \$0 in uninsured deposits.

NOTE 14 - Subsequent Events

We have evaluated events subsequent to the year ending June 30, 2016. As of October 10, 2016, 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, 2016.