

**PROGRESS, INC.**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEARS ENDED JUNE, 2011 AND 2010**

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Joel D. Collum, Jr.  
Certified Public Accountant

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Progress, Inc.  
Nashville, Tennessee

I have audited the accompanying statement of financial position of Progress, Inc., (a nonprofit organization) as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit. The financial statements of Progress, Inc. as of June 30, 2010, were audited by other auditors whose report dated October 31, 2010, expressed an unqualified opinion on those statements.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Progress, Inc., as of June 30, 2011, 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*, I have also issued my report dated October 31, 2011 on my consideration of Progress, Inc.'s internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of government contracts 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Paul D. Culham, Jr., CPA

October 31, 2011

**PROGRESS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2011 AND 2010**

**ASSETS**

	<b><u>2011</u></b>	<b><u>2010</u></b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 264,094	\$ 283,991
Investments	536,226	317,579
Accounts receivable - state agencies	611,359	816,997
Accounts receivable - other	97,872	18,985
Prepaid expenses	<u>218,152</u>	<u>233,986</u>
Total current assets	<u>1,727,703</u>	<u>1,671,538</u>
<b>PROPERTY AND EQUIPMENT</b>		
Property and equipment, at cost, net of accumulated depreciation	<u>1,514,782</u>	<u>1,535,927</u>
<b>OTHER ASSETS</b>		
Bond issue cost - net of amortization	-	45,900
Debt service reserve	-	97,477
Security deposits	5,130	6,213
Cash - client trust account	<u>207,755</u>	<u>204,444</u>
Total other assets	<u>212,885</u>	<u>354,034</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 3,455,370</u></u>	<u><u>\$ 3,561,499</u></u>

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

**PROGRESS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2011 AND 2010**

**LIABILITIES AND NET ASSETS**

	<u>2011</u>	<u>2010</u>
<b>CURRENT LIABILITIES</b>		
Bonds payable - current portion	\$ -	\$ 175,000
Installment notes payable - current portion	97,514	10,618
Line of credit	-	-
Accounts payable - trade	307,740	319,136
Accrued expenses	650,860	659,844
Unearned income	-	-
	<u>1,056,114</u>	<u>1,164,598</u>
<b>NON-CURRENT LIABILITIES</b>		
Bonds payable - less current portion	-	400,000
Installment notes payable - less current portion	<u>383,668</u>	<u>5,845</u>
	<u>383,668</u>	<u>405,845</u>
<b>TOTAL LIABILITIES</b>	<u>1,439,782</u>	<u>1,570,443</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Unrestricted	2,015,588	1,957,394
Temporarily restricted	<u>-</u>	<u>33,662</u>
<b>TOTAL NET ASSETS</b>	<u>2,015,588</u>	<u>1,991,056</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 3,455,370</u></u>	<u><u>\$ 3,561,499</u></u>

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

**PROGRESS, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUES AND OTHER SUPPORT</b>						
State grants and contracts	\$ -	\$ 7,338,379	\$ 7,338,379	\$ -	\$ 7,454,361	\$ 7,454,361
Contributions	86,237	-	86,237	68,364	33,662	102,026
Food stamps	-	103,047	103,047	-	122,107	122,107
Room and board fees	30,130	-	30,130	35,160	-	35,160
Supported employment worksites	55,222	-	55,222	51,220	-	51,220
Investment income	2,820	-	2,820	9,629	-	9,629
Gain (loss) on investment	388	-	388	( 1,327)	-	( 1,327)
Miscellaneous	38,333	-	38,333	48,359	-	48,359
Net assets released from restrictions:						
Satisfaction of grant/contract restrictions	7,441,426	( 7,441,426)	-	7,576,468	( 7,576,468)	-
Satisfaction of use restrictions	33,662	( 33,662)	-	8,761	( 8,761)	-
Total revenues and other support	7,688,218	( 33,662)	7,654,556	7,796,634	24,901	7,821,535
<b>EXPENSES</b>						
Program services:						
Rehabilitation and residential housing	6,540,947	-	6,540,947	6,569,645	-	6,569,645
General and administrative	991,921	-	991,921	936,044	-	936,044
Fundraising	97,156	-	97,156	120,544	-	120,544
Total expenses	7,630,024	-	7,630,024	7,626,233	-	7,626,233
Change in net assets	58,194	( 33,662)	24,532	170,401	24,901	195,302
Net assets - beginning of year	1,957,394	33,662	1,991,056	1,786,993	8,761	1,795,754
Net assets - end of year	\$ 2,015,588	\$ -	\$ 2,015,588	\$ 1,957,394	\$ 33,662	\$ 1,991,056

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

**PROGRESS, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	2011			2010		
	Rehabilitation & Residential Housing	General and Administrative	Fundraising	Total	Rehabilitation & Residential Housing	General and Administrative
Salaries	\$ 4,693,325	\$ 557,971	\$ 72,171	\$ 5,323,467	\$ 4,587,696	\$ 554,033
Employee benefits	711,995	88,906	12,974	813,875	709,064	75,738
Client wages	47,741	-	-	47,741	42,825	-
Total salaries and related expenses	5,453,061	646,877	85,145	6,185,083	5,339,585	629,771
Professional services and fees	215,544	43,521	4,257	263,322	280,914	41,782
Insurance	47,455	68,379	-	115,834	46,245	79,431
Communications	38,182	8,403	1,497	48,082	31,310	7,414
Utilities	72,810	7,265	-	80,075	82,080	6,046
Food	104,070	166	191	104,427	121,467	278
Rent	167,527	2,487	-	170,014	192,588	2,840
Interest	5,873	26,686	-	32,559	1,627	26,652
Travel	829	1,221	-	2,050	296	613
Transportation	295,548	10,319	179	306,046	308,421	5,148
Awards	3,670	16,311	1,756	21,737	18,537	13,020
Supplies - office	32,651	19,748	4,131	56,530	45,623	15,892
Repairs and maintenance	58,666	17,457	-	76,123	54,898	22,778
Total expenses before depreciation and amortization	6,495,886	868,840	97,156	7,461,882	6,523,591	851,665
Amortization expense	-	45,900	-	45,900	-	5,737
Depreciation expense	45,061	77,181	-	122,242	46,054	78,642
Total expenses	\$ 6,540,947	\$ 991,921	\$ 97,156	\$ 7,630,024	\$ 6,569,645	\$ 936,044
						\$ 7,626,233
						\$ 7,495,800
						\$ 5,737
						\$ 124,696
						\$ 77,676

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



**PROGRESS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 24,532	\$ 195,302
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	122,242	124,696
Amortization of bond costs	45,900	5,737
Loss (gain) on investments	( 388)	1,327
(Increase) decrease in operating assets		
Accounts receivable	126,751	( 201,229)
Prepaid expenses	16,917	( 231,028)
Debt service reserve	97,477	( 5,055)
Increase (decrease) in operating liabilities:		
Accounts payable	( 14,707)	( 6,839)
Accrued expenses	( 8,984)	622
Unearned income	<u>-</u>	<u>( 153,972)</u>
Net cash provided (used) by operating activities	<u>409,740</u>	<u>( 270,439)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of securities	( 436,259)	( 200,000)
Securities redeemed	218,000	203,000
Purchases of property and equipment	<u>( 101,097)</u>	<u>( 67,050)</u>
Net cash provided (used) by investing activities	<u>( 319,356)</u>	<u>( 64,050)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from borrowing:		
Short-term	255,000	275,900
Long-term	499,000	-
Payments on notes:		
Short-term	( 255,000)	( 500,002)
Long-term	<u>( 609,281)</u>	<u>( 102,040)</u>
Net cash provided (used) by financing activities	<u>( 110,281)</u>	<u>( 326,142)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>( 19,897)</b>	<b>( 660,631)</b>
Cash and cash equivalents at the beginning of the year	<u>283,991</u>	<u>944,622</u>
Cash and cash equivalents at the end of the year	<u><u>\$ 264,094</u></u>	<u><u>\$ 283,991</u></u>

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

**PROGRESS, INC.**  
**STATEMENTS OF CASH FLOWS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

**SUPPLEMENTAL INFORMATION FOR THE STATEMENT OF CASH FLOWS**

	<u>2011</u>	<u>2010</u>
<b>SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS</b>		
Purchases of property and equipment	\$ 101,097	\$ 75,050
Less: Loans	<u>-</u>	<u>( 8,000)</u>
Net cash paid for property and equipment	<u>\$ 101,097</u>	<u>\$ 67,050</u>
 <b>CASH PAID DURING THE YEAR FOR</b>		
Interest	<u>\$ 32,559</u>	<u>\$ 28,279</u>

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

**PROGRESS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of activities:**

Progress, Inc. is a community organization committed to providing opportunities in supported and independent living through group home and residential settings, community-based employment, and developmental services to persons who have mental retardation or other disabilities. This is accomplished through securing all indicated resources and ensuring their effective use for the individuals the organization serves. The organization is further committed to serving as a vehicle for communicating the desires and needs of the persons it serves 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 U.S. 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, net assets of Progress, Inc. and the changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions.

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 stipulation that they be maintained permanently by the organization. Generally, the donors of these assets permit the organization to use all or part of the income earned on any related investments for general or specific purposes. The organization currently has no permanently restricted net assets.

**Revenue:**

Progress, Inc. receives substantially all of its grant/contract revenue from State agencies. Revenue is recognized over the grant/contract period based on expenses. Any of the funding sources may request the return of funds as a result of non-compliance with the terms of the grants/contracts. All other revenue and support is recognized when earned.

**Promises to give:**

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

**PROGRESS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Contributions:**

The Organization uses the provisions of the FASB Accounting Standards Codification Revenue Recognition Topic in accounting for contributions received. In accordance with the FASB Accounting Standards Codification, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted assets at June 30, 2011 and 2010 are time restricted and will be reclassified to unrestricted net assets upon expiration of the time restriction.

**Financial statement presentation:**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification Topic related to Presentation of Financial Statements of Not-for-Profit Organizations. Under the FASB Accounting Standards Codification, 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.

**Use of estimates:**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Concentration:**

The Organization receives approximately 88.9% of its total support and revenue from the Tennessee Department of Finance and Administration - Division of Intellectual Disabilities Services and Bureau of TennCare.

**Income taxes:**

Progress, Inc. qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is reflected in the financial statements. In addition, Progress, Inc. has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

**Cash and cash equivalents:**

For the purpose of the statement of cash flows, the Organization considers all cash and other highly liquid investments with original maturities of three months or less to be cash and cash equivalents.

**PROGRESS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Property and equipment:**

Purchased property and equipment are recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the asset for a specific time or purpose. Upon expiration of donor restrictions the assets are reclassified as unrestricted assets. Depreciation on purchased and donated assets is computed using the straight-line method based on the estimated useful lives of the respective assets. Upon retirement of an asset, the cost and related accumulated depreciation are removed from the accounts and the related gain or loss is reflected in the statement of activities for that period. However, State funding sources may maintain an equitable interest in the property purchased with grant monies as well as the right to their percentage of interest in the proceeds from the sale of those assets. For the years ending June 30, 2011 and 2010, depreciation expense was \$122,242 and \$124,696 respectively.

The cost of routine repairs and maintenance is charged to expense when incurred, with significant improvements or betterments being capitalized. It is the policy of Progress, Inc. to capitalize all assets purchased with a cost of \$500 or more.

**Accounts receivable and allowance for doubtful accounts:**

It is the policy of Progress, Inc. to record accounts receivable when the amount becomes known. Management considers all receivables as of June 30, 2011 and 2010 to be fully collectible; accordingly, no allowance for doubtful accounts is required.

Accounts receivable-state agencies - Amounts represent a request for reimbursement for expenses incurred 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.

**In-kind donations:**

It is the policy of Progress, Inc. to record as support and expense all in-kind donations at their estimated fair value as of the date of donation. During the year ended June 30, 2011 the Organization received the in-kind donation of a van. The value of this in-kind donation was \$19,187. There were no in-kind donations received by the Organization during the year ended June 30, 2010.

**PROGRESS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Fair value of financial instruments:**

The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments:

Cash, receivables and payables: The carrying amounts reported in the statement of financial position approximate fair value because of their short maturities.

Long-term debt: Based on current borrowing rates, the carrying amount approximates the fair value of installment notes and bond payables at June 30, 2011 and 2010.

Investment securities: The fair value is based on quoted market prices (See Note 4) for those securities.

The estimated fair value of Progress, Inc.'s financial instruments, none of which are held for trading purposes, are as follows:

	<u>June 30, 2011</u>		<u>June 30, 2010</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Financial assets:				
Cash and cash equivalents	\$ 264,094	\$ 264,094	\$ 283,991	\$ 283,991
Accounts receivable - state	611,359	611,359	816,997	816,997
Accounts receivable - other	97,872	97,872	18,985	18,985
Financial liabilities:				
Accounts payable - trade	307,740	307,740	319,136	319,136
Accrued expenses	650,860	650,860	659,844	659,844
Installment notes payable	481,182	481,182	16,463	16,463
Bonds payable	-	-	575,000	575,000

The fair value of Progress, Inc.'s financial instruments held for trading purposes are as follows:

	<u>June 30, 2011</u>		<u>June 30, 2010</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Financial assets:				
Investments	<u>\$ 536,226</u>	<u>\$ 536,226</u>	<u>\$ 317,579</u>	<u>\$ 317,579</u>

**PROGRESS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**2. PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Land	\$ 30,446	\$ 30,446
Buildings and improvements	2,172,154	2,122,596
Vehicles	366,894	337,994
Furniture and equipment	242,887	220,248
	<u>2,812,381</u>	<u>2,711,284</u>
Less: Accumulated depreciation	( 1,297,599)	( 1,175,357)
	<u><u>\$ 1,514,782</u></u>	<u><u>\$ 1,535,927</u></u>

**3. COMMITMENTS**

The Organization 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. 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.

Progress, Inc. entered into two leases for the use of office equipment at its administrative office. The first lease started on November 23, 2007, expires February 23, 2012 and has a fixed monthly payment of \$1,031. The other lease started on May 6, 2010, expires October 5, 2013 and has a fixed monthly payment of \$124.

Progress entered into a one year lease for the office space used by its Cheatham County office. The lease began on April 1, 2011, expires March 31, 2012 and has a fixed monthly payment of \$395.

Future minimum rental payments required are as follows:

Year ended <u>June 30,</u>	<u>Amount</u>
2012	\$ 12,259
2013	1,488
2014	496
2015	-
Total	<u><u>\$ 14,243</u></u>

The Organization has a \$300,000 line of credit with a Pinnacle Financial Partners. The line is unsecured and has an interest rate equivalent to 5.00% and 5.00% at June 30, 2011 and 2010 respectively. The line of credit expires November 24, 2011. Advances payable under the line are \$-0- and \$-0- at June 30, 2011 and 2010 respectively.

**PROGRESS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**

For the years ended June 30, 2011 and 2010, Progress, Inc. held \$800,320 and \$699,047, respectively, in cash deposits and investments. In addition, the Organization held cash deposits and investments, in trust, for clients of \$207,755 and \$204,444, respectively, for years ended June 30, 2011 and 2010.

**Deposits:**

Progress, Inc. maintains 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, 2011 and 2010, the Organization had cash balances of \$264,094 and \$283,991 respectively, in unrestricted accounts. At June 30, 2011 and 2010, the Organization had certificates of deposit of \$536,226 and \$309,579, respectively. Cash balances maintained for clients, in a fiduciary capacity, were \$207,755 and \$204,444, respectively, for the years ended June 30, 2011 and 2010. At June 30, 2011 and 2010, Progress, Inc. had \$48,136 and \$0- respectively in uninsured deposits.

**5. FAIR VALUE INVESTMENTS**

The Organization's investments are reported at fair value in the accompanying statement of net assets available for benefits.

Fair Value Measurements at June 30 ,2011 Using				
	Quoted Prices			
	In Active	Significant		
	Markets for	Other	Significant	
	Identical	Observable	Unobservable	
	Assets	Inputs	Inputs	
Fair Value	(Level 1)	(Level 2)	(Level 3)	
Certificates of deposit	\$ 536,226	\$ -	\$ 536,226	\$ -
	\$ 536,226	\$ -	\$ 536,226	\$ -
Fair Value Measurements at June 30 ,2010 Using				
	Quoted Prices			
	In Active	Significant		
	Markets for	Other	Significant	
	Identical	Observable	Unobservable	
	Assets	Inputs	Inputs	
Fair Value	(Level 1)	(Level 2)	(Level 3)	
Certificates of deposit	\$ 309,579	\$ -	\$ 309,579	\$ -
Corporate stock	8,000	-	-	8,000
	\$ 317,579	\$ -	\$ 309,579	\$ 8,000



**PROGRESS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**5. FAIR VALUE INVESTMENTS - CONTINUED**

The Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic related to Fair Value Measurements, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Organization uses the appropriate valuation techniques based on the available inputs to measure the fair value of its investments. Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

Level 2 Fair Value Measurements - The fair value of the investments are based on inputs other than quoted prices within Level 1 that are observable for the asset, either directly, or indirectly.

Level 3 Fair Value Measurements - The fair value of the investments are based on at least one significant unobservable input.

	Corporate Stock	
	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 8,000	\$ 8,000
Total gains or losses (realized and unrealized) included in the changes of net assets available for benefits	-	-
Purchases, issuances, settlements, and transfers from unallocated to allocated (net)	( 8,000)	-
Ending balance	<u>\$ -</u>	<u>\$ 8,000</u>
Total gains or losses for the year included in changes in net assets available for benefits attributable to the change in unrealized gains or losses relating to investments still held at the reporting date.	<u>\$ -</u>	<u>\$ -</u>

Gains and losses (realized and unrealized) included in changes in net assets available for benefits for the year ended June 30, 2011, are reported in the net appreciation in fair value of investments.

**PROGRESS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**6. INSTALLMENT NOTES PAYABLE**

Installment notes payable consist of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Installment note payable to Pinnacle Financial Partners, payable in 48 monthly installments of \$584 including principal and interest beginning April 27, 2008 with a final payment due March 27, 2012, interest rate of 5.66%, secured by the vehicle purchased.	\$ 5,137	\$ 11,648
Installment note payable to Pinnacle Financial Partners, payable in 24 monthly installments of \$360 including principal and interest beginning September 10, 2009 with a final payment due August 10, 2011, interest rate of 7.6%, secured by the vehicle purchased.	717	4,815
Installment note payable to Pinnacle Financial Partners, payable in 36 monthly installments of \$280 including principal and interest beginning September 11, 2010 with a final payment due August 11, 2013, interest rate of 7.50%, secured by the vehicle purchased.	6,702	-
Installment note payable to Pinnacle Financial Partners, payable in 60 monthly installments of \$9,368 including principal and interest beginning April 30, 2011 with a final payment due March 30, 2016, interest rate of 5.45%, secured by a deed of trust.	468,626	-
	<u>481,182</u>	<u>16,463</u>
Classified as current liabilities	( 97,514)	( 10,618)
Classified as long-term debt	<u>\$ 383,668</u>	<u>\$ 5,845</u>

Maturities on notes payable are as follows:

Year ended June 30,	Amount
2012	\$ 97,514
2013	96,927
2014	99,603
2015	104,683
2016	82,455
	<u>\$ 481,182</u>

**PROGRESS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**7. EMPLOYEE BENEFIT PLAN**

During the year ended June 30, 1995, the Organization entered into a tax deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The Plan all employees who agree to make at least a \$200 annual contribution. The organization will make contributions towards the employee's account after six months of employment. The Organization contributed 3% of gross salaries in both 2011 and 2010 of qualified employees to the Plan. Employees may make contributions to the Plan up to the maximum amount allowed by the Internal Revenue Code if they wish. Plan expenses for the years ended June 30, 2011 and 2010 were \$45,647 and \$43,082, respectively.

**8. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes after June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Property renovation - covered walkway	\$ -	\$ 33,662
	<u>\$ -</u>	<u>\$ 33,662</u>

**9. PROMISES TO GIVE**

The Organization has received all outstanding conditional promises to give at June 30, 2011 and 2010 and is not scheduled to receive any further promises to give in the coming years.

**10. BONDED DEBT AND RESTRICTED FUNDS**

On July 1, 1998, Progress, Inc. entered into a loan agreement with the Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee (Issuer). The loan agreement provided for the Issuer to issue variable rate bonds in the amount of \$1,650,000. From the proceeds, \$339,855 was used to pay off three revolving lines of credit, including interest, for the construction of group homes in Cheatham County on July 15, 1998. The remaining amount was to be used to finance the construction of a new administrative campus and day center. These funds are kept in a separate deposit account and are invested in U.S. Government Obligations.

The Series 1998 bonds consist of \$1,600,000 aggregate principal amount of current interest bonds maturing on July 1, 2000 through July 1, 2018. The bonds bear interest at a variable rate determined by market conditions.

These bonds were repaid and replaced with a mortgage note in April 2011.

**PROGRESS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**11. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through October 31, 2011 which is the date the financial statements were available to be issued.

**12. UNCERTAINTY IN INCOME TAXES**

Management is not aware of any transactions entered into by the Organization that would cause the Organization to be required to pay income taxes.

**13. SCHEDULE OF EXPENDITURES OF GOVERNMENT CONTRACTS**

The accompanying schedule of expenditures of grant awards and government contracts summarizes the expenditures of the Organization under grants and contracts of the state government for the year ended June 30, 2011. The schedule is presented on the accrual basis of accounting. Some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**PROGRESS, INC.**  
**SCHEDULE OF EXPENDITURES OF GOVERNMENT CONTRACTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

Agency	Program Name	CFDA Number	Period	Contract Number	Receivable 6/30/2010	Receipts	Expenditures	Receivable 6/30/2011
<u>Government Contracts:</u>								
Tennessee Department of Finance and Administration - Division of Intellectual Disabilities Services and Bureau of TennCare	Provider of Services to Persons with Disabilities	N/A	1/1/2005 - 12/31/2009	05-066 M	\$ 160,004	\$ 160,004	\$ -	\$ -
Tennessee Department of Finance and Administration - Division of Intellectual Disabilities Services and Bureau of TennCare	Provider of Services to Persons with Disabilities	N/A	1/1/2010 - 12/31/2014	10-400 M	657,163	6,852,918	6,805,376	609,621
Greater Nashville Regional Council	Provision of Home and Community Based Services	N/A	7/1/2010 - 6/30/2011	2011-52	-	1,478	3,216	1,738
Total Government Contracts					\$ 817,167	\$ 7,014,400	\$ 6,808,592	\$ 611,359



**Joel D. Collum, Jr.**  
Certified Public Accountant

**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.  
Nashville, Tennessee

I have audited the financial statements of Progress, Inc. as of and for the year ended June 30, 2011, and have issued my report thereon dated October 31, 2011. I conducted my 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 my audit, I considered Progress, Inc.'s internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Progress, Inc.'s internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Progress, Inc.'s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that I consider to be significant deficiencies in internal control over financial reporting. The significant deficiencies are described in the accompanying schedule of findings and responses as item 11-01 and 11-02. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Progress, Inc.'s financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Progress, Inc.'s response to the findings identified in my audit is described in the accompanying schedule of findings and responses. I did not audit Progress, Inc.'s response and, accordingly, I express no opinion on it.

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 the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

*Joel D. Colburn, Jr., CPA*

October 31, 2011

**PROGRESS, INC.**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**PART I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? \_\_\_\_\_ Yes   x   No

Significant deficiencies identified not  
considered to be material weaknesses?   x   Yes \_\_\_\_\_ No

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   x   No



**PROGRESS, INC.**  
**SCHEDULE OF FINDINGS AND RESPONSES -CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**PART II – FINDINGS AND QUESTIONED COST REPORTED IN ACCORDANCE WITH**

Finding - 11-1 - CASH RECEIPTS

It was noted during the test of cash receipts that of the twenty-five deposits tested, three of those deposits were not deposited in a timely manner.

Recommendation

Deposits should be made as soon as possible after the money is received. State law requires that they be made within three business days.

Management Response

Management concurs with the finding. This finding results from a delay of 1 day in excess of three-day requirement for depositing cash. The cash receiving, logging and depositing procedure has been streamlined to prevent future delays. This finding was not the result of any misuse or diversion of cash received at this agency.

Finding - 11-2 - GAS CARD RECEIPTS

While performing a test of credit card and gas card payments it was discovered that receipts for some of the charges listed on two of the gas card statements were missing.

Recommendation

Before a credit card or gas card bill is paid all of the receipts should be matched to the charges on the statement.

Management Response

Management concurs with the finding. Internal procedures were revised after the fiscal year 2009/2010 audit to insure compliance with receipting practice. Agency payables administrator matches approximately 70 receipts for each gas card monthly statement. Procedures continue to be strengthened to insure compliance.

**PROGRESS, INC.**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

**FOR THE YEAR ENDED JUNE 30, 2011**

Finding 11-01 is a repeat finding.

Finding 11-02 is a repeat finding.