



BELLENFANT + MILES, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

October 20, 2010

To the Executive Director and the Board of Directors of
Progress, Inc.

We have audited the financial statements of Progress, Inc. for the year ended June 30, 2010, and have issued our report thereon dated October 20, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 20, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Progress, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures

To the Executive Director and the Board of Directors of
Progress, Inc.
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and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 20, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

This information is intended solely for the use of the Executive Director and the Board of Directors and management of Progress, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Bellenfant & Miles, PLLC

PROGRESS, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

FOR THE YEARS ENDED JUNE, 2010 AND 2009

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

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

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2010 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 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 important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Progress, Inc. taken as a whole. The accompanying schedule of grant activity and government contracts is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Bellonport & Miles, PLLC

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PROGRESS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 283,991	\$ 944,622
Investments	317,579	321,906
Accounts receivable - state agencies	816,997	619,193
Accounts receivable - other	18,985	15,560
Prepaid expenses	<u>233,986</u>	<u>4,141</u>
 Total current assets	 <u>1,671,538</u>	 <u>1,905,422</u>
 PROPERTY AND EQUIPMENT		
Property and equipment, at cost, net of accumulated depreciation	 <u>1,535,927</u>	 <u>1,585,573</u>
 OTHER ASSETS		
Bond issue cost - net of amortization	45,900	51,637
Debt service reserve	97,477	92,422
Security deposits	6,213	5,030
Cash - client trust account	<u>204,444</u>	<u>119,621</u>
 Total other assets	 <u>354,034</u>	 <u>268,710</u>
 TOTAL ASSETS	 <u><u>\$ 3,561,499</u></u>	 <u><u>\$ 3,759,705</u></u>

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

PROGRESS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT LIABILITIES		
Bonds payable - current portion	\$ 175,000	\$ 170,000
Installment notes payable - current portion	10,618	13,868
Line of credit	-	224,102
Accounts payable - trade	319,136	241,152
Accrued expenses	659,844	659,222
Unearned income	-	153,972
	<hr/>	<hr/>
Total current liabilities	1,164,598	1,462,316
	<hr/>	<hr/>
NON-CURRENT LIABILITIES		
Bonds payable - less current portion	400,000	490,000
Installment notes payable - less current portion	5,845	11,635
	<hr/>	<hr/>
Total non-current liabilities	405,845	501,635
	<hr/>	<hr/>
TOTAL LIABILITIES	1,570,443	1,963,951
	<hr/>	<hr/>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted	1,957,394	1,786,993
Temporarily restricted	33,662	8,761
	<hr/>	<hr/>
TOTAL NET ASSETS	1,991,056	1,795,754
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,561,499</u>	<u>\$ 3,759,705</u>

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

PROGRESS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT						
State grants and contracts	\$ -	\$ 7,454,361	\$ 7,454,361	\$ -	\$ 7,640,231	\$ 7,640,231
Contributions	68,364	33,662	102,026	97,337	47,494	144,831
Food stamps	-	122,107	122,107	-	85,559	85,559
Room and board fees	35,160	-	35,160	30,167	-	30,167
Supported employment worksites	51,220	-	51,220	39,258	-	39,258
Investment income	9,629	-	9,629	25,539	-	25,539
Gain (loss) on sale of assets	-	-	-	4,995	-	4,995
Gain (loss) on investment	(1,327)	-	(1,327)	651	-	651
Miscellaneous	48,359	-	48,359	12,036	-	12,036
Net assets released from restrictions:						
Satisfaction of grant/contract restrictions	7,576,468	(7,576,468)	-	7,725,790	(7,725,790)	-
Satisfaction of use restrictions	8,761	(8,761)	-	68,733	(68,733)	-
Total revenues and other support	7,796,634	24,901	7,821,535	8,004,506	(21,239)	7,983,267
EXPENSES						
Program services:						
Rehabilitation and residential housing	6,569,645	-	6,569,645	6,796,221	-	6,796,221
General and administrative	936,044	-	936,044	847,564	-	847,564
Fundraising	120,544	-	120,544	117,366	-	117,366
Total expenses	7,626,233	-	7,626,233	7,761,151	-	7,761,151
Change in net assets	170,401	24,901	195,302	243,355	(21,239)	222,116
Net assets - beginning of year	1,786,993	8,761	1,795,754	1,543,638	30,000	1,573,638
Net assets - end of year	\$ 1,957,394	\$ 33,662	\$ 1,991,056	\$ 1,786,993	\$ 8,761	\$ 1,795,754

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

PROGRESS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010				2009			
	Rehabilitation & Residential Housing	General and Administrative	Fundraising	Total	Rehabilitation & Residential Housing	General and Administrative	Fundraising	Total
Salaries	\$ 4,587,696	\$ 554,033	\$ 92,568	\$ 5,234,297	\$ 4,687,412	\$ 518,730	\$ 91,200	\$ 5,297,342
Employee benefits	709,064	75,738	16,152	800,954	742,256	58,707	11,226	812,189
Client wages	42,825	-	-	42,825	33,663	-	-	33,663
Total salaries and related expenses	5,339,585	629,771	108,720	6,078,076	5,463,331	577,437	102,426	6,143,194
Professional services and fees	280,914	41,782	1,026	323,722	288,550	40,413	356	329,319
Insurance	46,245	79,431	-	125,676	57,703	48,981	-	106,684
Communications	31,310	7,414	940	39,664	40,108	6,248	577	46,933
Utilities	82,080	6,046	-	88,126	87,092	5,160	-	92,252
Food	121,467	278	2,623	124,368	95,933	213	818	96,964
Rent	192,588	2,840	-	195,428	222,306	655	-	222,961
Interest	1,627	26,652	-	28,279	2,311	31,453	-	33,764
Travel	296	613	-	909	-	586	17	603
Transportation	308,421	5,148	144	313,713	349,166	-	200	349,366
Awards	18,537	13,020	1,352	32,909	16,806	13,183	1,908	31,897
Subsidies	-	-	-	-	22,104	-	-	22,104
Supplies - office	45,623	15,892	5,739	67,254	40,621	22,721	11,064	74,406
Repairs and maintenance	54,898	22,778	-	77,676	66,838	16,794	-	83,632
Total expenses before depreciation and amortization	6,523,591	851,665	120,544	7,495,800	6,752,869	763,844	117,366	7,634,079
Amortization expense	-	5,737	-	5,737	-	5,738	-	5,738
Depreciation expense	46,054	78,642	-	124,696	43,352	77,982	-	121,334
Total expenses	\$ 6,569,645	\$ 936,044	\$ 120,544	\$ 7,626,233	\$ 6,796,221	\$ 847,564	\$ 117,366	\$ 7,761,151

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

PROGRESS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 195,302	\$ 222,116
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	124,696	121,334
Amortization of bond costs	5,737	5,738
Loss (gain) on sale of property & equipment	-	(4,995)
Loss (gain) on investments	1,327	(651)
(Increase) decrease in operating assets		
Accounts receivable	(201,229)	757,997
Prepaid expenses	(231,028)	45,244
Debt service reserve	(5,055)	(2,547)
Increase (decrease) in operating liabilities:		
Accounts payable	(6,839)	(30,220)
Accrued expenses	622	23,170
Unearned income	(153,972)	(769,862)
Net cash provided (used) by operating activities	<u>(270,439)</u>	<u>367,324</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of securities	(200,000)	(413,015)
Securities redeemed	203,000	487,000
Proceeds from sale of assets	-	4,995
Purchases of property and equipment	<u>(67,050)</u>	<u>(83,704)</u>
Net cash provided (used) by investing activities	<u>(64,050)</u>	<u>(4,724)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowing:		
Short-term	275,900	404,102
Payments on notes:		
Short-term	(500,002)	(180,000)
Long-term	<u>(102,040)</u>	<u>(101,850)</u>
Net cash provided (used) by financing activities	<u>(326,142)</u>	<u>122,252</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(660,631)</u>	<u>484,852</u>
Cash and cash equivalents at the beginning of the year	<u>944,622</u>	<u>459,770</u>
Cash and cash equivalents at the end of the year	<u><u>\$ 283,991</u></u>	<u><u>\$ 944,622</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, 2010 AND 2009

SUPPLEMENTAL INFORMATION FOR THE STATEMENT OF CASH FLOWS

	<u>2010</u>	<u>2009</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS		
Purchases of property and equipment	\$ 75,050	\$ 83,704
Less: Loans	(8,000)	-
Net cash paid for property and equipment	<u>\$ 67,050</u>	<u>\$ 83,704</u>
 CASH PAID DURING THE YEAR FOR		
Interest	<u>\$ 28,279</u>	<u>\$ 33,764</u>

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

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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.

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, 2010 AND 2009

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, 2010 and 2009 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 94.5% 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.

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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, 2010 and 2009, depreciation expense was \$124,696 and \$121,334 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, 2010 and 2009 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 federal and state grant awards.

Accounts receivable-residents - Amounts represent expenses paid by Progress, Inc. on behalf of residents.

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

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. There were no in-kind donations received by the Organization during the years ended June 30, 2010 or 2009.

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, 2010 and 2009.

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:

	June 30, 2010		June 30, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 283,991	\$ 283,991	\$ 944,622	\$ 944,622
Accounts receivable - state	816,997	816,997	619,193	619,193
Accounts receivable - other	18,985	18,985	15,560	15,560
Financial liabilities:				
Accounts payable - trade	319,136	319,136	241,152	241,152
Accrued expenses	659,844	659,844	659,222	659,222
Installment notes payable	16,463	16,463	25,503	25,503
Bonds payable	575,000	575,000	660,000	660,000
Unearned income	-	-	153,972	153,972

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

	June 30, 2010		June 30, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Investments	<u>\$ 317,579</u>	<u>\$ 317,579</u>	<u>\$ 321,906</u>	<u>\$ 321,906</u>

2. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2010 and 2009:

	2010	2009
Land	\$ 30,446	\$ 29,296
Buildings and improvements	2,122,596	2,105,392
Vehicles	337,994	286,454
Furniture and equipment	220,248	215,092
	<u>2,711,284</u>	<u>2,636,234</u>
Less: Accumulated depreciation	<u>(1,175,357)</u>	<u>(1,050,661)</u>
	<u>\$1,535,927</u>	<u>\$1,585,573</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.

The Organization also has a lease commitment for the use of a van. The van's lease required an initial payment of \$1,845 on March 7, 2008, followed by 36 monthly payments of \$625 through March 7, 2011.

Progress, Inc. entered into a capital lease for the purchase of a new telephone system June 21, 2010. The lease called for an initial down payment of \$1,083 and twelve monthly payments of \$1,083 thereafter. The telephone system was installed subsequent to year end.

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

3. COMMITMENTS - CONTINUED

Progress entered into a one year lease for the office space used by its Cheatham County office. The lease began on January 1, 2010, expires December 31, 2010 and has a fixed monthly payment of \$800.

Future minimum rental payments required are as follows:

Year ended June 30,	Amount
2010	\$ 38,109
2011	8,704
2012	1,488
2013	496
Total	<u>\$ 48,797</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, 2010 and 2009 respectively. The line of credit expires November 25, 2010. Advances payable under the line are \$-0- and \$224,102 at June 30, 2010 and 2009 respectively.

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

For the years ended June 30, 2010 and 2009, Progress, Inc. held \$699,047 and \$1,358,950, respectively, in cash deposits and investments. In addition, the Organization held cash deposits and investments, in trust, for clients of \$204,444 and \$119,621, respectively, for years ended June 30, 2010 and 2009.

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, 2010 and 2009, the Organization had cash balances of \$283,991 and \$944,622 respectively, in unrestricted accounts. At June 30, 2010 and 2009, the Organization had certificates of deposit of \$309,579 and \$313,906, respectively. Cash balances maintained for clients, in a fiduciary capacity, were \$204,444 and \$119,621, respectively, for the years ended June 30, 2010 and 2009. At June 30, 2010 and 2009, Progress, Inc. had \$-0- and \$235,123 respectively in uninsured deposits.

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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, 2010 Using				
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 309,579	\$ -	\$ 309,579	\$ -
Corporate stock	8,000	-	-	8,000
	<u>\$ 317,579</u>	<u>\$ -</u>	<u>\$ 309,579</u>	<u>\$ 8,000</u>

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>2010</u>	<u>2009</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)	-	-
Ending balance	<u>\$ 8,000</u>	<u>\$ 8,000</u>

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

5. FAIR VALUE INVESTMENTS - CONTINUED

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, 2010, are reported in the net appreciation in fair value of investments.

6. INSTALLMENT NOTES PAYABLE

Installment notes payable consist of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</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.	\$ 11,648	\$ 17,797
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.	4,815	-
Installment note payable to DaimlerChrysler Truck Financial, payable in 60 monthly installments of \$366 including principal and interest beginning March 22, 2005 with a final payment due February 22, 2010, interest rate of 0.9%, secured by the vehicle purchased.	-	2,553
Installment note payable to Pinnacle Financial Partners, payable in 36 monthly installments of \$553 including principal and interest beginning July 4, 2007 with a final payment due June 4, 2010, interest rate of 7.15%, secured by the vehicle purchased.	-	5,153
	<u>16,463</u>	<u>25,503</u>

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

6. INSTALLMENT NOTES PAYABLE - CONTINUED

Classified as current liabilities	(10,618)	(13,868)
Classified as long-term debt	<u>\$ 5,845</u>	<u>\$ 11,635</u>

Maturities on notes payable are as follows:

Year ended June 30,	Amount
2011	\$ 10,618
2012	5,845
	<u>\$ 16,463</u>

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 covers full-time employees who have reached age 19 1/2, completed at least six months service and agree to make at least a \$200 annual contribution. The Organization contributed 3% of gross salaries in both 2010 and 2009 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, 2010 and 2009 were \$43,082 and \$44,131, respectively.

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes after June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Property renovation - covered walkway	\$ 33,662	\$ -
Residential services	-	8,479
Camp for clients	-	282
	<u>\$ 33,662</u>	<u>\$ 8,761</u>

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

9. PROMISES TO GIVE

The Organization has received all outstanding conditional promises to give at June 30, 2010 and 2009 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.

A debt service schedule for the bonds at June 30, 2010, showing approximate interest amounts subject to change, is as follows:

10. BONDED DEBT AND RESTRICTED FUNDS - CONTINUED

Date Due	Principal Due	Approximate Interest Rate	Interest Due	Total Due
July 1, 2010	\$ 85,000	4.25%	\$ 24,776.90	\$ 109,776.90
July 1, 2011	90,000	4.25%	21,114.23	111,114.23
July 1, 2012	95,000	4.25%	17,236.11	112,236.11
July 1, 2013	100,000	4.25%	13,142.53	113,142.53
July 1, 2014	100,000	4.25%	8,833.50	108,833.50
July 1, 2015	105,000	4.25%	4,524.47	109,524.47
	<u>\$ 575,000</u>		<u>\$ 89,627.74</u>	<u>\$ 664,627.74</u>

During June 30, 2010, the Organization paid \$85,000 in bond principal and \$19,096 in bond interest (\$80,000 and \$24,343, respectively, at June 30, 2009). The eleventh principal payment of \$85,000 was made in July 2009 and a principal payment of \$85,000 was made in July 2010.

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

10. BONDED DEBT AND RESTRICTED FUNDS - CONTINUED

Progress, Inc. incurred \$114,749 in bond issue costs which are to be amortized over the twenty-year term of the bonds, including a \$12,675 rebatable arbitrage amount paid in April, 2004. The amount of bond cost amortization for the years ended June 30, 2010 and June 30, 2009 was \$5,737 and \$5,738 respectively, yielding a net bond issue cost of \$45,900 and \$51,637 at June 30, 2010 and June 30, 2009 respectively.

The resolutions under which the Revenue Bonds, Series 1998 were issued provide, among other things, the following:

1. A Trust Fund shall be established, including an Interest Reserve Account and a Redemption Account, containing money and securities held in trust by a Trustee and subject to a lien and charge in favor of the Bond holders. Monies in these accounts shall only be used for the payment of principal and interest on the bonds when due.
2. A Construction Fund shall be established in the custody of the Trustee into which the bond proceeds are to be deposited. The Trustee is authorized and directed to make disbursements as necessary to meet loan obligations or expenses in connection with the acquisition, construction, and equipping of the new administrative and day services campus or to refinance certain outstanding indebtedness in connection with supported living residences for physically disabled and/or mentally retarded persons.
3. A bank shall issue a Letter of Credit in favor of the Trustee, to the account of Progress, Inc., obligating the bank to pay the Trustee specified amounts for bond principal and interest. Progress, Inc. shall agree to reimburse the bank for all amounts drawn by the Trustee under the Letter of Credit, including interest on such amounts, and to pay the bank certain fees in connection with the Letter of Credit issuance. As security for its reimbursement obligations, Progress, Inc. shall grant a security interest in (a) the new administrative campus.

Under the bond agreement, Progress, Inc. covenants that all property which is to be financed or refinanced with bond proceeds will be owned at all times while any of the bonds are outstanding. During the fiscal year ending June 30, 2004, Progress, Inc. received a waiver from the lender to sell the Cheatham County residential properties, which were refinanced with bond proceeds.

Progress, Inc. was in violation of the bond loan agreement covenants that state that it will not make, or permit, any use of the bond proceeds which will cause the bonds to be arbitrage bonds within the meaning of Internal Revenue Code Section 148. The bonds were determined to be arbitrage bonds and Progress, Inc. paid the applicable rebatable arbitrage amount to the U.S. Treasury during the fiscal year ending June 30, 2004.

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

11. UNEARNED INCOME

The Unearned Income represents a prepayment made by the State of Tennessee Division of Mental Retardation Services to its service providers. The money was repaid in twelve equal installments beginning with the payment for September 2008 Services by the State withholding the payment from current year funds.

12. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 20, 2010 which is the date the financial statements were available to be issued.

13. 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.

14. SCHEDULE OF EXPENDITURES OF GRANT AWARDS AND 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, 2010. 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 GRANT ACTIVITY AND GOVERNMENT CONTRACTS
FOR THE YEAR ENDED JUNE 30, 2010

Agency	Program Name	CFDA Number	Grant Period	Contract Number	Grant Receivable 6/30/2009	Receipts	Expenditures	Grant Receivable 6/30/2010
<u>State Awards</u>								
Tennessee Department of Finance and Administration - Division of Intellectual Disabilities Services and Bureau of TennCare	Agency Expansion of Day and Residential Supports	None	7/1/2009 - 6/30/2010	GR1030359	\$ -	\$ 56,832	\$ 56,832	\$ -
Tennessee Department of Finance and Administration - Division of Intellectual Disabilities Services and Bureau of TennCare	Day Supports for Individuals Transitioning to New Service Provider	None	1/1/2009 - 6/30/2010	GR0930910	-	5,524	5,524	-
Total State Awards					\$ -	\$ 62,356	\$ 62,356	\$ -
<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	\$ 450,385	\$ 4,018,287	\$ 3,727,906	\$ 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	-	2,942,929	3,600,092	657,163
Greater Nashville Regional Council	Provision of Home and Community Based Services	N/A	7/1/2009 - 6/30/2010	2010-52	-	10,000	10,000	-
Total Government Contracts					\$ 450,385	\$ 6,971,216	\$ 7,337,998	\$ 817,167



BELLENFANT + MILES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

**AUDITORS' 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

We have audited the financial statements of Progress, Inc. as of and for the year ended June 30, 2010, and have issued our report thereon dated October 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Progress, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Progress, Inc.'s internal control over financial reporting. Accordingly, we 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.

Our 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we 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 items 10-01 and 10-02. 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, 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 the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Progress, Inc.'s response and, accordingly, we 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.

Bellonfant & Hulse, PLLC

October 20, 2010

PROGRESS, INC.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2010

PART I - SUMMARY OF AUDITORS' 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, 2010

PART II – FINDINGS AND QUESTIONED COST REPORTED IN ACCORDANCE WITH

Finding - 10-1 - CASH RECEIPTS

It was noted during the test of cash receipts that several of the receipts tested 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. The cash receipts and deposits procedure has been revised accordingly and the accounting staff re-trained. The Fiscal Director will perform quarterly audits to insure compliance.

Finding - 10-2 - GAS CARD RECEIPTS

While performing a test of credit card and gas card payments it was discovered that the receipts attached to the gas card did not match the charges on the gas card statement.

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 have been revised to insure compliance with the receipting practice. The vendor will supply receipts according to the statement date rather than at month end.

PROGRESS, INC.

SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2010

There were no prior year findings.