

PROGRESS, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

FOR THE YEARS ENDED JUNE, 2008 AND 2007

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BELLENFANT + MILES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Progress, Inc., (a nonprofit organization) as of June 30, 2008 and 2007, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our 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, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Bellenfant & Miles, P.C.

December 10, 2008

PROGRESS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

ASSETS

	<u>2008</u>	<u>2007</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 459,770	\$ 586,238
Investments	395,240	374,799
Accounts receivable - state agencies	1,368,617	40,974
Accounts receivable - residents	-	58,301
Accounts receivable - other	24,133	18,195
Prepaid expenses	<u>49,285</u>	
Total current assets	<u>2,297,045</u>	<u>1,078,507</u>
PROPERTY AND EQUIPMENT		
Property and equipment, at cost, net of accumulated depreciation	<u>1,623,203</u>	<u>1,692,546</u>
OTHER ASSETS		
Bond issue cost - net of amortization	57,375	63,112
Debt service reserve	89,875	84,423
Security deposits	5,130	5,130
Cash - client trust account	<u>11,879</u>	<u>5,017</u>
Total other assets	<u>164,259</u>	<u>157,682</u>
TOTAL ASSETS	<u><u>\$ 4,084,507</u></u>	<u><u>\$ 2,928,735</u></u>

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

PROGRESS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
CURRENT LIABILITIES		
Bonds payable - current portion	\$ 165,000	\$ 155,000
Installment notes payable - current portion	21,765	26,368
Accounts payable - trade	163,630	92,458
Accrued expenses	636,052	589,537
Unearned income	923,834	-
	<u>1,910,281</u>	<u>863,363</u>
NON-CURRENT LIABILITIES		
Bonds payable - less current portion	575,000	660,000
Installment notes payable - less current portion	25,588	25,392
	<u>600,588</u>	<u>685,392</u>
TOTAL LIABILITIES	<u>2,510,869</u>	<u>1,548,755</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted	1,543,638	1,367,426
Temporarily restricted	30,000	12,554
	<u>1,573,638</u>	<u>1,379,980</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,084,507</u></u>	<u><u>\$ 2,928,735</u></u>

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

PROGRESS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT						
State grants and contracts		\$ 7,782,420	\$ 7,782,420	\$ -	\$ 7,401,209	\$ 7,401,209
Contributions	167,937	30,000	197,937	50,370	17,279	67,649
Fundraising	3,663	79,000	82,663	82,846	66,904	149,750
Room and board fees	17,480		17,480	24,610		24,610
Supported employment workshops	40,141		40,141	46,644		46,644
Investment income	27,433		27,433	10,179		10,179
Gain (loss) on sale of assets	(372)	()	(372)	24,798		24,798
Gain (loss) on investment	207		207	243		243
Miscellaneous	39,696		39,696	21,807		21,807
Net assets released from restrictions:						
Satisfaction of grant/contract restrictions	7,861,420	(7,861,420)	-	7,401,209	(7,401,209)	-
Satisfaction of use restrictions	12,554	(12,554)	-	73,438	(73,438)	-
Total revenues and other support	8,170,159	17,446	8,187,605	7,736,144	10,745	7,746,889
EXPENSES						
Program services:						
Rehabilitation and residential housing	6,888,720	-	6,888,720	6,707,428	-	6,707,428
General and administrative	1,037,030		1,037,030	980,021		980,021
Fundraising	68,197		68,197	44,689		44,689
Total expenses	7,993,947	-	7,993,947	7,732,138	-	7,732,138
Change in net assets	176,212	17,446	193,658	4,006	10,745	14,751
Net assets - beginning of year	1,367,426	12,554	1,379,980	1,363,420	1,809	1,365,229
Net assets - end of year	\$ 1,543,638	\$ 30,000	\$ 1,573,638	\$ 1,367,426	\$ 12,554	\$ 1,379,980

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

PROGRESS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008				2007			
	Rehabilitation & Residential Housing	General and Administrative	Fundraising	Total	Rehabilitation & Residential Housing	General and Administrative	Fundraising	Total
Salaries	\$ 4,549,232	\$ 637,066	\$ 34,200	\$ 5,220,498	\$ 4,302,724	\$ 548,788		\$ 4,851,512
Employee benefits	782,674	77,792	7,910	868,376	778,623	75,612	1,462	855,697
Client wages	34,499			34,499	40,515			40,515
Total salaries and related expenses	5,366,405	714,858	42,110	6,123,373	5,121,862	624,400	1,462	5,747,724
Professional services and fees	368,706	13,338	6,938	388,982	408,773	10,699	28,736	448,208
Insurance	61,837	53,167		115,004	47,197	63,255		110,452
Donations								
Communications	43,440	8,536	82	52,058	66,462	6,563	63	73,088
Utilities	69,472	4,450		73,922	87,367	4,678		92,045
Food	188,607	48	507	189,162	171,794	448	1,814	174,056
Rent	194,552	80		194,632	208,539	1,844	50	210,433
Interest	5,116	87,267		92,383	1,907	86,643		88,550
Travel		1,146	159	1,305		1,148		1,148
Transportation	362,293	28	275	362,596	341,033	621	20	341,674
Awards	68,658	15,331		83,989	9,239	14,478	728	24,445
Subsidies					67,726			67,726
Supplies - office	66,856	26,277	18,126	111,259	52,481	32,014	11,816	96,311
Repairs and maintenance	50,093	22,206		72,299	69,713	29,212		98,925
Total expenses before depreciation and amortization	6,846,035	946,732	68,197	7,860,964	6,654,093	876,003	44,689	7,574,785
Amortization expense		5,737		5,737		5,737		5,737
Depreciation expense	42,685	84,561		127,246	53,335	98,281		151,616
Total expenses	\$ 6,888,720	\$ 1,037,030	\$ 68,197	\$ 7,993,947	\$ 6,707,428	\$ 980,021	\$ 44,689	\$ 7,732,138

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

PROGRESS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 193,658	\$ 14,751
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	127,246	151,616
Amortization of bond costs	5,737	5,737
Loss (gain) on sale of property & equipment	372	(24,798)
Loss (gain) on investments	(207)	243
(Increase) decrease in operating assets		
Accounts receivable	(1,275,280)	91,487
Prepaid expenses	(49,285)	1,809
Debt service reserve	(5,452)	(1,887)
Increase (decrease) in operating liabilities:		
Accounts payable	64,310	34,641
Accrued expenses	46,515	70,739
Unearned income	923,834	-
Net cash provided (used) by operating activities	<u>31,448</u>	<u>344,338</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of securities	(387,000)	(367,042)
Securities redeemed	366,766	199,017
Proceeds from sale of assets	-	207,473
Purchases of property and equipment	(33,275)	(17,843)
Net cash provided (used) by investing activities	<u>(53,509)</u>	<u>21,605</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowing:		
Short-term	3,731,456	3,613,903
Long-term	-	-
Payments on notes:		
Short-term	(3,731,456)	(3,613,903)
Long-term	(104,407)	(99,429)
Net cash provided (used) by financing activities	<u>(104,407)</u>	<u>(99,429)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(126,468)</u>	<u>266,514</u>
Cash and cash equivalents at the beginning of the year	<u>586,238</u>	<u>319,724</u>
Cash and cash equivalents at the beginning of the year	<u>\$ 459,770</u>	<u>\$ 586,238</u>
SUPPLEMENTAL INFORMATION FOR THE STATEMENT OF CASH FLOWS		
	<u>2008</u>	<u>2007</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS		
Purchases of property and equipment	\$ 58,275	\$ 62,176
Less: Loans	(25,000)	(44,333)
Net cash paid for property and equipment	<u>\$ 33,275</u>	<u>\$ 17,843</u>
CASH PAID DURING THE YEAR FOR		
Interest	<u>\$ 92,383</u>	<u>\$ 88,550</u>

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

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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.

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contributions:

The Organization uses the provisions of Statement of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made," in accounting for contributions received. In accordance with SFAS No. 116, 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, 2008 and 2007 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 in its Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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.

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 support from two state agencies which represents approximately 96.0% of total support and revenue. This support was provided by the following agencies: 94.9% from the Tennessee Department of Mental Health and Mental Retardation.

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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, 2008 and 2007, depreciation expense was \$127,245 and \$151,616, 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, 2008 and 2007 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.

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, 2008 or 2007.

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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, 2008 and 2007.

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, 2008		June 30, 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 459,770	\$ 459,770	\$ 586,238	\$ 586,238
Accounts receivable - state	1,368,617	1,368,617	40,974	40,974
Accounts receivable - residents	-	-	58,301	58,301
Accounts receivable - other	24,133	24,133	18,195	18,195
Financial liabilities:				
Accounts payable - trade	163,630	163,630	92,458	92,458
Accrued expenses	636,052	636,052	589,537	589,537
Installment notes payable	47,353	47,353	51,760	51,760
Bonds payable	740,000	740,000	815,000	815,000

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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, 2008		June 30, 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Investments	\$ 395,240	\$ 395,240	\$ 374,799	\$ 374,799

2. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2008 and 2007:

	2008	2007
Land	\$ 29,296	\$ 29,296
Buildings and improvements	2,024,714	2,021,823
Vehicles	286,454	288,527
Furniture and equipment	218,661	215,617
	2,559,125	2,555,263
Less: Accumulated depreciation	(935,922)	(862,717)
	<u>\$ 1,623,203</u>	<u>\$ 1,692,546</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 a lease for use of office equipment at its outside offices. This lease began on November 12, 2007, expires on February 12, 2011 and has a fixed monthly payment of \$209.

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.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

3. COMMITMENTS - CONTINUED

Progress, Inc. entered into two leases for the use of office equipment at its administrative office. The first lease started on March 10, 2006, expires February 10, 2009 and has a fixed monthly payment of \$93. The other lease started on November 23, 2007, expires February 23, 2012 and has a fixed monthly payment of \$988.

Progress entered into a month to month lease for the office space used by its Cheatham County office. The lease began on August 1, 2007, has no expiration date and has a fixed monthly payment of \$500.

Future minimum rental payments required are as follows:

Year ended June 30,	Amount
2009	\$ 22,701
2010	\$ 21,864
2011	18,944
2012	6,916
Total	<u>\$ 70,425</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 6.00% and 9.25% at June 30, 2008 and 2007 respectively. The line of credit expires August 28, 2008. Advances payable under the line are \$-0- and \$-0- at June 30, 2008 and 2007 respectively.

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

For the years ended June 30, 2008 and 2007, Progress, Inc. held \$961,037 and \$961,037, respectively, in cash deposits and investments. In addition, the Organization held cash deposits and investments, in trust, for clients of \$11,879 and \$5,017, respectively, for years ended June 30, 2008 and 2007.

Deposits:

Progress, Inc. maintains cash balances at several banks located in Nashville, Tennessee. Amounts at each institution are insured up to \$100,000 by the Federal Deposit Insurance Corporation. At June 30, 2008 and 2007, the Organization had cash balances of \$459,770 and \$586,238 respectively, in unrestricted accounts. At June 30, 2008 and 2007, the Organization had certificates of deposit of \$395,240 and \$365,799, respectively. Cash balances maintained for clients, in a fiduciary capacity, were \$11,879 and \$5,017, respectively, for the years ended June 30, 2008 and 2007. At June 30, 2008 and 2007, Progress, Inc. had \$457,889 and \$553,124 respectively in uninsured deposits.

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS - CONT.

The investments of Progress, Inc. are categorized to give an indication of the level of risk assumed by the Organization. Category 1 includes investments that are insured or registered for which the securities are held by the Organization or its agent in Progress, Inc.'s name. Category 2 includes uninsured and unregistered investments for which the securities are held by Progress, Inc.'s agent in Progress, Inc.'s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the Organization. For the years ended June 30, 2008 and 2007, Progress, Inc. had the following investments.

Investments:

	June 30, 2008					June 30, 2007	
	Category 1	2	3	Carrying Amount	Market Value	Carrying Amount	Market Value
Certificates of deposit	\$ 387,240	\$ -	\$ -	\$ 387,240	\$ 387,240	\$ 365,718	\$ 365,718
Mutual fund	-	-	-	-	-	1,081	1,081
Corporate stock	8,000	-	-	8,000	8,000	8,000	8,000
	<u>\$ 395,240</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 395,240</u>	<u>\$ 395,240</u>	<u>\$ 374,799</u>	<u>\$ 374,799</u>

5. INSTALLMENT NOTES PAYABLE

Installment notes payable consist of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</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.	\$ 23,604	\$ -
Installment note payable to Regions Bank, payable in 120 monthly installments of \$427 including principal and interest beginning December 23, 1998 with a final payment due November 23, 2008, interest rate of 5.5%, secured by real property.	2,866	7,740

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

5. INSTALLMENT NOTES PAYABLE - CONTINUED

Installment note payable to Regions Bank, payable in 36 monthly installments of \$539 including principal and interest beginning August 15, 2005 with a final payment due July 15, 2008, interest rate of 6.75%, secured by the vehicle purchased.

327 6,532

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.

6,904 11,212

Installment note payable to Pinnacle Financial Partners, payable in 24 monthly installments of \$499 including principal and interest beginning December 13, 2006 with a final payment due November 13, 2008, interest rate of 8.25%, secured by the vehicle purchased.

2,472 8,426

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.

11,180	17,850
47,353	51,760

Classified as current liabilities

(21,765)	(26,368)
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Classified as long-term debt

\$ 25,588	\$ 25,392
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Maturities on notes payable are as follows:

Year ended June 30,	Amount
2009	\$ 21,765
2010	\$ 13,946
2011	6,507
2012	5,135
	\$ 47,353

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

6. 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 2008 and 2007 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, 2008 and 2007 were \$42,127 and \$55,837, respectively.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes after June 30, 2008 and 2007:

	2008	2007
Property renovation	\$ 30,000	\$ -
Screening program	-	12,554
	<u>\$ 30,000</u>	<u>\$ 12,554</u>

8. PROMISES TO GIVE

The Organization has received all outstanding conditional promises to give at June 30, 2008 and 2007 and is not scheduled to receive any further promises to give in the coming years.

9. 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, 2008, showing approximate interest amounts subject to change, is as follows:

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

9. BONDED DEBT AND RESTRICTED FUNDS - CONTINUED

Date Due	Principal Due	Approximate Interest Rate	Interest Due	Total Due
July 1, 2008	\$ 80,000	4.25%	\$ 31,886.80	\$ 111,886.80
July 1, 2009	85,000	4.25%	28,439.58	113,439.58
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>\$ 740,000</u>		<u>\$ 149,954.12</u>	<u>\$ 889,954.12</u>

During June 30, 2008, the Organization paid \$75,000 in bond principal and \$46,084 in bond interest (\$70,000 and \$26,242, respectively, at June 30, 2007). The ninth principal payment of \$75,000 was made in July 2007 and a principal payment of \$80,000 was made in July 2008.

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, 2008 and June 30, 2007 was \$5,737 and \$5,737 respectively, yielding a net bond issue cost of \$57,375 and \$63,112 at June 30, 2008 and June 30, 2007 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.

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9. BONDED DEBT AND RESTRICTED FUNDS - CONTINUED

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.

10. 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 will be repaid in twelve equal installments beginning with the payment for September 2008 Services.