

PROGRESS, INC.

Nashville, Tennessee

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Progress, Inc.  
319 Ezell Pike  
Nashville, Tennessee

We have audited the accompanying statements of financial position of Progress, Inc. (a nonprofit organization) as of June 30, 2005 and 2004, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Progress, Inc.'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 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 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, 2005 and 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2005, on our consideration of Progress, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 read in conjunction with this report in considering the results of our audits.

October 4, 2005

PROGRESS, INC.  
Statements of Financial Position

ASSETS

	<u>June 30,</u>	
	<u>2005</u>	<u>2004</u>
<u>Current assets</u>		
Cash and cash equivalents - Notes 1 & 4	\$ 448,913	\$ 259,637
Investments - Note 4	188,000	58,000
Accounts receivable - state agencies - Note 1	320,057	125,647
Accounts receivable - residents - Note 1	17,920	27,134
Accounts receivable - other - Note 1	12,075	10,925
Prepaid expenses	<u>1,809</u>	<u>11,947</u>
Total current assets	<u>988,774</u>	<u>493,290</u>
 <u>Property and equipment</u> - net of accumulated depreciation - Notes 1 & 2	 <u>1,965,564</u>	 <u>2,165,520</u>
 <u>Other assets</u>		
Bond issue cost - net of amortization - Note 10	74,587	80,324
Debt service reserve	37,109	45,102
Security deposits	5,130	4,540
Cash - client trust account - Note 4	<u>44,867</u>	<u>43,651</u>
	<u>161,693</u>	<u>173,617</u>
 Total assets	 <u>\$3,116,031</u>	 <u>\$2,832,427</u>

See accountants' report and accompanying notes  
to the financial statements.

LIABILITIES AND NET ASSETS

	<u>June 30,</u>	
	<u>2005</u>	<u>2004</u>
<u>Current liabilities</u>		
Bonds payable - current portion - Note 10	\$ 145,000	\$ 140,000
Installment notes payable - current portion - Note 5	5,327	35,279
Line of credit - Note 3	21,000	
Accounts payable - trade	112,416	43,497
Accounts payable - residents - Note 7	29,925	28,813
Accrued expenses	<u>481,272</u>	<u>369,325</u>
Total current liabilities	<u>794,940</u>	<u>616,914</u>
<u>Non-current liabilities</u>		
Bonds payable - less current portion - Note 10	815,000	890,000
Installment notes payable - less current portion - Note 5	<u>11,850</u>	<u>16,698</u>
	<u>826,850</u>	<u>906,698</u>
Total liabilities	<u>1,621,790</u>	<u>1,523,612</u>
<u>Commitments and contingencies</u> - Note 3		
<u>Net assets</u> - Note 1		
Unrestricted	1,492,432	1,306,994
Temporarily restricted - Note 8	<u>1,809</u>	<u>1,821</u>
Total net assets	<u>1,494,241</u>	<u>1,308,815</u>
Total liabilities and net assets	<u>\$ 3,116,031</u>	<u>\$2,832,427</u>

PROGRESS, INC.  
Statements of Activities  
For the Years Ended June 30, 2005 and 2004

	<u>June 30, 2005</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenues and other support</u>			
State grants and contracts	\$	\$ 7,112,191	\$ 7,112,191
Contributions	56,646		56,646
Fundraising	47,283		47,283
Room and board fees	34,353		34,353
Supported employment worksites	49,260		49,260
Interest income	577		577
Gain on sale of assets	71,314		71,314
Miscellaneous	26,389	74,444	100,833
Net assets released from restrictions:			
Satisfaction of grant/contract restrictions	7,112,191	( 7,112,191)	
Satisfaction of use restrictions	74,456	( 74,456)	
Satisfaction of donor restrictions			
Total revenues and other support	<u>7,472,469</u>	<u>( 12)</u>	<u>7,472,457</u>
<u>Expenses</u>			
Program services:			
Rehabilitation and residential housing	6,315,333		6,315,333
General and administrative	894,478		894,478
Fundraising	<u>77,220</u>		<u>77,220</u>
Total expenses	<u>7,287,031</u>		<u>7,287,031</u>
Change in net assets	185,438	( 12)	185,426
Net assets beginning of year	<u>1,306,994</u>	<u>1,821</u>	<u>1,308,815</u>
Net assets end of year	<u>\$ 1,492,432</u>	<u>\$ 1,809</u>	<u>\$ 1,494,241</u>

See accountants' report and accompanying notes  
to the financial statements.

June 30, 2004		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$	\$6,238,583	\$6,238,583
90,024	5,000	95,024
37,972		37,972
58,476		58,476
46,537		46,537
696		696
30,176		30,176
14,880	62,183	77,063
6,238,583	( 6,238,583)	
63,616	( 63,616)	
<u>5,000</u>	<u>( 5,000)</u>	
<u>6,585,960</u>	<u>( 1,433)</u>	<u>6,584,527</u>
5,783,374		5,783,374
866,044		866,044
<u>44,504</u>	<u>6,000</u>	<u>50,504</u>
<u>6,693,922</u>	<u>6,000</u>	<u>6,699,922</u>
( 107,962)	( 7,433)	( 115,395)
<u>1,414,956</u>	<u>9,254</u>	<u>1,424,210</u>
<u>\$ 1,306,994</u>	<u>\$ 1,821</u>	<u>\$1,308,815</u>

PROGRESS, INC.  
Statements of Functional Expenses  
For the Years Ended June 30, 2005 and 2004

	<u>June 30, 2005</u>			
	<u>Rehabilitation &amp; Residential Housing</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 4,033,455	\$ 467,319	\$ 38,000	\$ 4,538,774
Employee benefits	653,646	91,885	3,122	748,653
Client wages	<u>58,906</u>	<u>          </u>	<u>          </u>	<u>58,906</u>
 Total salaries and related expenses	 4,746,007	 559,204	 41,122	 5,346,333
Professional services and fees	483,350	35,170	28,514	547,034
Insurance	10,384	52,329		62,713
Donations				
Communications	45,939	25,782	3,558	75,279
Utilities	79,180	6,355	14	85,549
Food	183,391	790	1,669	185,850
Rent	204,470	804		205,274
Interest	2,710	66,020		68,730
Travel	8,883	7,055	4	15,942
Transportation	366,343	330	1,076	367,749
Awards	4,928	10,240	130	15,298
Subsidies		2,354		2,354
Supplies - office	85,645	15,018	1,087	101,750
Repairs and maintenance	<u>39,929</u>	<u>26,519</u>	<u>46</u>	<u>66,494</u>
 Total expenses before depreciation and amortization	 6,261,159	 807,970	 77,220	 7,146,349
 Amortization expense		5,737		5,737
Depreciation expense	<u>54,174</u>	<u>80,771</u>	<u>          </u>	<u>134,945</u>
 Total expenses	 <u>\$ 6,315,333</u>	 <u>\$ 894,478</u>	 <u>\$ 77,220</u>	 <u>\$ 7,287,031</u>

See accountants' report and accompanying notes  
to the financial statements.

June 30, 2004

<u>Rehabilitation &amp; Residential Housing</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
\$3,737,951	\$ 451,830	\$ 27,035	\$4,216,816
642,813	75,914	4,247	722,974
<u>55,867</u>	<u>          </u>	<u>          </u>	<u>55,867</u>
4,436,631	527,744	31,282	4,995,657
373,175	28,021	14,530	415,726
64,495	53,756		118,251
	10,000		10,000
40,703	19,837	2,424	62,964
67,615	5,059		72,674
163,798	1,530	258	165,586
171,891			171,891
7,928	60,536		68,464
21,415	7,663	660	29,738
284,818	5,801		290,619
5,745	8,340		14,085
812	200	452	1,464
59,482	8,945	708	69,135
<u>28,936</u>	<u>37,821</u>	<u>190</u>	<u>66,947</u>
5,727,444	775,253	50,504	6,553,201
	8,906		8,906
<u>55,930</u>	<u>81,885</u>	<u>          </u>	<u>137,815</u>
<u>\$5,783,374</u>	<u>\$ 866,044</u>	<u>\$ 50,504</u>	<u>\$6,699,922</u>



PROGRESS, INC.  
Statements of Cash Flows  
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>Cash flows from operating activities</u>		
Change in net assets	\$ 185,426	(\$ 115,395)
Adjustments to reconcile change in net assets to net cash:		
Depreciation	134,945	137,815
Amortization of bond costs	5,737	8,906
Gain on sale of securities and property & equipment	( 71,314)	( 30,176)
(Increase) decrease in operating assets:		
Accounts receivable	( 186,346)	69,212
Security deposits	( 590)	( 3,600)
Prepaid expenses	10,138	( 21,368)
Debt service reserve	7,993	17,512
Increase (decrease) in operating liabilities:		
Accounts payable	68,815	( 40,153)
Accrued expenses	<u>111,947</u>	<u>541</u>
Net cash provided (used) by operating activities	<u>266,751</u>	<u>23,294</u>
<u>Cash flows from investing activities</u>		
Purchase of certificate of deposit	( 180,000)	( 50,000)
Securities redeemed	50,000	
Proceeds from sale of assets	177,500	398,987
Purchases of property & equipment	<u>( 41,175)</u>	<u>( 21,442)</u>
Net cash provided by investing activities	<u>6,325</u>	<u>327,545</u>
<u>Cash flows from financing activities</u>		
Proceeds from borrowing:		
Short-term	3,565,500	3,611,513
Payments on notes:		
Short-term	( 3,544,500)	( 3,611,513)
Long-term	<u>( 104,800)</u>	<u>( 464,819)</u>
Net cash used by financing activities	<u>( 83,800)</u>	<u>( 464,819)</u>
Net increase (decrease) in cash	189,276	( 113,980)
Beginning cash and cash equivalents	<u>259,637</u>	<u>373,617</u>
Ending cash and cash equivalents	<u>\$ 448,913</u>	<u>\$ 259,637</u>
<u>Supplemental Information for the Statement of Cash Flows</u>		
	<u>2005</u>	<u>2004</u>
<u>Schedule of noncash investing and financing transactions</u>		
Purchases of property and equipment	\$ 41,175	\$ 21,442
Less: Loans		
Net cash paid for property and equipment	<u>\$ 41,175</u>	<u>\$ 21,442</u>
<u>Cash paid during the year for</u>		
Interest	<u>\$ 68,730</u>	<u>\$ 68,464</u>

See accountants' report and accompanying notes to the financial statements.

PROGRESS, INC.  
Notes to the Financial Statements  
June 30, 2005 and 2004

Note 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, 2005 and 2004

Note 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, 2005 and 2004 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 several state agencies which represents approximately 95% of total support and revenue. This support was provided by the following agencies: 91% from the Tennessee Department of Mental Health and Mental Retardation and 4% from the Tennessee Department of Finance and Administration.

PROGRESS, INC.  
Notes to the Financial Statements  
June 30, 2005 and 2004

Note 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, 2005 and 2004, depreciation expense was \$134,945 and \$137,815, 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, 2005 and 2004 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. For the year ending June 30, 2004, Progress, Inc. received in-kind donations of contributed services totaling \$12,070. There were no in-kind donations received by the Organization during the year ended June 30, 2005.

PROGRESS, INC.  
Notes to the Financial Statements  
June 30, 2005 and 2004

Note 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, 2005 and 2004.

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, 2005</u>		<u>June 30, 2004</u>	
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>Value</u>	<u>Value</u>	<u>Value</u>	<u>Value</u>
Financial assets:				
Cash and cash equivalents	\$ 448,913	\$ 448,913	\$ 259,637	\$ 259,637
Accounts receivable - state	320,057	320,057	125,647	125,647
Accounts receivable - residents	17,920	17,920	27,134	27,134
Accounts receivable - other	12,075	12,075	10,925	10,925
Financial liabilities:				
Accounts payable - trade	112,416	112,416	43,497	43,497
Accounts payable - residents	29,925	29,925	28,813	28,813
Accrued expenses	481,272	481,272	369,325	369,325
Installment notes payable	17,177	17,177	51,977	51,977
Bonds payable	960,000	960,000	1,030,000	1,030,000

PROGRESS, INC.  
Notes to the Financial Statements  
June 30, 2005 and 2004

Note 1 - Summary of significant accounting policies (continued)

Fair value of financial instruments (continued)

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

	<u>June 30, 2005</u>		<u>June 30, 2004</u>	
	<u>Carrying</u> <u>Value</u>	<u>Fair</u> <u>Value</u>	<u>Carrying</u> <u>Value</u>	<u>Fair</u> <u>Value</u>
Financial assets:				
Investments	<u>\$ 188,000</u>	<u>\$ 188,000</u>	<u>\$ 58,000</u>	<u>\$ 58,000</u>

Note 2 - Property and equipment

Property and equipment consists of the following at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Land	\$ 23,204	\$ 43,204
Buildings and improvements	2,232,241	2,383,167
Vehicles	233,155	205,635
Furniture and equipment	<u>175,728</u>	<u>168,044</u>
	2,664,328	2,800,050
<u>Less: Accumulated depreciation</u>	<u>( 698,764)</u>	<u>( 634,530)</u>
	<u>\$1,965,564</u>	<u>\$2,165,520</u>

Note 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 2026. 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 March 10, 2005, expires February 10, 2009 and has a fixed monthly payment of \$128. The other lease started on October 18, 2002 and was set to expire on December 18, 2006. Subsequent to year-end, on July 1, 2005, this equipment was replaced and Progress entered into a new lease. This new lease expires September 1, 2009 and has a fixed monthly payment of \$1,026.

Progress, Inc. entered into two leases for use of office equipment at its outside offices. Both of these leases began on November 13, 2003, both expire on December 13, 2006 and both have a fixed monthly payment of \$81.

PROGRESS, INC.  
Notes to the Financial Statements  
June 30, 2005 and 2004

Note 3 - Commitments (continued)

The Organization also has lease commitments for the use of three vans. One van's lease required an initial payment of \$1,491 on November 9, 2001, followed by 60 monthly payments of \$620 through October 9, 2007. Progress, Inc. must also pay \$.22 per mile for each mile over 15,000 logged per year of this van's lease. For the second van's lease, Progress, Inc. must pay the lessor \$1 per year plus repair, insurance and registration costs necessary to run the vehicle during the lease term, which runs from November 1, 2004 to October 31, 2005. The third van's lease required an initial payment of \$1,478 on April 5, 2003, followed by 60 monthly payments of \$739 through March 5, 2008. An additional fee per mile is also required for each mile over 9,000 under this van's lease.

Future minimum rental payments required are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2006	\$ 32,177
2007	31,336
2008	22,893
2009	13,468
2010	3,079
Total	<u>\$ 102,953</u>

The Organization has a \$250,000 line of credit with a local institution (\$250,000 at June 30, 2004). The line is unsecured and has an interest rate equivalent to the prime rate plus 0.25% at June 30, 2005 (prime rate plus 1% at June 30, 2004). The line of credit expires January 20, 2008. Advances payable under the line are \$21,000 at June 30, 2005 and \$0 at June 30, 2004.

Progress, Inc. obtained an additional \$50,000 line of credit with the same institution during the year ended June 30, 2004. The line is also unsecured and carries an interest rate of 1% over the prime rate at June 30, 2005 and 2004. This line of credit expires at will any time through June 6, 2023 and there are no advances payable at both June 30, 2005 and 2004.

Note 4 - Deposits with financial institutions and investments

For the years ended June 30, 2005 and 2004, Progress, Inc. held \$636,913 and \$317,637, respectively, in cash deposits and investments. In addition, the Organization held cash deposits and investments, in trust, for clients of \$44,867 and \$43,651, respectively, for years ended June 30, 2005 and 2004.

PROGRESS, INC.  
Notes to the Financial Statements  
June 30, 2005 and 2004

Note 4 - Deposits with financial institutions and investments (continued)

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, 2005 and 2004, the Organization had cash balances of \$448,913 and \$259,637 respectively, in unrestricted accounts. At June 30, 2005 and 2004, the Organization had certificates of deposit of \$180,000 and \$50,000, respectively. Cash balances maintained for clients, in a fiduciary capacity, were \$44,867 and \$43,651, respectively, for the years ended June 30, 2005 and 2004. At June 30, 2005, Progress, Inc. had \$389,013 in uninsured deposits. At June 30, 2004, \$233,843 of the Organization's deposits were uninsured.

Investments -

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, 2005 and 2004, Progress, Inc. had the following investments.

	<u>June 30, 2005</u>			<u>June 30, 2004</u>	
	<u>Category</u>		<u>Carrying</u>	<u>Market</u>	
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Certificates of deposit	\$ 180,000	\$	\$	\$ 180,000	\$ 180,000
Corporate stock	8,000			8,000	8,000
	<u>\$188,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 188,000</u>	<u>\$ 188,000</u>
				<u>\$ 58,000</u>	<u>\$ 58,000</u>

Note 5 - Installment notes payable

Installment notes payable consist of the following at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Installment note payable to AmSouth Bank, payable in 50 monthly installments of \$3,660 including principal and interest beginning July 2, 1999 with a final payment due September 2, 2004, interest rate of 7.5%, secured by real property. Originally, the note called for 120 monthly installments of \$3,660 with a final payment due June 2, 2009 before the term was modified in October 1999.	\$ -0-	\$ 21,755



PROGRESS, INC.  
Notes to the Financial Statements  
June 30, 2005 and 2004

Note 5 -	<u>Installment notes payable</u> (continued)	<u>2005</u>	<u>2004</u>
	Installment note payable to AmSouth 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.	\$ 16,586	\$ 20,292
	Installment note payable to AmSouth Bank, payable in 35 monthly installments of \$266 including principal and interest beginning September 28, 2002, with a final payment of all remaining unpaid principal and interest due August 28, 2005, interest rate of 6.25%, secured by the vehicle purchased.	280	3,553
	Installment note payable to AmSouth Bank, payable in 36 monthly installments of \$321 including principal and interest beginning July 1, 2002 with a final payment June 1, 2005, interest rate of 7.25%, secured by the vehicle purchased.	311	3,373
	Installment note payable to AmSouth Bank, payable in 36 monthly installments of \$321 including principal and interest beginning July 1, 2002 with a final payment June 1, 2005, interest rate of 7.25%, secured by the vehicle purchased.	<u>-0-</u> 17,177	<u>3,004</u> 51,977
	Classified as current liabilities	( <u>5,327</u> )	( <u>35,279</u> )
	Classified as long-term debt	<u>\$ 11,850</u>	<u>\$ 16,698</u>

Maturities on notes payable are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2006	\$ 5,327
2007	4,582
2008	4,840
2009	<u>2,428</u>
	<u>\$ 17,177</u>

PROGRESS, INC.  
Notes to the Financial Statements  
June 30, 2005 and 2004

Note 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 2005 (3% in 2004) 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, 2005 and 2004 were \$59,632 and \$68,902, respectively.

Note 7 - Due to residents

Progress, Inc. holds amounts in trust for certain clients. These funds are used by disabled clients to meet their living expenses (room and board; personal expenses) not provided by grant funding. Amounts held in trust at June 30, 2005 and 2004 are \$29,925 and \$28,813, respectively.

Note 8 - Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes after June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Client use	<u>\$ 1,809</u>	<u>\$ 1,821</u>

Note 9 - Promises to give

The Organization has received all outstanding conditional promises to give at June 30, 2005 and 2004 and is not scheduled to receive any further promises to give in the coming years.

Note 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.

PROGRESS, INC.  
Notes to the Financial Statements  
June 30, 2005 and 2004

Note 10 - Bonded debt and restricted funds - (continued)

A debt service schedule for the bonds at June 30, 2005, showing approximate interest amounts subject to change, is as follows:

<u>Date Due</u>	<u>Principal Due</u>	<u>Approximate Interest Rate</u>	<u>Interest Due</u>	<u>Total Due</u>
July 1, 2005	\$ 70,000.00	4.25%	\$ 41,366.66	\$ 111,366.66
July 1, 2006	75,000.00	4.25%	38,350.34	113,350.34
July 1, 2007	75,000.00	4.25%	35,118.57	110,118.57
July 1, 2008	80,000.00	4.25%	31,886.80	111,886.80
July 1, 2009	85,000.00	4.25%	28,439.58	113,439.58
July 1, 2010	85,000.00	4.25%	24,776.90	109,776.90
July 1, 2011	90,000.00	4.25%	21,114.23	111,114.23
July 1, 2012	95,000.00	4.25%	17,236.11	112,236.11
July 1, 2013	100,000.00	4.25%	13,142.53	113,142.53
July 1, 2014	100,000.00	4.25%	8,833.50	108,833.50
July 1, 2015	<u>105,000.00</u>	4.25%	<u>4,524.47</u>	<u>109,524.47</u>
	<u>\$ 960,000.00</u>		<u>\$264,789.69</u>	<u>\$1,224,789.69</u>

As of June 30, 2005, the Organization has paid \$70,000 in bond principal and \$17,192 in bond interest (\$410,000 and \$13,770, respectively, at June 30, 2004). The sixth principal payment of \$70,000 was made in July 2004 and a principal payment of \$70,000 was made in July 2005.

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 year ended June 30, 2005 was \$5,737 (\$8,906 at June 30, 2004), yielding a net bond issue cost of \$74,587 (\$80,324 at June 30, 2004).

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.

PROGRESS, INC.  
Notes to the Financial Statements  
June 30, 2005 and 2004

Note 10 - 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 rebateable arbitrage amount to the U.S. Treasury during the fiscal year ending June 30, 2004.

## SUPPLEMENTAL INFORMATION

PROGRESS, INC.  
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  
Progress, Inc.  
319 Ezell Pike  
Nashville, Tennessee

We have audited the financial statements of Progress, Inc. (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated October 4, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of Progress, Inc. in a separate letter dated October 4, 2005.

This report is intended solely for the information and use of the financial committee, management, Board of Directors, and contract awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

October 4, 2005

PROGRESS, INC.  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2005

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

NONE

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS AUDIT

NONE

PROGRESS, INC.  
Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2005

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

NONE

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS AUDIT

NONE