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PROGRESS, INC.

Nashville, Tennessee

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AMERICAN INSTITUTE OF  
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CERTIFIED PUBLIC ACCOUNTANTS

**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, 2006 and 2005, 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, 2006 and 2005, 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 November 1, 2006, 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.

*Warren, Denney & Wallace*

November 1, 2006

## 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, 2006 and 2005, 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, 2006 and 2005, 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 November 1, 2006, 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.

November 1, 2006

PROGRESS, INC.  
Statements of Financial Position

ASSETS

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>Current assets</u>		
Cash and cash equivalents - Notes 1 & 4	\$ 319,724	\$ 448,913
Investments - Note 4	207,017	188,000
Accounts receivable - state agencies - Note 1	153,764	320,057
Accounts receivable - residents - Note 1	25,266	17,920
Accounts receivable - other - Note 1	29,927	12,075
Prepaid expenses	<u>1,809</u>	<u>1,809</u>
Total current assets	<u>737,507</u>	<u>988,774</u>
 <u>Property and equipment</u> - net of accumulated depreciation - Notes 1 & 2	 <u>1,964,661</u>	 <u>1,965,564</u>
 <u>Other assets</u>		
Bond issue cost - net of amortization - Note 10	68,849	74,587
Debt service reserve	82,536	37,109
Security deposits	5,130	5,130
Cash - client trust account - Note 4	<u>29,090</u>	<u>44,867</u>
	<u>185,605</u>	<u>161,693</u>
Total assets	<u>\$ 2,887,773</u>	<u>\$ 3,116,031</u>

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

LIABILITIES AND NET ASSETS

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>Current liabilities</u>		
Bonds payable - current portion - Note 10	\$ 150,000	\$ 145,000
Installment notes payable - current portion - Note 5	17,850	5,327
Line of credit - Note 3		21,000
Accounts payable - trade	81,890	112,416
Accounts payable - residents - Note 7		29,925
Accrued expenses	<u>518,798</u>	<u>481,272</u>
Total current liabilities	<u>768,538</u>	<u>794,940</u>
<u>Non-current liabilities</u>		
Bonds payable - less current portion - Note 10	740,000	815,000
Installment notes payable - less current portion - Note 5	<u>14,006</u>	<u>11,850</u>
	<u>754,006</u>	<u>826,850</u>
Total liabilities	<u>1,522,544</u>	<u>1,621,790</u>
<u>Commitments and contingencies</u> - Note 3		
<u>Net assets</u> - Note 1		
Unrestricted	1,363,420	1,492,432
Temporarily restricted - Note 8	<u>1,809</u>	<u>1,809</u>
Total net assets	<u>1,365,229</u>	<u>1,494,241</u>
Total liabilities and net assets	<u>\$ 2,887,773</u>	<u>\$ 3,116,031</u>

PROGRESS, INC.  
Statements of Activities  
For the Years Ended June 30, 2006 and 2005

	<u>June 30, 2006</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenues and other support</u>			
State grants and contracts	\$	\$ 7,243,626	\$ 7,243,626
Contributions	53,453	56,000	109,453
Fundraising	31,155		31,155
Room and board fees	31,767		31,767
Supported employment worksites	44,630		44,630
Interest income	10,369		10,369
Gain (loss) on sale of assets	( 1,980)		( 1,980)
Gain (loss) on investment	( 1,258)		( 1,258)
Miscellaneous	14,171	85,538	99,709
Net assets released from restrictions:			
Satisfaction of grant/contract restrictions	7,243,626	( 7,243,626)	
Satisfaction of use restrictions	141,538	( 141,538)	
Satisfaction of donor restrictions			
Total revenues and other support	<u>7,567,471</u>	<u>-0-</u>	<u>7,567,471</u>
<u>Expenses</u>			
Program services:			
Rehabilitation and residential housing	6,696,956		6,696,956
General and administrative	927,355		927,355
Fundraising	<u>72,172</u>		<u>72,172</u>
Total expenses	<u>7,696,483</u>		<u>7,696,483</u>
Change in net assets	( 129,012)	-0-	( 129,012)
Net assets beginning of year	<u>1,492,432</u>	<u>1,809</u>	<u>1,494,241</u>
Net assets end of year	<u>\$ 1,363,420</u>	<u>\$ 1,809</u>	<u>\$ 1,365,229</u>

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

June 30, 2005		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$	\$7,112,191	\$7,112,191
56,646		56,646
47,283		47,283
34,353		34,353
49,260		49,260
577		577
71,314		71,314
26,389	74,444	100,833
7,112,191	( 7,112,191)	
74,456	( 74,456)	
<u>7,472,469</u>	<u>( 12)</u>	<u>7,472,457</u>
6,315,333		6,315,333
894,478		894,478
<u>77,220</u>	<u></u>	<u>77,220</u>
<u>7,287,031</u>	<u></u>	<u>7,287,031</u>
185,438	( 12)	185,426
<u>1,306,994</u>	<u>1,821</u>	<u>1,308,815</u>
<u>\$ 1,492,432</u>	<u>\$ 1,809</u>	<u>\$1,494,241</u>

PROGRESS, INC.  
Statements of Functional Expenses  
For the Years Ended June 30, 2006 and 2005

	<u>June 30, 2006</u>			
	<u>Rehabilitation &amp; Residential Housing</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 4,274,447	\$ 483,322	\$ 40,865	\$ 4,798,634
Employee benefits	800,498	100,743	7,310	908,551
Client wages	<u>44,028</u>			<u>44,028</u>
 Total salaries and related expenses	 5,118,973	 584,065	 48,175	 5,751,213
Professional services and fees	466,988	34,061	22,275	523,324
Insurance	12,360	53,571		65,931
Donations				
Communications	51,415	18,605	1,228	71,248
Utilities	67,535	5,584		73,119
Food	194,589	3,967		198,556
Rent	199,442	2,161		201,603
Interest	1,244	62,642		63,886
Travel	15,679	2,319		17,998
Transportation	361,938	9,674		371,612
Awards	7,205	21,294	30	28,529
Subsidies	9,549	4,407		13,956
Supplies - office	85,240	19,419	464	105,123
Repairs and maintenance	<u>50,821</u>	<u>16,116</u>		<u>66,937</u>
 Total expenses before depreciation and amortization	 6,642,978	 837,885	 72,172	 7,553,035
 Amortization expense		5,738		5,738
Depreciation expense	<u>53,978</u>	<u>83,732</u>		<u>137,710</u>
 Total expenses	 <u>\$ 6,696,956</u>	 <u>\$ 927,355</u>	 <u>\$ 72,172</u>	 <u>\$ 7,696,483</u>

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

June 30, 2005

Rehabilitation & Residential Housing	General and Administrative	Fundraising	Total
<u>\$4,033,455</u>	<u>\$ 467,319</u>	<u>\$ 38,000</u>	<u>\$4,538,774</u>
653,646	91,885	3,122	748,653
<u>58,906</u>	<u>          </u>	<u>          </u>	<u>58,906</u>
4,746,007	559,204	41,122	5,346,333
483,350	35,170	28,514	547,034
10,384	52,329		62,713
45,939	25,782	3,558	75,279
79,180	6,355	14	85,549
183,391	790	1,669	185,850
204,470	804		205,274
2,710	66,020		68,730
8,883	7,055	4	15,942
366,343	330	1,076	367,749
4,928	10,240	130	15,298
	2,354		2,354
85,645	15,018	1,087	101,750
<u>39,929</u>	<u>26,519</u>	<u>46</u>	<u>66,494</u>
6,261,159	807,970	77,220	7,146,349
	5,737		5,737
<u>54,174</u>	<u>80,771</u>	<u>          </u>	<u>134,945</u>
<u>\$6,315,333</u>	<u>\$ 894,478</u>	<u>\$ 77,220</u>	<u>\$7,287,031</u>

PROGRESS, INC.  
Statements of Cash Flows  
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>Cash flows from operating activities</u>		
Change in net assets	(\$ 129,012)	\$ 185,426
Adjustments to reconcile change in net assets to net cash:		
Depreciation	137,710	134,945
Amortization of bond costs	5,738	5,737
Loss (gain) on sale of property & equipment	1,980	( 71,314)
Loss (gain) on investments	1,258	
(Increase) decrease in operating assets:		
Accounts receivable	141,095	( 186,346)
Security deposits		( 590)
Prepaid expenses		10,138
Debt service reserve	( 45,427)	7,993
Increase (decrease) in operating liabilities:		
Accounts payable	( 44,674)	68,815
Accrued expenses	<u>37,526</u>	<u>111,947</u>
Net cash provided (used) by operating activities	<u>106,194</u>	<u>266,751</u>
<u>Cash flows from investing activities</u>		
Purchases of certificates of deposit	( 480,000)	( 180,000)
Securities redeemed	459,725	50,000
Proceeds from sale of assets		177,500
Purchases of property & equipment	<u>( 138,787)</u>	<u>( 41,175)</u>
Net cash provided (used) by investing activities	<u>( 159,062)</u>	<u>6,325</u>
<u>Cash flows from financing activities</u>		
Proceeds from borrowing:		
Short-term	4,156,000	3,565,500
Long-term	28,995	
Payments on notes:		
Short-term	( 4,177,000)	( 3,544,500)
Long-term	<u>( 84,316)</u>	<u>( 104,800)</u>
Net cash used by financing activities	<u>( 76,321)</u>	<u>( 83,800)</u>
Net increase (decrease) in cash	( 129,189)	189,276
Beginning cash and cash equivalents	<u>448,913</u>	<u>259,637</u>
Ending cash and cash equivalents	<u>\$ 319,724</u>	<u>\$ 448,913</u>

Supplemental Information for the Statement of Cash Flows

	<u>2006</u>	<u>2005</u>
<u>Schedule of noncash investing and financing transactions</u>		
Purchases of property and equipment	\$ 138,787	\$ 41,175
Less: Loans	<u>28,995</u>	
Net cash paid for property and equipment	<u>\$ 109,792</u>	<u>\$ 41,175</u>
<u>Cash paid during the year for</u>		
Interest	<u>\$ 63,886</u>	<u>\$ 68,730</u>

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

PROGRESS, INC.  
Notes to the Financial Statements  
June 30, 2006 and 2005

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, 2006 and 2005

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, 2006 and 2005 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 96% of total support and revenue. This support was provided by the following agencies: 93% from the Tennessee Department of Mental Health and Mental Retardation and 3% from the Tennessee Department of Finance and Administration.

PROGRESS, INC.  
Notes to the Financial Statements  
June 30, 2006 and 2005

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, 2006 and 2005, depreciation expense was \$137,710 and \$134,945, 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, 2006 and 2005 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, 2006 or 2005.

PROGRESS, INC.  
Notes to the Financial Statements  
June 30, 2006 and 2005

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, 2006 and 2005.

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, 2006</u>		<u>June 30, 2005</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	\$ 319,724	\$ 319,724	\$ 448,913	\$ 448,913
Accounts receivable - state	207,017	207,017	320,057	320,057
Accounts receivable - residents	25,266	25,266	17,920	17,920
Accounts receivable - other	29,927	29,927	12,075	12,075
Financial liabilities:				
Accounts payable - trade	81,890	81,890	112,416	112,416
Accounts payable - residents			29,925	29,925
Accrued expenses	518,798	518,798	481,272	481,272
Installment notes payable	31,856	31,856	17,177	17,177
Bonds payable	890,000	890,000	960,000	960,000

PROGRESS, INC.  
Notes to the Financial Statements  
June 30, 2006 and 2005

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, 2006</u>		<u>June 30, 2005</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>\$ 207,017</u>	<u>\$ 207,017</u>	<u>\$ 188,000</u>	<u>\$ 188,000</u>

Note 2 - Property and equipment

Property and equipment consists of the following at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Land	\$ 23,204	\$ 23,204
Buildings and improvements	2,242,084	2,232,241
Vehicles	309,198	233,155
Furniture and equipment	<u>219,662</u>	<u>175,728</u>
	2,794,148	2,664,328
<u>Less: Accumulated depreciation</u>	<u>( 829,487)</u>	<u>( 698,764)</u>
	<u>\$1,964,661</u>	<u>\$1,965,564</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 July 1, 2005, 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 one of 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. entered into a lease for use of office equipment at one of its outside offices. This lease began on November 11, 2005, expires on October 11, 2008 and has a fixed monthly payment of \$99.

PROGRESS, INC.  
Notes to the Financial Statements  
June 30, 2006 and 2005

Note 3 - Commitments (continued)

The Organization also has lease commitments for the use of two 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. The other 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>
2007	\$ 32,524
2008	24,081
2009	13,864
2010	<u>3,079</u>
Total	<u>\$ 73,548</u>

The Organization has a \$250,000 line of credit with a local institution (\$250,000 at June 30, 2005). The line is unsecured and has an interest rate equivalent to the prime rate plus 0.25% at June 30, 2006 (prime rate plus 0.25% at June 30, 2005). The line of credit expires January 20, 2008. Advances payable under the line are \$-0- at June 30, 2006 and \$21,000 at June 30, 2005.

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, 2006 and 2005. This line of credit expires at will any time through June 6, 2023 and there are no advances payable at both June 30, 2006 and 2005.

Note 4 - Deposits with financial institutions and investments

For the years ended June 30, 2006 and 2005, Progress, Inc. held \$526,741 and \$636,913, respectively, in cash deposits and investments. In addition, the Organization held cash deposits and investments, in trust, for clients of \$29,090 and \$44,867, respectively, for years ended June 30, 2006 and 2005.

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, 2006 and 2005, the Organization had cash balances of \$319,724 and \$448,913 respectively, in unrestricted accounts. At June 30, 2006 and 2005, the Organization had certificates of deposit of \$199,017 and \$180,000, respectively. Cash balances maintained for clients, in a fiduciary capacity, were \$29,090 and \$44,867, respectively, for the years ended June 30, 2006 and 2005. At June 30, 2006, Progress, Inc. had \$284,789 in uninsured deposits. At June 30, 2005, \$389,013 of the Organization's deposits were uninsured.

PROGRESS, INC.  
Notes to the Financial Statements  
June 30, 2006 and 2005

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

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, 2006 and 2005, Progress, Inc. had the following investments.

	June 30, 2006					June 30, 2005	
	Category			Carrying	Market	Carrying	Market
	1	2	3	Amount	Value	Amount	Value
Certificates of deposit	\$ 199,017	\$	\$	\$ 199,017	\$ 199,017	\$180,000	\$180,000
Corporate stock	8,000			8,000	8,000	8,000	8,000
	<u>\$207,017</u>	<u>\$</u>	<u>\$</u>	<u>\$ 207,017</u>	<u>\$ 207,017</u>	<u>\$188,000</u>	<u>\$188,000</u>

Note 5 - Installment notes payable

Installment notes payable consist of the following at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Installment note payable to DaimlerChrysler Truck Financial, payable in 12 monthly installments of \$960 including principal and interest beginning February 17, 2006 with a final payment January 17, 2007, interest rate of 7.90%, secured by two vehicles purchased.	\$ 7,030	\$ -0-
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.	12,290	16,586
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.	-0-	280

PROGRESS, INC.  
Notes to the Financial Statements  
June 30, 2006 and 2005

Note 5 - Installment notes payable (continued)

	<u>2006</u>	<u>2005</u>
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.	-0-	311
Installment note payable to AmSouth Bank, payable in 36 monthly installments of \$539 including principal and interest beginning August 15, 2005 with a final payment July 15, 2008, interest rate of 6.75%, secured by the vehicle purchased.	<u>12,536</u> 31,856	<u>-0-</u> 17,177
Classified as current liabilities	( <u>17,850</u> )	( <u>5,327</u> )
Classified as long-term debt	<u>\$ 14,006</u>	<u>\$ 11,850</u>

Maturities on notes payable are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2007	\$ 17,850
2008	11,042
2009	<u>2,964</u>
	<u>\$ 31,856</u>

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 2006 (3% in 2005) 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, 2006 and 2005 were \$57,730 and \$59,632, 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, 2006 and 2005 are \$-0- and \$29,925, respectively.

PROGRESS, INC.  
Notes to the Financial Statements  
June 30, 2006 and 2005

Note 8 - Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes after June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Client use	<u>\$ 1,809</u>	<u>\$ 1,809</u>

Note 9 - Promises to give

The Organization has received all outstanding conditional promises to give at June 30, 2006 and 2005 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.

A debt service schedule for the bonds at June 30, 2006, showing approximate interest amounts subject to change, is as follows:

<u>Date</u> <u>Due</u>	<u>Principal</u> <u>Due</u>	<u>Approximate</u> <u>Interest</u> <u>Rate</u>	<u>Interest</u> <u>Due</u>	<u>Total</u> <u>Due</u>
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	105,000.00	4.25%	4,524.47	109,524.47
	<u>\$ 890,000.00</u>		<u>\$223,423.03</u>	<u>\$1,113,423.03</u>

PROGRESS, INC.  
Notes to the Financial Statements  
June 30, 2006 and 2005

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

During June 30, 2006, the Organization paid \$70,000 in bond principal and \$26,242 in bond interest (\$70,000 and \$17,192, respectively, at June 30, 2005). The seventh principal payment of \$70,000 was made in July 2005 and a principal payment of \$70,000 was made in July 2006.

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, 2006 was \$5,738 (\$5,737 at June 30, 2005), yielding a net bond issue cost of \$68,849 (\$74,587 at June 30, 2005).

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.  
Notes to the Financial Statements  
June 30, 2006 and 2005

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

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.

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, 2006, and have issued our report thereon dated November 1, 2006. 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 November 1, 2006.

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.

November 1, 2006

PROGRESS, INC.  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2006

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, 2006

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

NONE

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS AUDIT

NONE