

PROGRESS, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2009 AND 2008

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BELLENFANT + MILES, PLLC
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, 2009 and 2008, 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, 2009 and 2008, 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, PLLC

October 21, 2009

PROGRESS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 944,622	\$ 459,770
Investments	321,906	395,240
Accounts receivable - state agencies	619,193	1,368,617
Accounts receivable - other	15,560	24,133
Prepaid expenses	<u>4,141</u>	<u>49,285</u>
Total current assets	<u>1,905,422</u>	<u>2,297,045</u>
PROPERTY AND EQUIPMENT		
Property and equipment, at cost, net of accumulated depreciation	<u>1,585,573</u>	<u>1,623,203</u>
OTHER ASSETS		
Bond issue cost - net of amortization	51,637	57,375
Debt service reserve	92,422	89,875
Security deposits	5,030	5,130
Cash - client trust account	<u>119,621</u>	<u>11,879</u>
Total other assets	<u>268,710</u>	<u>164,259</u>
TOTAL ASSETS	<u><u>\$ 3,759,705</u></u>	<u><u>\$ 4,084,507</u></u>

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

PROGRESS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT LIABILITIES		
Bonds payable - current portion	\$ 170,000	\$ 165,000
Installment notes payable - current portion	13,868	21,765
Line of credit	224,102	-
Accounts payable - trade	241,152	163,630
Accrued expenses	659,222	636,052
Unearned income	153,972	923,834
	<u>1,462,316</u>	<u>1,910,281</u>
NON-CURRENT LIABILITIES		
Bonds payable - less current portion	490,000	575,000
Installment notes payable - less current portion	11,635	25,588
	<u>501,635</u>	<u>600,588</u>
TOTAL LIABILITIES	<u>1,963,951</u>	<u>2,510,869</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted	1,786,993	1,543,638
Temporarily restricted	8,761	30,000
	<u>1,795,754</u>	<u>1,573,638</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,759,705</u>	<u>\$ 4,084,507</u>

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

PROGRESS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT						
State grants and contracts	\$ -	\$ 7,640,231	\$ 7,640,231	\$ -	\$ 7,782,420	\$ 7,782,420
Contributions	97,337	47,494	144,831	167,937	30,000	197,937
Fundraising	-	85,559	85,559	3,663	79,000	82,663
Room and board fees	30,167		30,167	17,480		17,480
Supported employment worksites	39,258		39,258	40,141		40,141
Investment income	25,539		25,539	27,433		27,433
Gain (loss) on sale of assets	4,995		4,995	(372)		(372)
Gain (loss) on investment	651		651	207		207
Miscellaneous	12,036		12,036	39,696		39,696
Net assets released from restrictions:						
Satisfaction of grant/contract restrictions	7,725,790	(7,725,790)	-	7,861,420	(7,861,420)	-
Satisfaction of use restrictions	68,733	(68,733)	-	12,554	(12,554)	-
Total revenues and other support	8,004,506	(21,239)	7,983,267	8,170,159	17,446	8,187,605
EXPENSES						
Program services:						
Rehabilitation and residential housing	6,796,221		6,796,221	6,888,720	-	6,888,720
General and administrative	847,564		847,564	1,037,030		1,037,030
Fundraising	117,366		117,366	68,197		68,197
Total expenses	7,761,151	-	7,761,151	7,993,947	-	7,993,947
Change in net assets	243,355	(21,239)	222,116	176,212	17,446	193,658
Net assets - beginning of year	1,543,638	30,000	1,573,638	1,367,426	12,554	1,379,980
Net assets - end of year	\$ 1,786,993	\$ 8,761	\$ 1,795,754	\$ 1,543,638	\$ 30,000	\$ 1,573,638

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

PROGRESS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009				2008			
	Rehabilitation & Residential Housing	General and Administrative	Fundraising	Total	Rehabilitation & Residential Housing	General and Administrative	Fundraising	Total
Salaries	\$ 4,687,412	\$ 518,730	\$ 91,200	\$ 5,297,342	\$ 4,549,232	\$ 637,066	\$ 34,200	\$ 5,220,498
Employee benefits	742,256	58,707	11,226	812,189	782,674	77,792	7,910	868,376
Client wages	33,663			33,663	34,499			34,499
Total salaries and related expenses	5,463,331	577,437	102,426	6,143,194	5,366,405	714,858	42,110	6,123,373
Professional services and fees	288,550	40,413	356	329,319	368,706	13,338	6,938	388,982
Insurance	57,703	48,981	-	106,684	61,837	53,167		115,004
Donations								
Communications	40,108	6,248	577	46,933	43,440	8,536	82	52,058
Utilities	87,092	5,160	-	92,252	69,472	4,450		73,922
Food	95,933	213	818	96,964	188,607	48	507	189,162
Rent	222,306	655	-	222,961	194,552	80		194,632
Interest	2,311	31,453	-	33,764	5,116	87,267		92,383
Travel		586	17	603		1,146	159	1,305
Transportation	349,166	-	200	349,366	362,293	28	275	362,596
Awards	16,806	13,183	1,908	31,897	68,658	15,331		83,989
Subsidies	22,104			22,104				-
Supplies - office	40,621	22,721	11,064	74,406	66,856	26,277	18,126	111,259
Repairs and maintenance	66,838	16,794	-	83,632	50,093	22,206		72,299
Total expenses before depreciation and amortization	6,752,869	763,844	117,366	7,634,079	6,846,035	946,732	68,197	7,860,964
Amortization expense		5,738		5,738		5,737		5,737
Depreciation expense	43,352	77,982	-	121,334	42,685	84,561		127,246
Total expenses	\$ 6,796,221	\$ 847,564	\$ 117,366	\$ 7,761,151	\$ 6,888,720	\$ 1,037,030	\$ 68,197	\$ 7,993,947

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

PROGRESS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 222,116	\$ 193,658
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	121,334	127,246
Amortization of bond costs	5,738	5,737
Loss (gain) on sale of property & equipment	(4,995)	372
Loss (gain) on investments	(651)	(207)
(Increase) decrease in operating assets		
Accounts receivable	757,997	(1,275,280)
Prepaid expenses	45,244	(49,285)
Debt service reserve	(2,547)	(5,452)
Increase (decrease) in operating liabilities:		
Accounts payable	(30,220)	64,310
Accrued expenses	23,170	46,515
Unearned income	(769,862)	923,834
Net cash provided (used) by operating activities	<u>367,324</u>	<u>31,448</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of securities	(413,015)	(387,000)
Securities redeemed	487,000	366,766
Proceeds from sale of assets	4,995	-
Purchases of property and equipment	(83,704)	(33,275)
Net cash provided (used) by investing activities	<u>(4,724)</u>	<u>(53,509)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowing:		
Short-term	404,102	3,731,456
Long-term		-
Payments on notes:		
Short-term	(180,000)	(3,731,456)
Long-term	(101,850)	(104,407)
Net cash provided (used) by financing activities	<u>122,252</u>	<u>(104,407)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>484,852</u>	<u>(126,468)</u>
Cash and cash equivalents at the beginning of the year	<u>459,770</u>	<u>586,238</u>
Cash and cash equivalents at the beginning of the year	<u>\$ 944,622</u>	<u>\$ 459,770</u>

SUPPLEMENTAL INFORMATION FOR THE STATEMENT OF CASH FLOWS

	<u>2009</u>	<u>2008</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS		
Purchases of property and equipment	\$ 83,704	\$ 58,275
Less: Loans	-	(25,000)
Net cash paid for property and equipment	<u>\$ 83,704</u>	<u>\$ 33,275</u>
CASH PAID DURING THE YEAR FOR		
Interest	<u>\$ 33,764</u>	<u>\$ 92,383</u>

The accompanying notes are an integral part of these financial statements

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities:

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

Basis of accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Progress, Inc. and the changes therein are classified and reported as follows:

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

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the organization and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulation that they be maintained permanently by the organization. Generally, the donors of these assets permit the organization to use all or part of the income earned on any related investments for general or specific purposes.

Revenue:

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

Promises to give:

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

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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, 2009 and 2008 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.

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.

Income taxes:

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

Cash and cash equivalents:

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

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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, 2009 and 2008, depreciation expense was \$121,334 and \$127,245 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, 2009 and 2008 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, 2009 or 2008.

Fair value of financial instruments:

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

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fair value of financial instruments - continued:

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, 2009 and 2008

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, 2009</u>		<u>June 30, 2008</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Financial assets:				
Cash and cash equivalents	\$ 944,622	\$ 944,622	\$ 459,770	\$ 459,770
Accounts receivable - state	619,193	619,193	1,368,617	1,368,617
Accounts receivable - other	15,560	15,560	24,133	24,133
Financial liabilities:				
Accounts payable - trade	241,152	241,152	163,630	163,630
Accrued expenses	659,222	659,222	636,052	636,052
Installment notes payable	25,503	25,503	47,353	47,353
Bonds payable	660,000	660,000	740,000	740,000
Unearned income	153,972	153,972	923,834	923,834

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

	<u>June 30, 2009</u>		<u>June 30, 2008</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Financial assets:				
Investments	<u>\$ 321,906</u>	<u>\$ 321,906</u>	<u>\$ 395,240</u>	<u>\$ 395,240</u>

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

2. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Land	\$ 29,296	\$ 29,296
Buildings and improvements	2,105,392	2,024,714
Vehicles	286,454	286,454
Furniture and equipment	215,092	218,661
	<u>2,636,234</u>	<u>2,559,125</u>
Less: Accumulated depreciation	(1,050,661)	(935,922)
	<u><u>\$1,585,573</u></u>	<u><u>\$1,623,203</u></u>

3. COMMITMENTS

The Organization entered into a lease for real property with the State of Tennessee during the year ended June 30, 1997, which will expire in the year 2056. There are no minimum fixed lease payments under the lease, but all improvements to the property will be surrendered to the lessor at the expiration of the lease, at the lessor's option.

Progress, Inc. entered into 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. 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
2010	\$ 21,864
2011	18,944
2012	6,916
Total	<u><u>\$ 47,724</u></u>

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

3. COMMITMENTS - CONTINUED

The Organization has a \$300,000 line of credit with a Pinnacle Financial Partners. The line is unsecured and has an interest rate equivalent to 5.00% and 6.00% at June 30, 2009 and 2008 respectively. The line of credit expires August 28, 2009. Advances payable under the line are \$224,102 and \$-0- at June 30, 2009 and 2008 respectively.

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

For the years ended June 30, 2009 and 2008, Progress, Inc. held \$1,358,950 and \$944,885, respectively, in cash deposits and investments. In addition, the Organization held cash deposits and investments, in trust, for clients of \$119,621 and \$11,879, respectively, for years ended June 30, 2009 and 2008.

Deposits:

Progress, Inc. maintains cash balances at several banks located in Nashville, Tennessee. Amounts at each institution are insured up to \$250,000 (\$100,000 at June 30, 2008) by the Federal Deposit Insurance Corporation. At June 30, 2009 and 2008, the Organization had cash balances of \$944,622 and \$459,770 respectively, in unrestricted accounts. At June 30, 2009 and 2008, the Organization had certificates of deposit of \$313,906 and \$387,240, respectively. Cash balances maintained for clients, in a fiduciary capacity, were \$119,921 and \$11,879, respectively, for the years ended June 30, 2009 and 2008. At June 30, 2009 and 2008, Progress, Inc. had \$235,123 and \$457,889 respectively in uninsured deposits.

5. FAIR VALUE INVESTMENTS

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

Fair Value Measurements at June 30, 2009 Using				
		Quoted Prices		
		In Active	Significant	
		Markets for	Other	Significant
		Identical	Observable	Unobservable
		Assets	Inputs	Inputs
	Fair Value	(Level 1)	(Level 2)	(Level 3)
Certificates of deposit	\$ 313,906	\$ -	\$ 313,906	\$ -
Corporate stock	8,000	-	-	8,000
	<u>\$ 321,906</u>	<u>\$ -</u>	<u>\$ 313,906</u>	<u>\$ 8,000</u>

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

5. FAIR VALUE INVESTMENTS - CONTINUED

SFAS No. 157, Fair Value Measurements, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted process for identical assets, and Level 3 inputs have the lowest priority. The Organization uses the appropriate valuation techniques based on the available inputs to measure the fair value of its investments. Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

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

Level 3 Fair Value Measurements - The fair value of the mutual fund and the guaranteed interest accounts are based on at least one significant unobservable input.

	Corporate Stock	Total
Beginning balance	\$ 8,000	\$ 8,000
Total gains or losses (realized and unrealized) included in the changes of net assets available for benefits	-	-
Purchases, issuances, settlements, and transfers from unallocated to allocated (net)	-	-
Ending balance	<u>\$ 8,000</u>	<u>\$ 8,000</u>

Total gains or losses for the year included in changes in net assets available for benefits attributable to the change in unrealized gains or losses relating to investments still held at the reporting date.	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
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Gains and losses (realized and unrealized) included in changes in net assets available for benefits for the year ended June 30, 2009, are reported in the net appreciation in fair value of investments.

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

6. INSTALLMENT NOTES PAYABLE

Installment notes payable consist of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</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.	\$ 17,797	\$ 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
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	-	327
Installment note payable to DaimlerChrysler Truck Financial, payable in 60 monthly installments of \$366 including principal and interest beginning March 22, 2005 with a final payment due February 22, 2010, interest rate of 0.9%, secured by the vehicle purchased.	2,553	6,904
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

PROGRESS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

6. INSTALLMENT NOTES PAYABLE - CONTINUED

Installment note payable to Pinnacle Financial Partners, payable in 36 monthly installments of \$553 including principal and interest beginning July 4, 2007 with a final payment due June 4, 2010, interest rate of 7.15%, secured by the vehicle purchased

5,153	11,180
<u>25,503</u>	<u>47,353</u>

Classified as current liabilities

(13,868)	(21,765)
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Classified as long-term debt

<u>\$ 11,635</u>	<u>\$ 25,588</u>
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Maturities on notes payable are as follows:

Year ended June 30,	Amount
2010	\$ 13,868
2011	6,519
2012	5,116
	<u>\$ 25,503</u>

7. EMPLOYEE BENEFIT PLAN

During the year ended June 30, 1995, the Organization entered into a tax deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The Plan covers full-time employees who have reached age 19 1/2, completed at least six months service and agree to make at least a \$200 annual contribution. The Organization contributed 3% of gross salaries in both 2009 and 2008 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, 2009 and 2008 were \$44,131 and \$42,127, respectively.

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes after June 30, 2009 and 2008:

	2009	2008
Property renovation	\$ -	\$ 30,000
Residential services	8,479	-
Camp for clients	282	-
	<u>\$ 8,761</u>	<u>\$ 30,000</u>

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9. PROMISES TO GIVE

The Organization has received all outstanding conditional promises to give at June 30, 2009 and 2008 and is not scheduled to receive any further promises to give in the coming years.

10. BONDED DEBT AND RESTRICTED FUNDS

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

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

A debt service schedule for the bonds at June 30, 2009, showing approximate interest amounts subject to change, is as follows:

10. BONDED DEBT AND RESTRICTED FUNDS - CONTINUED

Date Due	Principal Due	Approximate Interest Rate	Interest Due	Total Due
July 1, 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>\$ 660,000</u>		<u>\$ 118,067.32</u>	<u>\$ 778,067.32</u>

During June 30, 2009, the Organization paid \$80,000 in bond principal and \$24,343 in bond interest (\$75,000 and \$46,084, respectively, at June 30, 2008). The tenth principal payment of \$80,000 was made in July 2008 and a principal payment of \$85,000 was made in July 2009.

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10. BONDED DEBT AND RESTRICTED FUNDS - CONTINUED

Progress, Inc. incurred \$114,749 in bond issue costs which are to be amortized over the twenty-year term of the bonds, including a \$12,675 rebatable arbitrage amount paid in April, 2004. The amount of bond cost amortization for the years ended June 30, 2009 and June 30, 2008 was \$5,738 and \$5,737 respectively, yielding a net bond issue cost of \$51,637 and \$57,375 at June 30, 2009 and June 30, 2008 respectively.

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

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

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

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

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11. UNEARNED INCOME

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