

PROGRESSIVE DIRECTIONS, INC.
AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION
YEARS ENDED JUNE 30, 2018 AND 2017

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PROGRESSIVE DIRECTIONS, INC.
SCHEDULE OF BOARD OF DIRECTORS AND MANAGEMENT (UNAUDITED)
JUNE 30, 2018

BOARD OF DIRECTORS

Ms. Alena Sampson
Ms. Kay Skillington
Ms. Irene Johnson
Ms. Joanna Bailey
Ms. Mary Davila
Ms. Sandra Holly
Dr. Bruce Myers
Mr. Edwinter Myles
Mr. Bob Palmer
Ms. Roma Powis
Dr. Steve Routledge
Ms. Betty Young

Chairman
Vice-Chairman
Secretary/Treasurer

MANAGEMENT

Mr. Jay Albertia
Mr. James Larson

President/CEO
Executive Vice President/CFO



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Progressive Directions, Inc.
Clarksville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Progressive Directions, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of Progressive Directions, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of federal and state financial assistance, listed as other information in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2018, on our consideration of Progressive Directions, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Progressive Directions, Inc.'s internal control over financial reporting and compliance.

Stone Rudolph & Henry, PLC

Clarksville, Tennessee
October 24, 2018

PROGRESSIVE DIRECTIONS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	<u>ASSETS</u>	
	2018	2017
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 707,780	\$ 103,935
Accounts receivable	1,333,974	906,771
Inventory	2,846	2,846
Prepaid expenses	8,783	93,817
Total current assets	<u>2,053,383</u>	<u>1,107,369</u>
<u>PROPERTY AND EQUIPMENT</u>		
Land	440,468	429,218
Building	2,798,218	2,409,297
Equipment	679,794	552,395
Vehicles	894,070	686,309
Construction in progress	16,500	15,000
Total property and equipment	<u>4,829,050</u>	<u>4,092,219</u>
Less: accumulated depreciation	<u>2,867,107</u>	<u>2,270,489</u>
Net property and equipment	<u>1,961,943</u>	<u>1,821,730</u>
<u>OTHER ASSETS</u>		
Customer deposits	4,941	3,941
Loan costs, net of accumulated amortization of \$13,758 and \$7,452	-	6,306
Total other assets	<u>4,941</u>	<u>10,247</u>
Total assets	<u>\$ 4,020,267</u>	<u>\$ 2,939,346</u>
	<u>LIABILITIES AND NET ASSETS</u>	
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 259,899	\$ 218,730
Accrued payroll	719,080	520,759
Other accrued liabilities	20,650	26,617
Line of credit	99,634	150,000
Current portion of notes payable	331,371	256,260
Total current liabilities	<u>1,430,634</u>	<u>1,172,366</u>
<u>LONG-TERM LIABILITIES</u>		
Notes payable - net of current portion	<u>1,094,832</u>	<u>1,057,548</u>
Total liabilities	<u>2,525,466</u>	<u>2,229,914</u>
<u>NET ASSETS</u>		
Unrestricted	<u>1,494,801</u>	<u>709,432</u>
Total liabilities and net assets	<u>\$ 4,020,267</u>	<u>\$ 2,939,346</u>

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

PROGRESSIVE DIRECTIONS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017

<u>CHANGES IN UNRESTRICTED NET ASSETS</u>	<u>2018</u>	<u>2017</u>
Revenues:		
Fees and services	\$ 10,948,978	\$ 7,056,634
Grants	768,311	734,638
Contributions	136,412	134,974
Day care	699,438	661,233
Thrift store	88,446	76,144
Rent	98,212	-
Fundraising	3,105	-
Interest	2,739	772
Total revenues	<u>12,745,641</u>	<u>8,664,395</u>
Expenses:		
Program services		
Adult program services	9,916,301	6,321,052
Early intervention services	745,137	693,834
Day care	696,504	690,368
Thrift store	107,402	97,935
Total program services	<u>11,465,344</u>	<u>7,803,189</u>
Administrative supporting services	<u>1,255,955</u>	<u>985,087</u>
Total expenses	<u>12,721,299</u>	<u>8,788,276</u>
Other income:		
Other income	21,227	-
Gain on disposal of property and equipment	11,873	1,630
Total other income	<u>33,100</u>	<u>1,630</u>
<u>CHANGE IN UNRESTRICTED NET ASSETS</u>	57,442	(122,251)
<u>NET ASSETS - BEGINNING</u>	709,432	831,683
<u>BUSINESS COMBINATION ADJUSTMENT</u> - See Note 10	<u>727,927</u>	-
<u>NET ASSETS - ENDING</u>	<u>\$ 1,494,801</u>	<u>\$ 709,432</u>

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

PROGRESSIVE DIRECTIONS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Program Services					Total Program Services	Administrative Supporting Services	Total Expenses
	Adult Program Services	Early Intervention Services	Kids Depot Day Care	Thrift Store				
Advertising and public relations	\$ 10,335	\$ 92	\$ 1,625	\$ -	\$ -	\$ 12,052	\$ -	\$ 12,052
Communication	73,475	6,876	6,634	1,195		88,180	6,463	94,643
Depreciation	118,171	30,386	30,676	-		179,233	7,648	186,881
Dues, memberships and licenses	47,093	810	960	-		48,863	12,737	61,600
Food	12,777	-	44,680	-		57,457	-	57,457
Fringe benefits	1,175,772	75,267	38,673	4,347		1,294,059	241,976	1,536,035
Insurance	66,093	817	4,809	12		71,731	44,776	116,507
Interest	13,437	2,210	22,789	-		38,436	28,528	66,964
Miscellaneous	54,270	-	18,462	1,673		74,405	19,953	94,358
Personnel	7,407,767	531,931	433,661	56,824		8,430,183	659,930	9,090,113
Professional services	137,197	5,128	2,434	-		144,759	165,801	310,560
Rentals	118,068	-	-	30,004		148,072	15,194	163,266
Repairs and maintenance	74,505	8,035	30,319	4,247		117,106	616	117,722
Supplies	93,022	6,835	21,260	646		121,763	29,548	151,311
Travel and entertainment	2,183	1,774	673	-		4,630	10,231	14,861
Vehicle operations	439,715	67,342	8,840	-		515,897	12,035	527,932
Utilities	72,421	7,634	30,009	8,454		118,518	519	119,037
Total expenses	\$ 9,916,301	\$ 745,137	\$ 696,504	\$ 107,402	\$ -	\$ 11,465,344	\$ 1,255,955	\$ 12,721,299

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

PROGRESSIVE DIRECTIONS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	Program Services						Total Program Services	Administrative Supporting Services	Total Expenses
	Adult Program Services	Early Intervention Services	Kids Depot Day Care	Thrift Store					
Advertising and public relations	\$ 10,390	\$ -	\$ 15,818	\$ 1,239	\$ 1,239	\$ 27,447	\$ 14,336	\$ 41,783	
Communication	26,460	6,813	11,101	954	954	45,328	22,728	68,056	
Depreciation	75,209	18,758	43,869	-	-	137,836	17,861	155,697	
Dues, memberships and licenses	11,267	810	625	-	-	12,702	13,955	26,657	
Food	1,272	-	37,786	-	-	39,058	-	39,058	
Fringe benefits	709,729	73,693	45,380	6,801	6,801	835,603	117,312	952,915	
Grants and subsidies	24,069	-	-	-	-	24,069	-	24,069	
Insurance	96,615	5,396	9,368	430	430	111,809	27,400	139,209	
Interest	20,399	9,061	27,041	-	-	56,501	26,249	82,750	
Personnel	4,872,897	480,553	421,887	42,229	42,229	5,817,566	491,777	6,309,343	
Professional services	43,132	9,128	734	-	-	52,994	146,709	199,703	
Rentals	-	-	-	30,000	30,000	30,000	4,664	34,664	
Repairs and maintenance	31,225	6,886	25,985	8,595	8,595	72,691	49,217	121,908	
Supplies	44,814	17,467	17,350	362	362	79,993	25,329	105,322	
Travel and entertainment	26,186	56,241	-	-	-	82,427	5,815	88,242	
Vehicle operations	305,082	-	4,087	-	-	309,169	7,740	316,909	
Utilities	22,306	9,028	29,337	7,325	7,325	67,996	13,995	81,991	
Total expenses	\$ 6,321,052	\$ 693,834	\$ 690,368	\$ 97,935	\$ 97,935	\$ 7,803,189	\$ 985,087	\$ 8,788,276	

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

PROGRESSIVE DIRECTIONS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 57,442	\$ (122,251)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	186,882	155,697
Gain on disposals	(11,873)	(1,630)
Changes in:		
Accounts receivable	(44,396)	(131,484)
Inventory	-	(567)
Prepaid expenses	85,034	12,227
Customer deposits	(1,000)	(1,241)
Loan costs, net	6,306	1,376
Accounts payable	(14,588)	57,844
Accrued payroll	22,336	37,134
Other accrued liabilities	(38,953)	2,898
Net cash provided by operating activities	<u>247,190</u>	<u>10,003</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from disposal of fixed assets	14,944	1,630
Purchases of fixed assets	(175,976)	(74,342)
Beginning cash balance of Impact Centers, Inc. - Note 10	455,658	-
Net cash provided by (used in) investing activities	<u>294,626</u>	<u>(72,712)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Net proceeds from (repayments of) line of credit	(50,366)	150,000
Proceeds from notes payable	347,044	-
Repayment of notes payable	(234,649)	(242,614)
Net cash provided by (used in) financing activities	<u>62,029</u>	<u>(92,614)</u>
<u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>	603,845	(155,323)
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>103,935</u>	<u>259,258</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u>\$ 707,780</u>	<u>\$ 103,935</u>

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

PROGRESSIVE DIRECTIONS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

1. Summary of Significant Accounting Policies

Organization and Nature of Activities

Progressive Directions, Inc. (the Organization) is a private, nonprofit corporation that operates programs designed to train and support persons with varying degrees of developmental disabilities, mental retardation, cerebral palsy, and other handicapping conditions who live in Montgomery, Maury and surrounding counties. The primary source of revenue is from Tennessee state grants and fees for service. Revenue is also received from contributions and contracts. Fee for service revenue is also received from Kids Depot, a licensed day care facility that serves children ages one to twelve years. Approximately 5.5 and 7.5 percent of the Organization's revenues were derived from Kids Depot during the years ended June 30, 2018 and 2017, respectively.

On July 1, 2011, the Organization gained control over the Montgomery County Association of Retarded Citizens (ARC) Thrift Store (Thrift Store), a 501(c)(3) organization, in a partnership to advance the Organization's opportunities to those with developmental disabilities and to advocate for those with special needs. The Organization consolidated the Thrift Store as a department of the Organization. Less than one percent of the Organization's total income was derived from the Thrift Store during the years ended June 30, 2018 and 2017.

On July 1, 2017, the Organization merged with Impact Centers, Inc., a 501(c)(3) organization, to seek to further their common mission by improving efficiencies and processes to better serve clients in their service areas. See Note 9 for additional information regarding the business combination.

The Organization is qualified as a tax-exempt organization under 501(c)(3) of the Internal Revenue Code. It has not been determined to be a private foundation and is considered by the Internal Revenue Service (IRS) to be a public charity. Accordingly, no provision for income taxes has been made. However, the Organization does file information returns required by the IRS. The Organization is no longer subject to federal or state income tax examinations by tax authorities for fiscal years ended before June 30, 2015.

Use of Estimates

The Organization's financial statements are presented in accordance with accounting principles generally accepted in the United States of America which require the use of management's estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates in the near term and these variances could have a material effect on these financial statements.

PROGRESSIVE DIRECTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2018 AND 2017

1. Summary of Significant Accounting Policies (Cont'd)

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The Organization utilizes the accrual basis of accounting which recognizes revenues when earned and expenses when incurred. Operating revenues and expenses include those items that increase or decrease unrestricted net assets.

The Financial Accounting Standards Board (FASB) has established standards concerning contributions and financial statement presentation applicable to non-governmental not-for-profit organizations such as the Organization. These standards require that unconditional promises to give (pledges) be recorded as receivables and revenues and require the Organization to distinguish among contributions received for each net asset category in accordance with donor-imposed restrictions. A description of the three net asset categories follows:

Unrestricted

Unrestricted net assets are free of grant-imposed or donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by grants or donors are included in this classification. All expenditures are reported in the unrestricted class of net assets since the use of restricted contributions in accordance with the grantors' or donors' stipulations results in the release of the restriction.

Temporarily Restricted

Temporarily restricted net assets are limited as to use by grant-imposed or donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose. The Organization had no temporarily restricted net assets at June 30, 2018 and 2017.

Permanently Restricted

Permanently restricted net assets are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. The Organization had no permanently restricted net assets at June 30, 2018 and 2017.

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist principally of cash and accounts receivable. The Organization places its cash with federally-insured financial institutions. Substantially all receivables are from agencies of the State of Tennessee (the State) and no collateral is obtained.

PROGRESSIVE DIRECTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2018 AND 2017

1. Summary of Significant Accounting Policies (Cont'd)

Cash and Cash Equivalents

The Organization considers all highly-liquid debt instruments purchased with maturities of 90 days or less to be cash equivalents.

Accounts Receivable

An allowance for uncollectible accounts has not been made based on management's determination that such amount, if any, would be immaterial. Bad debts are recognized using the specific identification method. Delinquency is determined based upon contractual payment dates.

Inventory

Inventory consists of operating supplies and is valued at cost using the first-in, first-out method.

Property and Equipment

Property and equipment, including leasehold improvements, are recorded at historical cost or, if contributed, at estimated fair value at the date of receipt. Property and equipment acquired with a unit cost of \$1,000 or greater and a useful life of more than three years are capitalized. Expenditures for additions, major renovations and improvements are capitalized while those for maintenance and repairs are charged to expense as incurred. Capitalized assets are depreciated over their estimated useful life using the straight-line method.

Accrued Compensated Absences

Employees of the Organization are entitled to paid vacation based upon length of service. The estimated liability for accumulated leave was \$267,742 and \$240,281 at June 30, 2018 and 2017, respectively. Any amounts owed to employees are paid upon termination. The amounts are reported with accrued payroll as a current liability on the statement of financial position.

Revenues

Revenues are reported net of discounts.

Functional Expenses

Expenses are charged directly to program or administrative categories based on specific identification.

Date of Management's Review

Subsequent events have been evaluated through October 24, 2018, which is the date the financial statements were available to be issued.

PROGRESSIVE DIRECTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2018 AND 2017

2. Cash and Cash Equivalents

Cash and cash equivalents were represented by bank deposits of \$753,213 and \$106,623 at June 30, 2018 and 2017, respectively. Of these amounts, \$414,790 and \$106,623, respectively, was insured by the Federal Deposit Insurance Corporation, and \$338,423 and \$-0- respectively, was uninsured at June 30, 2018 and 2017.

3. Accounts Receivable

Accounts receivable from grants and contracts consisted of the following:

	<u>2018</u>	<u>2017</u>
Medicaid Waiver	\$ 991,213	\$ 524,934
Grants	138,889	174,433
Other	<u>203,872</u>	<u>207,404</u>
Total	<u>\$ 1,333,974</u>	<u>\$ 906,771</u>

4. Notes Payable

Notes payable consisted of the following:

	<u>2018</u>	<u>2017</u>
4.0% note payable to Legends Bank, secured by collateral of the 5.25% note to Legends Bank, payable in monthly installments of \$1,846 of principal and interest through November 2019, consolidated in the 3.15% note in 2018.	\$ -	\$ 49,224
3.5% note payable to Legends Bank, secured by land and building with carrying amount of \$150,343 at 2017, in monthly installments of \$835 of principal and interest with a balloon payment of \$85,105 due February 2021, consolidated in the 3.15% note in 2018.	-	108,393
5.25% note payable to Legends Bank, secured by real estate with carrying amount of \$1,030,433 at June 30, 2017, payable in monthly installments of \$23,739 of principal and interest through February 2022, consolidated in the 3.15% note in 2018.	-	1,156,191
3.15% note payable to Legends Bank, secured by real estate with carrying amount of \$1,030,503 at June 30, 2018, payable in monthly installments of \$28,889 of principal and interest through October 2022.	<u>1,426,203</u>	<u>-</u>
Total notes payable	1,426,203	1,313,808
Less: current portion	<u>331,371</u>	<u>256,260</u>
Total long-term portion of notes payable	<u>\$ 1,094,832</u>	<u>\$ 1,057,548</u>

PROGRESSIVE DIRECTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2018 AND 2017

4. Notes Payable (Cont'd)

Future payments on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>
2019	\$ 331,371	\$ 40,297
2020	316,223	30,445
2021	326,550	20,119
2022	337,133	9,536
2023	114,926	767
	<u>\$ 1,426,203</u>	<u>\$ 101,164</u>

Cash payments for interest were \$67,164 and \$83,095 for the years ended June 30, 2018 and 2017, respectively.

5. Line of Credit

The Organization maintains an unsecured bank line of credit with a limit of \$400,000 and \$250,000 at June 30, 2018 and 2017, respectively, of which \$300,366 and \$100,000 remained unused at June 30, 2018 and 2017, respectively. The line of credit has a variable interest rate which was 6.00% at June 30, 2018 and 2017 and is payable monthly. The line of credit matures August 2018.

6. Operating Leases

The Organization leases facilities in the conduct of its mission under noncancellable operating leases with maturities varying from one to five years.

The Organization leases three vehicles used in its day services. All vehicles are leased under 36 to 48-month terms with maturity dates ranging from August 2018 to May 2020.

The Organization leases copiers and postage equipment under operating leases held by various companies. The lease terms expire between December 2019 and May 2023.

Rental expense under the operating leases was \$163,266 for the year ended June 30, 2018.

Future payments on lease obligations are as follows:

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2019	\$ 93,188
2020	67,253
2021	34,086
2022	31,434
2023	22,516
Thereafter	2,000
	<u>\$ 250,477</u>

PROGRESSIVE DIRECTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2018 AND 2017

7. Retirement

The Organization provides pension benefits to all salaried employees through a 401(k) defined contribution retirement plan. Substantially all employees who have completed one year of service and reached age 21 are eligible to participate. The Organization makes matching contributions equal to 50% of the lesser of: (1) each participant's total contributions, or (2) 6% of the participant's earnings. Additionally, the Organization has the option of making a discretionary contribution to the Plan each Plan year. The Organization exercised the option to make discretionary contributions to the Plan of 3% during the years ended June 30, 2018 and 2017.

During the fiscal years ended June 30, 2018 and 2017, contributions to the plan totaling \$66,129 and \$48,298, respectively, were paid and expensed by the Organization. Employee contributions to the plan were \$72,639 and \$53,647 for the years ended June 30, 2018 and 2017, respectively.

8. Contracts

The Organization enters into program administrative contracts with the State Division of Intellectual Disabilities Services and the State Department of Education. These contracts are for the purpose of providing mental retardation services in accordance with applicable federal and state laws, regulations, program guidelines, service definitions and stated goals. Revenues under these contracts were \$9,641,028 and \$6,010,042 and amounted to 76% and 69% of total revenues for the years ended June 30, 2018 and 2017, respectively. A major reduction in funding by one or more of these State departments could have a significant effect on the future operations of the Organization.

9. Contingencies

Partial funding of the Organization's programs is provided by state and local government agencies. These funds are to be used for designated purposes only. If, based on the grantor's review, the funds are considered not to have been used for the intended purpose or in accordance with the terms of the grant, the grantor may request a refund of monies advanced or refuse to reimburse the Organization for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the Organization's programs is predicated upon the compliance of the Organization with the grant terms and the grantor's intent to continue its programs.

10. Business Combination

On July 1, 2017, Progressive Directions, Inc. and Impact Centers, Inc. completed a merger of their operations. Both organizations operate programs designed to train and support persons with varying degrees of developmental disabilities, mental retardation, cerebral palsy, and other handicapping conditions. After the merger, the combined organization will retain the name Progressive Directions, Inc. Through their merger, the organizations seek to further their common mission by improving efficiencies and processes to better serve clients in their service areas. The merger is mutually beneficial to both organizations due to changes in state funding available to organizations serving persons with developmental and intellectual disabilities.

PROGRESSIVE DIRECTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2018 AND 2017

10. Business Combination (Cont'd)

As of July 1, 2017, major classes of assets, liabilities and net assets of the organizations were as follows:

	<u>Progressive Directions, Inc.</u>	<u>Impact Centers, Inc.</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 103,935	\$ 455,658	\$ 559,593
Accounts receivable	906,771	382,807	1,289,578
Inventory	2,846	-	2,846
Prepaid expenses	93,817	-	93,817
Net property and equipment	1,821,730	154,190	1,975,920
Customer deposits	3,941	-	3,941
Loan costs, net	6,306	-	6,306
Total assets	<u>\$ 2,939,346</u>	<u>\$ 992,655</u>	<u>\$ 3,932,001</u>
Liabilities:			
Accounts payable	\$ 218,730	\$ 55,757	\$ 274,487
Accrued payroll	520,759	175,985	696,744
Other accrued liabilities	26,617	32,986	59,603
Line of credit	150,000	-	150,000
Current portion of long-term debt	256,260	-	256,260
Long-term debt	1,057,548	-	1,057,548
Total liabilities	<u>2,229,914</u>	<u>264,728</u>	<u>2,494,642</u>
Net assets:			
Temporarily restricted	-	2,434	2,434
Unrestricted	709,432	725,493	1,434,925
Total net assets	<u>709,432</u>	<u>727,927</u>	<u>1,437,359</u>
Total liabilities and net assets	<u>\$ 2,939,346</u>	<u>\$ 992,655</u>	<u>\$ 3,932,001</u>

There were no material transactions between the organizations prior to the merger and there were no material adjustments to conform the accounting policies of the combining organizations.

11. Subsequent Events

In August 2018, the Organization increased its unsecured bank line of credit limit from \$400,000 to \$500,000. The interest rate is based on the prime rate, with a floor of 5.069%. All other terms remained the same. The increased line matures August 2019.

PROGRESSIVE DIRECTIONS, INC.
SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2018

<u>Grantor/Program Title</u>	<u>Grant Number or Pass-Through Grantor's Contract</u>	<u>Federal CFDA Number</u>	<u>Accrued Receivable July 1, 2017</u>	<u>Receipts</u>	<u>Expenditure</u>	<u>Accrued Receivable June 30, 2018</u>
<u>U.S. Department of Education</u>						
Passed through State of Tennessee Department of Education						
Early Intervention Services 2017-2018	33195-00117	84.181A	\$ -	\$ 251,769	\$ 330,929	\$ 79,160
Total federal assistance			-	251,769	330,929	79,160
<u>State of Tennessee Department of Education</u>						
Early Intervention Services 2016-2017	33195-00117	84.181A	174,433	174,433	-	-
Early Intervention Services 2017-2018	33195-00117	84.181A	-	377,653	437,382	59,729
Total state assistance			174,433	552,086	437,382	59,729
Total assistance			\$ 174,433	\$ 803,855	\$ 768,311	\$ 138,889

See accompanying notes to schedule of federal and state financial assistance.

PROGRESSIVE DIRECTIONS, INC.
NOTES TO SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE
JUNE 30, 2018 AND 2017

Note A – Basis of Presentation

The accompanying schedule of federal and state financial assistance is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the State of Tennessee, Department of Audit, Audit Manual. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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INDEPENDENT AUDITOR'S 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
Progressive Directions, Inc.
Clarksville, Tennessee

We have audited, in accordance with the 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, the financial statements of Progressive Directions, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stone Rudolph & Henry, PLC

Clarksville, Tennessee

October 24, 2018

PROGRESSIVE DIRECTIONS, INC.
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

No findings were reported in the prior year.