

WAVES, INC.
FINANCIAL STATEMENTS
JUNE 30, 2007

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WAVES, INC.

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FINANCIAL SECTION

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Independent Auditor's Report

To the Board of Directors of
WAVES, Inc.
Franklin, Tennessee

I have audited the accompanying statement of financial position of WAVES, Inc. (a nonprofit organization) as of June 30, 2007, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted the audit in accordance with generally accepted auditing standards 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WAVES, Inc., as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated October 10, 2007, on my consideration of WAVES, Inc.'s internal control over financial reporting and 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 the 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 considered in conjunction with this report in considering the results of the audit.

My audit was performed for the purpose of forming an opinion on the basic financial statements of WAVES, Inc. The accompanying schedule of State Financial Assistance is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements.

John R Poole, CPA

October 10, 2007

WAVES, INC.

Statement of Financial Position

June 30, 2007

Assets

Current assets:	
Cash	\$ 359,953
Accounts receivable	275,575
Unconditional promises receivable	85,254
Prepaid assets	17,121
Total current assets	<u>737,903</u>
Property and equipment at cost:	
Land and building	750,628
Vehicles	291,161
Furniture and equipment	71,275
Less: accumulated depreciation	<u>(403,531)</u>
Net property and equipment	<u>709,533</u>
Other assets	<u>9,330</u>
Total assets	\$ <u>1,456,766</u>

Liabilities and Net Assets

Current liabilities:	
Accounts payable	\$ 22,401
Accrued expenses	174,571
Deferred revenue	250,905
Current portion of long-term debt	28,140
Total-current liabilities	<u>476,017</u>
Long-term debt	<u>389,152</u>
Total liabilities	<u>865,169</u>
Net assets:	
Temporarily restricted	136,964
Unrestricted	<u>454,633</u>
Total net assets	<u>591,597</u>
Total liabilities and net assets	\$ <u>1,456,766</u>

The accompanying notes are an integral part of these statements.

WAVES, INC.

Statement of Activities

For the year ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues			
Public support:			
Tennessee Department of:			
Mental Health and Mental Retardation	\$ 2,889,047	-	2,889,047
TEIS	16,596	-	16,596
Human Services	18,650	-	18,650
United Way	-	85,254	85,254
Grants	188,575	-	188,575
Private pay and room and board	148,235	-	148,235
City and County	74,206	-	74,206
In-kind	22,823	-	22,823
Recycle fees	24,619	-	24,619
Contributions	23,188	-	23,188
Interest	4,793	1,710	6,503
Miscellaneous	15,120	-	15,120
Net assets released from restrictions:			
United Way funding for the year 2006-2007	85,254	(85,254)	-
Total public support and revenues	<u>3,511,106</u>	<u>1,710</u>	<u>3,512,816</u>
Expenses:			
Residential services	1,790,747	-	1,790,747
Day services	855,441	-	855,441
Employment services	155,932	-	155,932
Child services	207,774	-	207,774
Management and General	458,740	-	458,740
Fundraising	17,693	-	17,693
Total expenses	<u>3,486,327</u>	<u>-</u>	<u>3,486,327</u>
Increase (decrease) in net assets	<u>24,779</u>	<u>1,710</u>	<u>26,489</u>
Beginning of year net assets	429,854	135,254	565,108
End of year net assets	<u>\$ 454,633</u>	<u>136,964</u>	<u>591,597</u>

WAVES, INC.

Statement of Functional Expenses

For the year ended June 30, 2007

	Program Services					Supporting Services			
	Residential Services	Day Services	Employment Services	Children Services	Total	Management and General	Fundraising	Total	Total Expenses
Salaries	\$ 1,240,910	516,006	92,719	133,993	1,983,628	275,263	9,258	284,521	2,268,149
Employee benefits	187,484	89,680	21,005	14,912	313,081	43,299	1,325	44,624	357,705
Payroll taxes	92,508	37,121	6,674	10,277	146,580	20,981	817	21,798	168,378
Travel	3,823	1,518	901	7,490	13,732	2,587	123	2,710	16,442
Printing	2,584	3,669	1,253	440	7,946	5,691	505	6,196	14,142
Utilities	19,064	13,960	-	-	33,024	-	-	-	33,024
Communications	17,647	9,532	4,927	2,981	35,087	7,920	320	8,240	43,327
Maintenance and repairs	13,742	13,278	303	2,654	29,977	1,270	30	1,300	31,277
Professional services	18,784	26,186	3,803	8,260	57,033	24,523	2,611	27,134	84,167
Supplies	13,967	8,489	2,774	4,633	29,863	14,933	1,955	16,888	46,751
Food	27,680	3,326	41	524	31,571	1,605	18	1,623	33,194
Rent	12,867	43,472	2,881	15,020	74,240	17,593	441	18,034	92,274
Insurance	3,935	1,118	100	129	5,282	9,193	10	9,203	14,485
Vehicle expense	53,472	61,091	11,162	-	125,725	5,601	-	5,601	131,326
Client benefits	15,444	10,698	3,586	5,585	35,313	2,300	46	2,346	37,659
Training	2,947	3,335	371	796	7,449	1,974	59	2,033	9,482
Miscellaneous	2,177	401	90	80	2,748	14,149	175	14,324	17,072
Interest	24,089	2,330	-	-	26,419	300	-	300	26,719
Depreciation	37,623	10,231	3,342	-	51,196	9,558	-	9,558	60,754
Total Expenses	\$ 1,790,747	855,441	155,932	207,774	3,009,894	458,740	17,693	476,433	3,486,327

The accompanying notes are an integral part of these statements.

WAVES, INC.

Statement of Cash Flows

For the year ended June 30, 2007

Cash flows from operating activities:	
Support and revenue received	\$ 3,577,017
Cash paid for:	
Salaries and related expenses	(2,794,232)
Program and support services	(658,826)
Net cash provided by operating activities	<u>123,959</u>
Cash flows used by financing activities:	
Payment of long-term debt	(24,232)
Net cash used by financing activities	<u>(24,232)</u>
Cash flows used by investing activities:	
Acquisition of fixed assets	(73,333)
Net cash used by investing activities	<u>(73,333)</u>
Net increase in cash	26,394
Cash and cash equivalents at beginning of year	333,559
Cash and cash equivalents at end of year	<u>\$ 359,953</u>

Reconciliation of Increase in Net Assets to Net Cash Provided by Operating Activities

Increase (decrease) in net assets	\$ 26,489
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	60,754
Changes in assets (increase) decrease:	
Accounts receivable	64,201
Prepaid assets	6,060
Other assets	(2,759)
Changes in liabilities increase (decrease)	
Accounts payable	(25,588)
Accrued expenses	(14,928)
Deferred revenue	9,730
Net cash provided by operating activities	<u>\$ 123,959</u>

WAVES, INC.

Notes to the Financial Statements

June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

WAVES, Inc. is a non-profit organization in Williamson County, Tennessee. The Organization's mission is to enable persons with disabilities to achieve their highest level of functioning and progress toward their full potential.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and recommendations of the American Institute of Certified Public Accountants in its industry audit and accounting guide, "Not-for-Profit Organizations."

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Standards (SAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SAS No. 117, the Organization is required to report information regarding its financial position and activities according to the three classes of net assets. In addition, the Organization is required to present a statement of cash flows. As permitted by the statement, the Organization has discontinued its use of fund accounting.

Contributions

In accordance with SAS 116, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

WAVES, INC.

Notes to the Financial Statements

June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Donated Services

WAVES, Inc. receives many hours of donated time from various citizens. It is impractical to estimate a value for these services, as such no such value has been placed on these services in the WAVES, Inc.'s financial statements.

Donated Rent

WAVES, Inc. receives office space rent free. These amounts are recorded at their fair value as in-kind revenue and as rental expense in the financial statements.

Donor -Imposed Restrictions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods or donor-restricted for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor- stipulated time restriction is accomplished, then the restricted net assets are reclassified to unrestricted net assets. If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as unrestricted.

Depreciation

Depreciation is provided for over the estimated useful lives of the assets. Assets are depreciated using the straight-line method of depreciation.

Promises to Give/Pledges

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Functional Allocation of Expenses

The costs of providing the WAVES, Inc.'s various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs may have been allocated among the programs and supporting services benefited.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

WAVES, INC.

Notes to the Financial Statements June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Deferred Revenue

Deferred revenue is recorded when a potential revenue does not meet the 'measurable' and 'available' criteria for recognition in the current period. In subsequent periods, when both of these criteria are met, revenue is recognized.

Estimates

The preparation of financial statements in conformity with 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.

Economic Dependence

Approximately 91% of WAVES, Inc.'s revenues for the year ended June 30, 2007, was from contracts with various Governmental agencies. These agencies may, at its discretion, request reimbursement of expenses or return of funds, or both as a result of non-compliance by the WAVES, Inc. with the terms of the programs.

2. FIXED ASSETS

A summary of fixed asset activity is noted below:

	Balance			Balance
	<u>6/30/06</u>	<u>Addition</u>	<u>Retirement</u>	<u>6/30/07</u>
Land and buildings	\$ 748,854	1,774	-	750,628
Vehicles	286,983	68,804	64,626	291,161
Furniture and equipment	<u>107,592</u>	<u>2,755</u>	<u>39,072</u>	<u>71,275</u>
Total	1,143,429	73,333	103,698	1,113,064
Less: Accumulated depreciation	<u>(446,475)</u>			<u>(403,531)</u>
Net assets	\$ <u>696,954</u>			<u>709,533</u>

Depreciation expense for the year ended June 30, 2007 was \$ 60,754.

WAVES, INC.

Notes to the Financial Statements June 30, 2007

3. LONG -TERM DEBT

Long-term debt at June 30, 2007 consists of the following:

6.375% mortgage note payable in monthly payments of \$691 to July 2017, collateralized by Land and Buildings of the Organization.	\$ 61,596
6.375% mortgage note payable in monthly payments of \$691 to July 2017, collateralized by Land and Buildings of the Organization.	61,596
5.750% mortgage note payable in monthly payments of \$1,406 to April 2024, collateralized by Land and Buildings of the Organization.	173,869
6.700% mortgage note payable in monthly payments to May 2020, collateralized by Land and Buildings of the Organization.	113,497
5.00% note payable in monthly payments of \$348 to April 2009, collateralized by a vehicle of the Organization.	<u>6,734</u>
Total long-term debt	417,292
Less amount classified as current	<u>28,140</u>
Total long-term debt excluding current portion	<u>\$ 389,152</u>

Principal requirements of long-term debt in the next five years consists of:

2008	\$ 28,140
2009	30,765
2010	23,112
2011	24,730
2012	<u>26,461</u>
Total	133,208
Thereafter	<u>284,714</u>
Total debt	<u>417,292</u>

WAVES, INC.

Notes to the Financial Statements June 30, 2007

4. LINE OF CREDIT

WAVES, Inc. renewed the line of credit of \$80,000, with an interest rate of 1% above prime rate as established by the bank with interest to be paid monthly. The note matures on September 1, 2007. There was no outstanding balance on the line of credit as of June 30, 2007.

5. PENSION PLAN

WAVES, Inc. adopted in 1997 a 403(b) thrift plan covering substantially all of its full time employees. Employees as of July 1, 1997, were covered immediately. Employees hired after that date were covered after one year of service. The employer contributions to the plan were 3% of each eligible employee's annual gross pay and will make a matching contribution equal to 50% of the first 4% contributed by an employee. Each employee's contribution is 100% vested immediately. All employer contributions are earned over seven years of service. Employer contributions for the year ended June 30, 2007, were \$60,574.

6. COMMITMENTS

WAVES, Inc. has leases for certain of its facilities. All leases expire during the next twelve months with the latest expiration date being June 2008. These leases are renewable annually. Rent expense for the year ended June 30, 2007 was \$92,274.

7. STATE CONTRACTS AND GRANTS:

Amounts received from the State of Tennessee are subject to audit and adjustment by the State of Tennessee. Any disallowed claims including amounts already collected, could become a liability of the Organization.

SUPPLEMENTAL INFORMATION

Financial schedules are used to demonstrate finance related legal and contractual compliance, provide details of data summarized in the financial statements and present other information deemed useful.

WAVES, INC.

Schedule of State Financial Assistance

For the Year ended June 30, 2007

CFDA#	Program Name	Grant #	Grantor Agency	Balance 6/30/2006	Cash Receipts	Cash Expenditures	Balance 6/30/2007
N/A	Mental Health and Mental Retardation	N/A	State of Tennessee Finance and Administration Services	323,689	2,958,394	2,889,047	254,342
N/A	TEIS	N/A	State of Tennessee Department of Education	-	16,596	16,596	-
N/A	Human Services	N/A	State of Tennessee Department of Human Services	-	18,650	18,650	-
Total				323,689	2,993,640	2,924,293	254,342

The accompanying notes are an intergal part of these statements.