
2022

Financial Statements

With Supplementary
Information

WAVES, INC.

FINANCIAL STATEMENTS

WITH SUPPLEMENTARY INFORMATION

JUNE 30, 2022

(With Independent Auditor's Report Thereon)

WAVES, INC.
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JUNE 30, 2022

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WAVES, INC.
ROSTER OF BOARD OF DIRECTORS
JUNE 30, 2022

Jim Gilchriest, President

Danielle Williams - Treasurer

Tom Stearns, Honorary Board Chair

Hailey Blank

Denice Demers

John Lynch

Embry Nichols

Roberto Ramirez

Debbie Millhouse Sokol

Marcie Stephens

Trish Stiles

Rebekah Zeitlin

Ellen Lundy



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Waves, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Waves, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Waves, Inc. as of June 30, 2022 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Waves, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Waves, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Waves, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Waves, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards and State Financial Assistance and Schedule of Prior Year Findings 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 November 29, 2022 on our consideration of Waves, 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 solely 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 effectiveness of Waves, Inc.'s 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 Waves, Inc.'s internal control over financial reporting and compliance.

Other Information

Management is responsible for the other information included within this report. The other information comprises the Roster of Board of Directors but it does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance on it.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Patterson Handley & Bellentine

November 29, 2022

WAVES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022

ASSETS

Current Assets:

Cash	\$ 788,033	
Accounts receivable	335,074	
Prepaid expenses	<u>18,144</u>	
Total current assets		\$ 1,141,251

Property and equipment:

Land and Buildings	412,778	
Vehicles	439,365	
Furniture and equipment	67,722	
Less: accumulated depreciation	<u>(666,113)</u>	
Net property and equipment		253,752

Assets Whose Use Is Limited:

Contributions receivable	<u>97,268</u>	
Total assets whose use is limited		<u>97,268</u>

Total Assets		<u><u>\$ 1,492,271</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 11,598	
Accrued expenses	<u>103,712</u>	
Total current liabilities		<u>\$ 115,310</u>

Total Liabilities		115,310
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Net Assets:

Without donor restrictions	1,279,693	
With donor restrictions	<u>97,268</u>	
Total net assets		<u>1,376,961</u>

Total Liabilities and Net Assets		<u><u>\$ 1,492,271</u></u>
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See accompanying notes to financial statements.

WAVES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public Support and Revenue:			
Gross special event revenue	\$ 22,565	\$ -	\$ 22,565
Less direct costs of special events	-	-	-
Net special events revenue	22,565	-	22,565
Revenues:			
Tennessee DIDD	1,323,213	-	1,323,213
Grants	930,551	-	930,551
Private pay	19,703	-	19,703
TEIS	292,485	-	292,485
Room and board	10,386	-	10,386
Contributions	285,226	97,268	382,494
In-kind facilities	24,660	-	24,660
Miscellaneous income	71	-	71
Net assets released from restriction	97,089	(97,089)	-
Total revenues	2,983,384	179	2,983,563
Total public support and revenue	3,005,949	179	3,006,128
Expenses:			
Program services	2,509,772	-	2,509,772
Management and general	726,871	-	726,871
Fundraising	79,512	-	79,512
Total functional expenses	3,316,155	-	3,316,155
Other gain/(loss):			
Other Income	58,989	-	58,989
Employee Retention Credit (ERC)	504,198	-	504,198
Total other gain/(loss)	563,187	-	563,187
Change in net assets	252,981	179	253,160
Net Assets - beginning of year	1,026,712	97,089	1,123,801
Net Assets - end of year	\$ 1,279,693	\$ 97,268	\$ 1,376,961

See accompanying notes to financial statements.

WAVES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

	Program Services				Supporting Services			
	Residential Services	Day Services	Employment Services	Early Learning Services	Total Program Services	Management and general	Fundraising	Total
Salaries	\$ 1,507,312	\$ 129,386	\$ 67,529	\$ 226,636	\$ 1,930,863	\$ 166,057	\$ 41,262	\$ 2,138,182
Payroll taxes	175,199	9,495	4,686	16,808	206,188	12,110	3,029	221,327
Employee benefits	12,532	-	-	3,044	15,576	119,040	502	135,118
Insurance	44,863	-	-	-	44,863	154,007	-	198,870
Occupancy	61,598	26,157	-	757	88,512	61,210	-	149,722
Professional services	18,937	976	27	4,880	24,820	87,738	11,652	124,210
Information technology	5,879	2,326	453	6,067	14,725	68,662	8,790	92,177
Supplies	35,585	3,917	119	1,516	41,137	21,903	1,900	64,940
Office expenses	7,194	4,063	481	554	12,292	23,769	4,066	40,127
Fees and subscriptions	29,787	-	-	-	29,787	3,262	-	33,049
Miscellaneous	8,726	322	-	-	9,048	731	-	9,779
Transportation	16,666	4,414	1,893	-	22,973	5,380	-	28,353
Repairs and maintenance	6,056	8,920	626	-	15,602	2,261	-	17,863
Travel and vehicle expense	3,023	425	7,827	5,723	16,998	643	100	17,741
Fundraising	50	-	-	-	50	-	6,196	6,246
Advertising and promotion	1,571	-	-	-	1,571	98	2,015	3,684
Depreciation	34,767	-	-	-	34,767	-	-	34,767
Total expenses by function	1,969,745	190,401	83,641	265,985	2,509,772	726,871	79,512	3,316,155
Less expenses included with revenues on the Statement of Activities:								
Direct cost of special events	-	-	-	-	-	-	-	-
Total expenses included in the expense section on the Statement of Activities	\$ 1,969,745	\$ 190,401	\$ 83,641	\$ 265,985	\$ 2,509,772	\$ 726,871	\$ 79,512	\$ 3,316,155

See accompanying notes to financial statements.

WAVES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

Cash Flows From Operating Activities:	
Change in net assets	\$ 253,160
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	\$ 34,767
Changes in:	
Accounts receivable	(242,045)
Prepaid expenses	13,797
Assets whose use is limited	(179)
Accounts payable	2,812
Accrued expenses	(70,885)
	(261,733)
Net cash used in operating activities	(8,573)
Cash Flows from Investing Activities:	
Purchases of property and equipment	(83,263)
Net cash used in investing activities	(83,263)
Cash Flows from Financing Activities:	
Payments on installment note payable	(14,810)
Net cash used in financing activities	(14,810)
Net change in cash	(106,646)
Cash - beginning of year	894,679
Cash - end of year	\$ 788,033

See accompanying notes to financial statements.

WAVES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - Summary of Significant Accounting Policies

Description of Business and Program Services

In these notes, the terms "Organization", "we", "us" or "our" mean Waves, Inc. We are a community organization committed to empowering individuals with intellectual and developmental disabilities to progress toward their full potential. We accomplish this through securing all indicated resources and ensuring their effective use for the individuals we serve. We are further committed to serving as a vehicle for communicating the desires and needs of the persons we serve and to enhance the image of those persons in the community.

Basis of Accounting

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

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors. Restrictions fulfilled in the same accounting period in which the contributions are received are reported in the Statement of Activities as net assets without donor restrictions.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Receivables

Accounts receivable consist of noninterest-bearing amounts due for our program services. We determine the allowance for uncollectible accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. There was no balance allowed for doubtful accounts at June 30, 2022. Receivables from contracts with customers are reported as accounts receivable and contract liabilities are reported as deferred revenue in the accompanying financial statements. Contributions receivable are expected to be received within one year at net realizable value.

Revenue Concentration

We receive approximately 51% of our total support and revenue from the Tennessee Department of Finance and Administration – Division of Intellectual Disabilities Services and Bureau of TennCare (TN DIDD). In the event of a significant reduction in the level of this support, our programs and activities could be affected.

Revenue and Revenue Recognition

The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. There were no conditional promises to give at June 30, 2022.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. There were no such balances at June 30, 2022.

WAVES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - Summary of Significant Accounting Policies (continued)

Revenue and Revenue Recognition (continued)

We recognize revenue from our program services when the performance obligations of providing the services detailed in the contracts with the customer are performed. These services include providing assistance and oversight of individuals with disabilities for programs of the Organization as detailed on the statement of functional expenses. The performance obligations are considered met at a point in time for each of these services. Additionally, there were no balances received prior to the completion of performance obligations for the year ending June 30, 2022.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy and utilities which are allocated on a square footage basis. Salaries and wages, benefits, payroll taxes, and professional services are allocated on the basis of time utilization. Office expenses, supplies and information technology as well as insurance is allocated based on usage.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, we consider all investment instruments without donor restrictions with an original maturity date of three months or less to be cash equivalents. At June 30, 2022, we had no cash equivalents.

Property and Equipment

Property and equipment are stated at cost, or if contributed, at fair market value at the date of the gift. Assets with a cost in excess of \$500 are capitalized. Depreciable assets are being depreciated using the straight-line method over the estimated useful lives of the assets, which range from two to thirty years. Maintenance and repairs are charged to expense as incurred.

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. At June 30, 2022, no assets were considered to be impaired.

Income Taxes

We are a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and are classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements. We do not believe there are any uncertain tax positions. Further, we do not believe that we have any unrelated business income, which would be subject to federal taxes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions affecting certain reported amounts and disclosures. Actual results could differ from those estimates.

WAVES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - Summary of Significant Accounting Policies (continued)

Advertising Costs

Advertising is expensed when incurred. This amount is presented on the statement of functional expenses.

NOTE 2 - Availability and Liquidity

Financial assets available for general expenditure within one year of the Statement of Financial Position, consist of the following:

Financial assets for the year ended June 30, 2022:

Cash	\$ 788,033
Accounts receivable	<u>335,074</u>
	<u>\$ 1,123,107</u>

The Organization has certain donor-restricted assets limited to use which are only available for restricted programs. Accordingly, these assets have been excluded in the qualitative information above.

In the next fiscal year, we plan to receive the same level of contributions, and consider contributions for programs which are ongoing, major, and central to our annual operations to be available to meet cash needs for general expenditures. The Organization has minimal amounts of liabilities in order to maintain most of its financial assets to be readily available. We consider cash to be readily available. We manage our liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. If our analysis of liquid assets reveals inadequate funds for near-term operating needs, we will immediately reduce spending of program and management and general expenditures.

NOTE 3 - Accounts Receivable

Amounts represent a request for payment for services rendered under state contracts and various insurance providers. Bad debts are recognized using the allowance method based on our evaluation of outstanding accounts. At June 30, 2022, no allowance was considered necessary.

At June 30, 2022, 61% of our accounts receivable were due from TN DIDD, and 100% of accounts receivable with donor restrictions was due from the United Way.

NOTE 4 - Other Payables

The following is a summary of other payables at June 30, 2022:

Salaries payable	\$ 20,390
Accrued leave payable	<u>83,322</u>
	<u>\$ 103,712</u>

NOTE 5 - Net Assets With Donor Restrictions

The following is a summary of net assets with donor restrictions at June 30, 2022:

United Way receivable – time restricted for fiscal year 2023	<u>\$ 97,268</u>
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WAVES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 6 - Leases

We lease various office equipment and real property under lease arrangements classified as operating leases. We have one operating lease for a copier with monthly payments of \$968 that expires on November 7, 2024. One lease agreement is for our main office in Franklin, Tennessee, which expires in January 2026, with monthly payments varying between \$4,323 and 4,865. We also have an operating lease for another office location in Franklin, Tennessee, which expires June 2023, with monthly payments of \$986. Finally, we have a lease agreement for our location in Fairview, Tennessee location with lease payments for one dollar a month. We have estimated the fair value of this donated rent and recorded in-kind revenue and expense for this lease, see NOTE 9.

The following is a schedule of future minimum lease payments under the non-cancellable operating lease (copier) and the lease for our Franklin location as of June 30, 2022:

<u>Year Ending June 30</u>	
2023	\$ 77,542
2024	67,333
2025	62,226
2026	<u>34,055</u>
	<u>\$ 241,156</u>

NOTE 7 - Employee Benefit Plan

We have a 403(b)-retirement plan through Mutual of America that covers all employees who are regularly scheduled to work 1,000 hours or more per year and have worked for one year. We contribute an amount equal to each participating employee's contribution, up to 2% of the employee's compensation for the year. Employees may make contributions to the Plan up to the maximum amount allowed by the Internal Revenue Code if they wish. The amount contributed by us for the year ended June 30, 2022, was \$99,120.

NOTE 8 - Concentration of Credit Risk

We maintain our cash in bank accounts which, at times, may exceed federally insured limits. We have not experienced any losses in such accounts and do not believe that we are exposed to any significant credit risk on our cash.

NOTE 9 - Donated Facilities

We receive the use of a facility free of charge and record the donated use of that facility based on local rates for similar facilities in the region. The following amount was recorded for donated facilities for the year ended June 30, 2022 and is included with occupancy on the statement of functional expenses:

Fairview facility rent	<u>\$ 24,660</u>
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NOTE 10 - Other Income

We received funding from the Employee Retention Credit (ERC) during the year, which is not a regularly recurring item of our financial statements and has been shown separately from other revenues on the statement of activities to demonstrate the segregation of our operating revenues and other income.

WAVES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 11 - New Pronouncements

In February 2016, FASB issued Accounting Standards Update 2016-02, *Leases (Topic 842)*. The Update provides guidance about recording lease transactions on an organization's statements of financial position and activities. The amendments in this Update are effective for annual periods beginning after December 15, 2021, and for annual periods and interim periods thereafter with early adoption permitted. We are currently evaluating the impact of adopting this statement.

NOTE 12 - Subsequent Events

We have evaluated events subsequent to June 30, 2022. As of November 29, 2022, the date that the financial statements were available to be issued, no other events subsequent to the Statement of Financial Position date are considered necessary to be included in the financial statements for the year ended June 30, 2022.

WAVES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Federal Grantor/ Pass Through Grantor	Program/Cluster Name	CFDA Number	Contract Number	Passed Through to Subrecipients	Expenditures
<u>Federal Awards</u> Pass-through Funding: U.S. Department of Education through the TN Department of Education Total Program 84.181A	Special Education - Grants for Infants and Families	84.181A	69640	\$ -	\$ 48,848
					48,848
	TOTAL FEDERAL AWARDS		\$ -	\$ 48,848	
	<u>State Financial Assistance</u> TN Department of Education	Special Education - Grants for Infants and Families	N/A	69640	\$ -
\$ -					\$ 132,070
TOTAL STATE AWARDS		\$ -	\$ 180,918		
TOTAL FEDERAL AND STATE AWARDS		\$ -	\$ 180,918		
Note 1 - Basis of Presentation: This schedule was prepared on an accrual basis. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. These grants are 100% through to Waves, Inc., whom assume full audit responsibility.					
Note 2 - Indirect Cost Rate: Waves, Inc. allocates indirect costs using the Restricted Indirect Cost Rate (RICR) for its contracts. The RICR is calculated using the following, (General Management Costs + Fixed Costs) / Other Expenditures. The RICR applied for the DOE grant only, during the year was 9%.					



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

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 of
Waves, Inc.

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 Waves, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022 and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 29, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Waves, Inc.'s internal control over financial reporting (internal control) as a basis for designing 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 Waves, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Waves, Inc.'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Waves, Inc.'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 financial statements. 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.

November 29, 2022

WAVES, INC.
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDING JUNE 30, 2022

Financial Statement Finding

Prior Year Finding Number	Finding Title	Status/Current Year Finding Number
2021-001	Amounts recorded in the general ledger for accounts receivable and accruals are not being reconciled to supporting documentation.	Corrected



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

November 29, 2022

To the Board of Directors
Waves, Inc.

We have audited the financial statements of Waves, Inc. for the year ended June 30, 2022, and we will issue our report thereon dated November 29, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 8, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Waves, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2022. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no particularly sensitive estimates affecting the financial statements.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of functional expense allocation in Note 1 to the financial statements describing the allocation of expenses into their appropriate functional category.

The financial statement disclosures are neutral, consistent, and clear.

During 2022, the Organization received revenue from the IRS via the Employee Retention Credit (ERC). This other income is separately identified in the Organization's 2022 Statement of Activities. A description of the transaction is included in Note 11 to the Organization's financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatements are immaterial to the financial statements under audit. The following material misstatements detected as a result of audit procedures were corrected by management: cash, accounts and grants receivable, prepaid insurance, accounts payable and accrued payroll and related revenues and expenses.

Disagreements with Management

For purposes of this letter, a disagreement with management is a disagreement on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 29, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Waves, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Patterson Handley & Ballentine

WAVES, INC.
SCHEDULE OF UNCORRECTED MISSTATEMENTS
JUNE 30, 2022

Description (Nature) of Audit Difference (AD)	Factual (F), Judgmental (J), or Projected (P)	Cause	W/P Reference	Financial Statement Effect—Amount of Over (Under) Statement of:						
				Total Assets	Total Liabilities	Net Assets	Revenues	Expenses	Change in Net Assets	Working Capital
Extrapolated difference from testing of DIDD notes	P	Units billed and paid by State did not agree to units performed per the client notes.	S-1	\$0	-\$11,218		\$11,218		\$11,218	\$11,218
Total				\$0	-\$11,218	\$0	\$11,218	\$0	\$11,218	\$11,218
Less Audit Adjustments Subsequently Booked										
Unadjusted AD—Current Year (Iron Curtain Method)				\$0	-\$11,218	\$0	\$11,218	\$0	\$11,218	\$11,218
Effect of Unadjusted AD—Prior Years									\$0	
Combined Current and Prior Year AD (Rollover Method)				\$0	-\$11,218	\$0	\$11,218	\$0	\$11,218	\$11,218
Financial Statement Caption Totals				\$1,492,271	\$115,310	\$1,376,961	\$3,569,315	\$3,312,025	\$257,290	
Current Year AD as % of FS Captions (Iron Curtain Method)				0.00%	-9.73%	0.00%	0.31%	0.00%	4.36%	0.00%
Current and Prior Year AD as % of FS Captions (Rollover Method)				0.00%	-9.73%	0.00%	0.31%	0.00%	4.36%	0.00%

Qualitative Factors: Describe qualitative factors that entered into your evaluation of whether uncorrected accumulated misstatements of amounts in the table are material, individually or in the aggregate, in relation to specific accounts and disclosures and to the financial statements as a whole, and the reasons why.

Misstatements of Disclosures: Accumulate and describe any misstatements of disclosures, including qualitative and quantitative disclosures, that entered into your evaluation of whether uncorrected accumulated misstatements are material, individually or in the aggregate, in relation to specific accounts and disclosures and to the financial statements as a whole.

Conclusion: Based on the results of the evaluation performed above, as well as the consideration of qualitative factors and misstatements by nature or circumstances, uncorrected audit differences, individually and in the aggregate, do not cause the financial statements taken as a whole to be materially misstated.



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

To the Board of Directors of
Waves, Inc.

In planning and performing our audit of the financial statements of the Waves, Inc. ("the Organization") as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered Waves, Inc.'s internal control over financial reporting (internal control) as a basis for designing auditing 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.

This letter does not affect our report dated November 29, 2022, on the financial statements of Waves, Inc. We will review the status of these comments during our next engagement. Our comments and recommendations are intended to improve your current accounting policies, operating effectiveness and internal controls. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

Financial Statement Accruals

During our audit, we noted instances of misstatement for year ending financial statement accruals. Specifically, prepaid expenses and accrued wages were not properly adjusted during the year or at year end, therefore requiring adjustment as a result of audit procedures. The prior year balance was not reversed during the year, resulting in an overstatement in the current year. This balance should be evaluated, at least annually, to ensure all assets paid for in advance, including those for service periods spanning fiscal years, such as insurance policies, are recorded accurately. Accrued wages and vacation balances were also not properly recorded at year end. These entries can be calculated relatively easily using the pay period that crosses fiscal years and determining the amount of wages to be accrued and expensed during the current and future fiscal year and recorded accordingly. Given management's applied actions to the prior year management corrective action plan, this control matter has not been assessed as a material weakness or significant deficiency, however, if these matters continue to persist there are risks for continued misstated financial statements that would result in a significant deficiency or material weakness in controls over financial reporting in future periods.

Financial Close

During the process of the audit, we noted misstatements for ending account balances when comparing the trial balance to the supporting subledgers. These were caused by instances, such as those noted in the Financial Statement Accruals section above and due to improperly stated cash and receivable balances as of June 30, 2022. A material adjustment was required to properly state accounts receivable for a missing months' worth of Department of Education income performed during the 2022 fiscal year but paid in the 2023 fiscal year. A material adjustment was also needed for a duplicated deposit to the operating cash account that was created after the bank reconciliation date.

These misstatements could have been prevented or mitigated if an effective, concise year end close occurred for all major balance sheet accounts. This includes ensuring a hard close date to prevent any transactions from being modified after the period has been closed. We recommend implementing a checklist or set of policies that would assist in a timely and accurate close of the financial statements on an accrual basis and be more meaningful for the financial statement users, such as the Board of Directors. Given management's applied actions to the prior year management corrective action plan, this control matter has not been assessed as a material weakness or significant deficiency, however, if these matters continue to persist there are risks for continued misstated financial statements that would result in a significant deficiency or material weakness in controls over financial reporting in future periods.

New Accounting Pronouncements

We also wanted to make you aware of some new accounting standards that will be effective for your organization in the near future. It is imperative that you understand and begin planning for implementation.

Leases

We recommend that management begin reviewing all leases engaged in by the Organization (as a lessor or lessee) to start preparing for reporting changes and disclosure requirements included in ASU 2016-02 *Leases (Topic 842)*, that will be effective for annual periods beginning after December 15, 2021. Under this new accounting standard, most leases will need to be recorded as a liability on your financial statements. You will also record an asset for the right to use the leased property.

For leases in the financial statements of lessors, at the lease commencement date, the lessor shall derecognize the underlying asset and recognize a net investment in the lease. At this time any selling profit or loss arising from the lease will be recognized and an initial direct cost as an expense if the fair value of the underlying asset is different from the carrying amount.

We will review the status of these comments during our next audit engagement. We have already discussed them with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, Board of Directors, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Patterson Harder & Bellentine

November 29, 2022