

WAVES, INC.
FINANCIAL STATEMENTS
JUNE 30, 2013

WAVES, INC.

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FINANCIAL SECTION

JOHN R. POOLE, CPA
CERTIFIED PUBLIC ACCOUNTANT

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Independent Auditor's Report

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

Report on the Financial Statements

I have audited the accompanying financial statements of WAVES (a nonprofit organization) which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses and cash flows for the year 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted the audit in accordance with auditing standards generally accepted in the United States of America. 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 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, I 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.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WAVES as of June 30, 2013, 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.

Other Matters - Other Information

The audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the WAVES' basic financial statements. The Supplementary Information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including and comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated September 30, 2013 on the consideration of WAVES' internal control over financial reporting and the tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of 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* in considering the entity's internal control over financial reporting and compliance.

John R. Poole, CPA

September 30, 2013

WAVES, INC.

Statement of Financial Position

June 30, 2013

Assets

Current assets:

Cash	\$	170,726
Accounts receivable		301,052
Unconditional promises receivable		93,950
Prepaid assets		20,401
Total current assets		<u>586,129</u>

Property and equipment at cost:

Land and building		700,133
Vehicles		434,711
Furniture and equipment		72,275
Less: accumulated depreciation		<u>(786,629)</u>
Net property and equipment		<u>420,490</u>

Security deposits

		<u>13,336</u>
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Total assets	\$	<u><u>1,019,955</u></u>
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Liabilities and Net Assets

Current liabilities:

Accounts payable	\$	38,940
Accrued expenses		114,684
Current portion of long-term debt		14,470
Total current liabilities		<u>168,094</u>

Long-term debt

		<u>335,754</u>
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Total liabilities		<u>503,848</u>
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Net assets:

Temporarily restricted		236,240
Unrestricted		<u>279,867</u>
Total net assets		<u>516,107</u>

Total liabilities and net assets	\$	<u><u>1,019,955</u></u>
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WAVES, INC.

Statement of Activities

For the year ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues			
Public support:			
Early Learning	\$ 109,648	-	109,648
Adult Day	666,335	-	666,335
DIDD Residential	1,521,577	-	1,521,577
United Way	-	93,950	93,950
Grants	13,437	-	13,437
City and County	68,377	-	68,377
In-kind	24,660	-	24,660
Recycle fees	61,721	-	61,721
Contributions	21,336	-	21,336
Interest	-	274	274
Gain on sale of assets	-	59,404	59,404
Fundraising	28,610	-	28,610
Net assets transferred to temporarily restricted	(71,044)	71,044	0
Net assets released from restrictions:			
United Way funding for the year 2012-2013	91,200	(91,200)	-
Total public support and revenues	<u>2,535,857</u>	<u>133,472</u>	<u>2,669,329</u>
Expenses:			
Residential services	1,411,877	-	1,411,877
Day services	548,526	-	548,526
Employment services	95,681	-	95,681
Early learning	159,106	-	159,106
Management and General	436,416	-	436,416
Fundraising	30,328	-	30,328
Total expenses	<u>2,681,934</u>	<u>0</u>	<u>2,681,934</u>
Increase (decrease) in net assets	<u>(146,077)</u>	<u>133,472</u>	<u>(12,605)</u>
Beginning of year net assets	425,944	102,768	528,712
End of year net assets	<u>\$ 279,867</u>	<u>236,240</u>	<u>516,107</u>

The accompanying notes are an integral part of these statements.

WAVES, INC.

Statement of Functional Expenses

For the year ended June 30, 2013

	Program Services				Supporting Services		
	Residential Services	Day Services	Employment Services	Early Learning	Management and General	Fundraising	Total Expenses
Salaries	\$ 979,225	271,631	56,738	80,757	275,960	19,248	1,683,559
Employee benefits	134,354	55,474	13,260	7,457	50,164	2,530	263,239
Payroll taxes	71,933	19,282	3,927	6,173	19,787	1,442	122,544
Travel	3,150	689	465	4,374	1,112	112	9,902
Printing	2,911	1,726	508	2,724	5,931	1,133	14,933
Utilities	11,083	12,511	-	222	31	10	23,857
Communications	9,037	7,355	696	1,347	5,542	534	24,511
Maintenance and repairs	7,042	13,995	185	2,298	1,370	-	24,890
Professional services	15,940	20,335	2,526	774	10,580	538	50,693
Supplies	32,803	9,935	1,451	8,043	4,431	661	57,324
Rent	18,051	38,844	5,588	26,854	29,445	1,565	120,347
Insurance	12,337	2,504	608	1,478	2,292	156	19,375
Vehicle expense	37,230	57,623	7,955	-	13,538	-	116,346
Client benefits	123	-	-	-	1,065	1,065	2,253
Training	1,280	425	73	175	343	38	2,334
Information Technology	20,558	12,311	1,065	1,831	10,614	839	47,218
Miscellaneous	6,327	857	467	147	3,058	378	11,234
Interest	14,908	-	-	85	-	-	14,993
Depreciation	33,585	23,029	169	14,367	1,153	79	72,382
Total Expenses	\$ 1,411,877	548,526	95,681	159,106	436,416	30,328	2,681,934

The accompanying notes are an integral part of these statements.

WAVES, INC.

Statement of Cash Flows

For the year ended June 30, 2013

Cash flows from operating activities:	
Support and revenue received	\$ 2,779,649
Cash paid for:	
Salaries and related expenses	(1,946,798)
Program and support services	(865,272)
Net cash provided by operating activities	<u>(32,421)</u>
Cash flows used by financing activities:	
Payments of principal on loans	<u>(33,363)</u>
Net cash used by financing activities	(33,363)
Cash flows used by investing activities:	
Net proceeds from sale of property and equipment	114,316
Acquisition of property and equipment	<u>(6,276)</u>
Net cash used by investing activities	(6,276)
Net increase in cash	42,256
Cash and cash equivalents at beginning of year	128,470
Cash and cash equivalents at end of year	\$ <u><u>170,726</u></u>
Reconciliation of Increase in Net Assets to Net Cash Provided by Operating Activities	
Increase (decrease) in net assets	\$ (12,605)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	72,382
Changes in assets (increase) decrease:	
Accounts receivable	(110,320)
Unconditional promises receivable	(2,750)
Prepaid assets	2,064
Changes in liabilities increase (decrease)	
Accounts payable	10,720
Accrued expenses	8,088
Net cash provided by operating activities	\$ <u><u>(32,421)</u></u>

The accompanying notes are an integral part of these statements.

WAVES, INC.

Notes to the Financial Statements

June 30, 2013

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, 2013

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, 2013

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 79% of WAVES, Inc.'s revenues for the year ended June 30, 2013, 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. PROPERTY and EQUIPMENT

A summary of property and equipment activity is noted below:

	Balance 6/30/12	Addition	Retirement	Balance 6/30/13
Land and buildings	\$ 869,133	3,500	172,500	700,133
Vehicles	434,711	-	-	434,711
Furniture and equipment	69,499	2,776	-	72,275
Total	1,373,343	6,276	-	1,207,119
Less: Accumulated depreciation	(772,431)			(786,629)
Net assets	\$ 600,912			420,490

Depreciation expense for the year ended June 30, 2013 was \$ 72,382.

WAVES, INC.

Notes to the Financial Statements

June 30, 2013

3. LONG -TERM DEBT

Long-term debt at June 30, 2013 consists of the following:

Note payable in monthly payments of \$2,621 collateralized by Land and Buildings of the Organization.	<u>350,224</u>
Less amount classified as current	<u>14,470</u>
Total long-term debt excluding current portion	<u><u>335,754</u></u>

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

2014	14,470,
2015	15,194
2016	15,954
2017	16,751
2018	<u>17,589</u>
Total	79,958
Thereafter	<u>270,266</u>
Total debt	<u><u>350,224</u></u>

WAVES, INC.

Notes to the Financial Statements

June 30, 2013

4. 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 2% 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, 2013, were \$36,460.

5. COMMITMENTS

WAVES, Inc. has leases for certain of its facilities. Most leases expire during the next twelve months. These leases are renewable annually. WAVES, Inc. leases its primary facility. The original lease for this facility was for an eight year term. This lease has the following remaining term:

April 2013- March 2014	\$84,449
April 2014- March 2015	\$86,170
April 2015- March 2016	\$87,891
April 2016- March 2017	\$60,099
April 2017- March 2018	\$61,301
April 2018- March 2019	\$62,527

Rent expense for the year ended June 30, 2013 was \$95,686.

6. 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, 2013

CFDA#	Program Name	Grant #	Grantor Agency	Balance 6/30/2012	Cash Receipts	Cash Expenditures	Balance 6/30/2013
N/A	Intellectual and Developmental Disabilities Services	N/A	State of Tennessee Finance and Administration Services	161,289	1,962,878	2,034,533	232,944
N/A	TEIS	N/A	State of Tennessee Department of Education	6,740	6,740	-	-
N/A	Education	N/A	State of Tennessee Department of Education	3,564	56,988	100,431	47,007
N/A	Vocational Rehabilitation	N/A	State of Tennessee Department of Education	2,468	6,968	4,500	-
Total				174,061	2,033,574	2,139,464	279,951

The accompanying notes are an integral part of these statements.

**COMPLIANCE AND
INTERNAL CONTROL**

JOHN R. POOLE, CPA
CERTIFIED PUBLIC ACCOUNTANT

134 NORTHLAKE DRIVE
HENDERSONVILLE, TN 37075

(615) 822-4177

**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.
Franklin, Tennessee

I 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 as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise WAVES' financial statements and have issued a report thereon dated September 30, 2013.

Internal Control Over Financial Reporting

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

My consideration of the 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 the audit I did not identify any deficiencies in internal control that I 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 WAVES' financial statements are free of material misstatement, I 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 the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of the audit and, accordingly, I do not express such an opinion. The results of the 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 the testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Joh R Poole, CPA

September 30, 2013