

WAVES, INC.
FINANCIAL STATEMENTS
JUNE 30, 2004

MAR 14 2005

WAVES, INC.

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FINANCIAL SECTION

JOHN R. POOLE, CPA
CERTIFIED PUBLIC ACCOUNTANT

134 NORTHLAKE DRIVE
HENDERSONVILLE, TN 37075

(615) 822-4177

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, 2004, 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, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted principles.

In accordance with Government Auditing Standards, I have also issued my report dated October 31, 2004, 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 grants.

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 31, 2004

WAVES, INC.

Statement of Financial Position

June 30, 2004

Assets

Current assets:	
Cash	\$ 45,590
Accounts receivable	417,826
Unconditional promises receivable	85,254
Prepaid assets	6,838
Total current assets	<u>555,508</u>
Property and equipment at cost:	
Land and building	543,910
Vehicles	245,457
Office equipment	109,040
Less: accumulated depreciation	<u>(353,799)</u>
Net property and equipment	<u>544,608</u>
Other assets	<u>5,821</u>
Total assets	\$ <u><u>1,105,937</u></u>

Liabilities and Net Assets

Current liabilities:	
Accounts payable	\$ 20,821
Accrued expenses	114,200
Deferred revenue	169,667
Current portion of long-term debt	17,411
Total current liabilities	<u>322,099</u>
Long-term debt	<u>341,437</u>
Net assets:	
Temporarily restricted	85,254
Unrestricted	<u>357,147</u>
Total net assets	<u>442,401</u>
Total liabilities and net assets	\$ <u><u>1,105,937</u></u>

The accompanying notes are an integral part of these statements.

WAVES, INC.

Statement of Activities

For the year ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues			
Public support:			
Tennessee Department of:			
Mental Health and Mental Retardation	\$ 559,172	-	559,172
TEIS	31,870	-	31,870
Human Services	100,097	-	100,097 <i>stat</i>
Medicaid waiver	1,694,070	-	1,694,070 <i>ei</i>
United Way	-	85,254	85,254 <i>uw</i>
Grants	16,351	-	16,351 <i>fdm</i>
Private pay and room and board	126,147	-	126,147 <i>ei</i>
City and County	70,581	-	70,581 <i>local</i>
In-kind	18,960	-	18,960 <i>ink</i>
Recycle fees	17,892	-	17,892 <i>ei</i>
Contributions	13,229	-	13,229 <i>ink</i>
Interest	131	-	131 <i>int</i>
Miscellaneous	6,756	-	6,756 <i>muc</i>
Net assets released from restrictions:			
United Way funding for the year 2003-2004	85,254	(85,254)	-
Total public support and revenues	<u>2,740,510</u>	<u>-</u>	<u>2,740,510</u>
Expenses:			
Residential	1,483,531	-	1,483,531
Day services	741,650	-	741,650
Support employment	208,604	-	208,604
Management and General	324,383	-	324,383
Fundraising	4,715	-	4,715
Total expenses	<u>2,762,883</u>	<u>-</u>	<u>2,762,883</u>
 Increase (decrease) in net assets	 <u>(22,373)</u>	 <u>-</u>	 <u>(22,373)</u>
Beginning of year net assets	379,520	85,254	464,774
End of year net assets	<u>\$ 357,147</u>	<u>85,254</u>	<u>442,401</u>

WAVES, INC.

Statement of Functional Expenses

For the year ended June 30, 2004

	Program Services				Supporting Services			Total Expenses
	Residential Services	Day Services	Employment Services	Total	Management and General	Fundraising	Total	
Salaries	\$ 1,052,883	421,942	133,440	1,608,265	207,877	54	207,931	1,816,196
Employee benefits	118,897	66,610	16,133	201,640	30,360	-	30,360	232,000
Payroll taxes	78,344	29,872	9,813	118,029	15,439	-	15,439	133,468
Travel	3,711	11,216	2,618	17,545	1,216	-	1,216	18,761
Printing	1,916	3,611	1,243	6,770	5,040	627	5,667	12,437
Utilities	12,725	10,931	5	23,661	24	-	24	23,685
Communications	11,563	13,208	3,474	28,245	8,284	-	8,284	36,529
Maintenance and repairs	9,725	17,041	255	27,021	1,691	-	1,691	28,712
Professional services	12,435	30,428	1,805	44,668	10,915	2,512	13,427	58,095
Supplies	14,863	11,148	5,967	31,978	9,908	1,107	11,015	42,993
Food	27,884	1,714	90	29,688	538	120	658	30,346
Rent	17,414	48,989	1,404	67,807	16,800	200	17,000	84,807
Insurance	6,239	1,601	120	7,960	392	-	392	8,352
Vehicle expense	52,447	41,748	16,530	110,725	8,464	-	8,464	119,189
Client benefits	21,699	8,574	4,040	34,313	668	-	668	34,981
Training	3,067	1,653	2,896	7,616	1,235	95	1,330	8,946
Miscellaneous	2,578	208	49	2,835	1,049	-	1,049	3,884
Interest	13,585	16	5	13,606	7	-	7	13,613
Depreciation	21,556	21,140	8,717	51,413	4,476	-	4,476	55,889
Total Expenses	\$ 1,483,531	741,650	208,604	2,433,785	324,383	4,715	329,098	2,762,883

The accompanying notes are an integral part of these statements.

WAVES, INC.

Statement of Cash Flows

For the year ended June 30, 2004

Cash flows from operating activities:	
Support and revenue received	\$ 2,535,121
Cash paid for:	
Salaries and related expenses	(2,174,784)
Program and support services	(501,846)
Net cash provided by operating activities	<u>(141,509)</u>
Cash flows used by financing activities:	
Proceeds from long-term debt	219,844
Payment of long-term debt	(41,035)
Net cash used by financing activities	<u>178,809</u>
Cash flows used by investing activities:	
Acquisition of fixed assets	(207,805)
Net cash used by investing activities	<u>(207,805)</u>
Net increase in cash	(170,505)
Cash and cash equivalents at beginning of year	216,095
Cash and cash equivalents at end of year	\$ <u><u>45,590</u></u>
Reconciliation of Increase in Net Assets to Net Cash Provided by Operating Activities	
Increase in net assets	\$ (22,373)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	55,889
Changes in assets (increase) decrease:	
Accounts receivable	(203,498)
Prepaid assets	(6,838)
Changes in liabilities increase (decrease)	
Accounts payable	(8,258)
Accrued expenses	26,142
Unearned income	17,427
Net cash provided by operating activities	\$ <u><u>(141,509)</u></u>

WAVES, INC.

Notes to the Financial Statements June 30, 2004

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, 2004

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 benefitted.

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, 2004

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.

Unearned Revenue

Unearned 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 62% of WAVES, Inc.'s revenues for the year ended June 30, 2004, was from the Medicaid program and approximately 25% of WAVES, Inc.'s revenues for the year ended June 30, 2004, was from the contracts from various State of Tennessee departments. The Medicaid Program and the State 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 <u>6/30/03</u>	<u>Addition</u>	<u>Retirement</u>	Balance <u>6/30/04</u>
Land and buildings	\$ 377,694	166,216	-	543,910
Vehicles	216,041	29,416	-	245,457
Furniture and equipment	<u>96,867</u>	<u>12,173</u>	<u>-</u>	<u>109,040</u>
Total	690,602	207,805	-	898,407
Less: Accumulated depreciation	<u>(298,606)</u>			<u>(353,799)</u>
Net assets	<u>\$ 391,996</u>			<u>544,608</u>

Depreciation expense for the year ended June 30, 2004 was \$ 55,889.

WAVES, INC.

Notes to the Financial Statements
June 30, 2004

3. LONG-TERM DEBT

Long-term debt at June 30, 2004 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.	\$ 73,501
6.375% mortgage note payable in monthly payments of \$691 to July 2017, collateralized by Land and Buildings of the Organization.	73,501
5.750% mortgage note payable in monthly payments of \$1,406 to April 2024, collateralized by Land and Buildings of the Organization.	192,965
5.00% note payable in monthly payments of \$348 to April 2009, collateralized by a vehicle of the Organization.	<u>18,881</u>
Total long-term debt	358,848
Less amount classified as current	<u>17,411</u>
Total long-term debt excluding current portion	<u>\$ 341,437</u>

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

2002	\$ 17,411
2003	20,114
2004	24,672
2005	29,106
2005	<u>25,989</u>
Total	117,292
Thereafter	<u>241,556</u>
Total debt	<u>358,848</u>

WAVES, INC.

Notes to the Financial Statements June 30, 2004

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, 2005. The note is secured with a second mortgage on each of the two deeds of property. There was no outstanding balance on the line of credit as of June 30, 2004.

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 3.0% 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, 2004, were \$34,346.

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 2004. These leases are renewable annually. Rent expense for the year ended June 30, 2004 was \$84,806.

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, 2004

CFDA#	Program Name	Grant #	Grantor Agency	Balance 6/30/2003	Cash Receipts	Cash Expenditures	Balance 6/30/2004
N/A	Mental Health and Mental Retardation	N/A	State of Tennessee Finance and Administration Services	166,603	2,080,681	2,285,112	371,034
N/A	TEIS	N/A	State of Tennessee Department of Education	2,814	24,847	31,870	9,837
N/A	Human Services	N/A	State of Tennessee Department of Human Services	-	100,097	100,097	-
N/A	Equipment Grant	N/A	State of Tennessee Department of Human Services	-	4,232	4,232	-
Total				169,417	2,209,857	2,421,311	380,871

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 COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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 the financial statements of WAVES, Inc. as of and for the year ended June 30, 2004, and have issued a report thereon dated October 31, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether WAVES, Inc.'s financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing the audit, I considered WAVES, Inc.'s internal control over financial reporting in order to determine the auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

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This report is intended for the information of the State Comptroller's Office, management and federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.

John R. Poole, CPA

October 31, 2004