

WAVES, INC.

TABLE OF CONTENTS

PAGE

Financial Section

Independent Auditor's Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-10

Supplemental Information

Schedule of State Financial Assistance	11
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Compliance and Internal Control

Independent Auditor's Report on Compliance and Other Matters and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards	13-14
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WAVES, INC.
FINANCIAL STATEMENTS
JUNE 30, 2009

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

I have audited the accompanying statement of financial position of WAVES, Inc. (a nonprofit organization) as of June 30, 2009, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that 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, 2009, 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 31, 2009, 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 assessing 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 31, 2009

FINANCIAL SECTION

WAVES, INC.

Statement of Activities

For the year ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues			
Public support:			
Tennessee Department of:			
Mental Health and Mental Retardation	\$ 2,589,907	-	2,589,907
Education	363,206	-	363,206
United Way	29,746	85,254	115,000
Grants	91,248	-	91,248
Private pay and room and board	173,853	-	173,853
City and County	73,879	-	73,879
In-kind	29,811	-	29,811
Recycle fees	53,289	-	53,289
Contributions	28,552	-	28,552
Interest	1,334	-	1,334
Miscellaneous	12,240	-	12,240
Net assets released from restrictions:			
United Way funding for the year 2007-2008	85,254	(85,254)	-
Total public support and revenues	<u>3,532,319</u>	<u>0</u>	<u>3,532,319</u>
Expenses:			
Residential services	1,794,661	-	1,794,661
Day services	697,572	-	697,572
Employment services	123,381	-	123,381
Early learning	504,307	-	504,307
Management and General	354,652	42,707	397,359
Fundraising	19,621	-	19,621
Total expenses	<u>3,494,194</u>	<u>42,707</u>	<u>3,536,901</u>
Increase (decrease) in net assets	<u>38,125</u>	<u>(42,707)</u>	<u>(4,582)</u>
Beginning of year net assets	406,024	139,113	545,137
End of year net assets	<u>\$ 444,149</u>	<u>96,406</u>	<u>540,555</u>

WAVES, INC.

Statement of Financial Position

June 30, 2009

Assets

Current assets:		
Cash	\$	14,742
Accounts receivable		430,926
Unconditional promises receivable		85,254
Prepaid assets		20,593
Total current assets		<u>551,515</u>
Property and equipment at cost:		
Land and building		765,421
Vehicles		367,023
Furniture and equipment		56,335
Less: accumulated depreciation		(514,686)
Net property and equipment		<u>674,093</u>
Other assets		<u>8,871</u>
Total assets	\$	<u>1,234,479</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable	\$	28,987
Accrued expenses		184,698
Deferred revenue		65,709
Current portion of long-term debt		16,377
Total current liabilities		<u>295,771</u>
Long -term debt		<u>398,153</u>
Total liabilities		<u>693,924</u>
Net assets:		
Temporarily restricted		96,406
Unrestricted		444,149
Total net assets		<u>540,555</u>
Total liabilities and net assets	\$	<u>1,234,479</u>

The accompanying notes are an integral part of these statements.

WAVES, INC.

Statement of Cash Flows

For the year ended June 30, 2009

Cash flows from operating activities:	
Support and revenue received	\$ 3,658,376
Cash paid for:	
Salaries and related expenses	(2,807,051)
Program and support services	(981,531)
Net cash provided by operating activities	<u>(130,206)</u>
Cash flows used by financing activities:	
Payments of principal on loans	(18,302)
Net cash used by financing activities	<u>(18,302)</u>
Cash flows used by investing activities:	
Acquisition of fixed assets	(66,210)
Net cash used by investing activities	<u>(66,210)</u>
Net increase in cash	(214,718)
Cash and cash equivalents at beginning of year	229,460
Cash and cash equivalents at end of year	\$ <u><u>14,742</u></u>
Reconciliation of Increase in Net Assets to Net Cash Provided by Operating Activities	
Increase (decrease) in net assets	\$ (4,582)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	75,209
Changes in assets (increase) decrease:	
Accounts receivable	126,057
Prepaid assets	(1,403)
Changes in liabilities increase (decrease)	
Accounts payable	(3,677)
Accrued expenses	(1,978)
Deferred revenue	(319,832)
Net cash provided by operating activities	\$ <u><u>(130,206)</u></u>

The accompanying notes are an integral part of these statements.

WAVES, INC.

Statement of Functional Expenses

For the year ended June 30, 2009

	Program Services					Supporting Services			Total Expenses
	Residential Services	Day Services	Employment Services	Early Learning	Total	Management and General	Fundraising	Total	
Salaries	\$ 1,240,295	368,829	75,279	337,230	2,021,633	243,420	1,900	245,320	2,266,953
Employee benefits	200,393	80,350	15,338	29,296	325,377	45,529	942	46,471	371,848
Payroll taxes	93,326	26,556	5,568	24,838	150,288	17,747	215	17,962	168,250
Travel	2,640	2,012	419	26,524	31,595	968	74	1,042	32,637
Printing	3,485	2,691	1,921	316	8,413	3,561	994	4,555	12,968
Utilities	11,985	12,240	-	-	24,225	-	-	-	24,225
Communications	16,968	7,959	2,233	1,989	29,149	6,844	422	7,266	36,415
Maintenance and repairs	11,528	11,993	678	5,644	29,843	2,029	84	2,113	31,956
Professional services	34,349	37,724	6,014	15,812	93,899	32,146	12,565	44,711	138,610
Supplies	41,908	12,281	2,086	33,993	90,268	10,154	1,127	11,281	101,549
Rent	23,880	46,884	3,878	23,123	97,765	18,924	917	19,841	117,606
Insurance	18,109	16,519	1,517	-	36,145	4,619	-	4,619	40,764
Vehicle expense	22,293	37,415	7,794	-	67,502	1,832	-	1,832	69,334
Client benefits	6,040	-	-	152	6,192	-	-	-	6,192
Training	1,633	1,017	31	4,511	7,192	788	152	940	8,132
Miscellaneous	3,254	8,733	189	879	13,055	4,059	229	4,288	17,343
Interest	16,256	-	-	-	16,256	654	-	654	16,910
Depreciation	46,319	24,369	436	-	71,124	4,085	-	4,085	75,209
Total Expenses	\$ 1,794,661	697,572	123,381	504,307	3,119,921	397,359	19,621	416,980	3,536,901

The accompanying notes are an integral part of these statements.

WAVES, INC.

Notes to the Financial Statements June 30, 2009

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, 2009

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, 2009

3. LONG-TERM DEBT

Long-term debt at June 30, 2009 consists of the following:

Note payable in monthly payments of \$2,621 collateralized by Land and Buildings of the Organization.	<u>414,530</u>
Less amount classified as current	<u>16,377</u>
Total long-term debt excluding current portion	<u>\$ 398,153</u>

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

2010	16,377
2011	18,580
2012	19,695
2014	20,876
2013	<u>22,113</u>
Total	97,641
Thereafter	<u>300,512</u>
Total debt	<u>398,153</u>

4. LINE OF CREDIT

WAVES, Inc. renewed the line of credit of \$150,000, 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, 2009. There was no outstanding balance on the line of credit as of June 30, 2009.

WAVES, INC.

Notes to the Financial Statements June 30, 2009

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 87% of WAVES, Inc.'s revenues for the year ended June 30, 2009, 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 <u>6/30/08</u>	<u>Addition</u>	<u>Retirement</u>	Balance <u>6/30/09</u>
Land and buildings	\$ 765,421	-	-	765,421
Vehicles	320,519	66,210	19,706	367,023
Furniture and equipment	<u>73,412</u>	<u>-</u>	<u>17,077</u>	<u>56,335</u>
Total	1,159,352	66,210	36,783	1,188,779
Less: Accumulated depreciation	(474,563)			(514,686)
Net assets	\$ <u>684,789</u>			<u>674,093</u>

Depreciation expense for the year ended June 30, 2009 was \$ 75,209.

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.

Notes to the Financial Statements
June 30, 2009

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 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, 2009, were \$55,942.

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 2010. These leases are renewable annually. Rent expense for the year ended June 30, 2009 was \$117,606.

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.

**COMPLIANCE AND
INTERNAL CONTROL**

WAVES, INC.

Schedule of State Financial Assistance

For the Year ended June 30, 2009

CFDA#	Program Name	Grant #	Grantor Agency	Balance 6/30/2008	Cash Receipts	Cash Expenditures	Balance 6/30/2009
N/A	Mental Health and Mental Retardation	N/A	State of Tennessee Finance and Administration Services	480,415	2,853,136	2,589,907	217,186
N/A	Education	N/A	State of Tennessee Department of Education	-	362,000	362,000	-
Total				480,415	3,215,136	2,951,907	217,186

The accompanying notes are an integral part of these statements.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, the State Comptroller's Office, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

John R Poole, CPA

October 31, 2009

JOHN R. POOLE, CPA
CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND OTHER MATTERS
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, 2009, and have issued a report thereon dated October 31, 2009. I conducted the 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the WAVES's Inc. 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*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the WAVES's Inc. internal control over financial reporting as a basis for designing the audit procedures 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's Inc. internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.