

# 2019

## Financial Statements

**WAVES, INC.**

**FINANCIAL STATEMENTS**

**WITH SUPPLEMENTARY INFORMATION**

**JUNE 30, 2019**

(With Independent Auditor's Report Thereon)

**WAVES, INC.**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

Contents

	<u>PAGE</u>
Roster of Board of Directors	i
Independent Auditor's Report	1 – 2
Audited Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 – 11
Supplementary Information:	
Schedule of Expenditures of Federal Awards	12
Internal Control and Compliance Section:	
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 <i>Government Auditing Standards</i>	13 – 14
Schedule of Findings	15 – 16
Management's Corrective Action Plan	17
Schedule of Prior Year Findings	18

WAVES, INC.  
ROSTER OF BOARD OF DIRECTORS  
JUNE 30, 2019

Dan Horecka, President

Mike Terrell, Vice President

George Zubulake, Secretary

Brad Smith, Treasurer

Tom Stearns, Honorary Board Chair

Ashley Perkins, Immediate Past  
President

Robert Blair - Member

Shauna Billingsley - Member

Denice Demers - Member

Frank Duvall - Member

Jared King - Member

Jim Gilchriest - Member

Don Merlo - Member

Josh Pittman - Member

Meagan Pratt - Member

M.T. "Tom" Taylor - Member

Christy Webb - Member

Danielle Williams, Intern

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Waves, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Waves, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, 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***

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Waves, Inc. as of June 30, 2019, 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**      **PATTERSON, HARDEE & BALLENTINE, P.C.**

*Other Information*

*Certified Public Accountants*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Tennessee Comptroller of the Treasury Division of Local Government Audit, 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 18, 2019, 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.

*Patterson Hardee & Ballentine*

November 18, 2019



**WAVES, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2019**

**ASSETS**

Current Assets:

Cash	\$ 244,122	
Accounts receivable - state agencies	348,283	
Accounts receivable - other	21,098	
Prepaid expenses	<u>19,302</u>	
Total current assets		\$ 632,805

Property and equipment:

Land and Building	412,778	
Vehicles	459,707	
Furniture and equipment	57,821	
Less: accumulated depreciation	<u>(670,434)</u>	
Net property and equipment		259,872

Assets Whose Use Is Limited:

Accounts receivable - other	<u>97,268</u>	
Total assets whose use is limited		<u>97,268</u>

Total Assets		<u><u>\$ 989,945</u></u>
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**LIABILITIES AND NET ASSETS**

Current Liabilities:

Other payables	\$ 197,900	
Current portion of long-term debt	<u>25,216</u>	
Total current liabilities		\$ 223,116

Long-term debt		<u>34,147</u>
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Total Liabilities		257,263
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Net Assets:

Without donor restrictions	635,414	
With donor restrictions	<u>97,268</u>	
Total net assets		<u>732,682</u>

Total Liabilities and Net Assets		<u><u>\$ 989,945</u></u>
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See accompanying notes to financial statements.

**WAVES, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Public Support and Revenue:			
Gross special event revenue	\$ 72,092	\$ -	\$ 72,092
Less direct costs of special events	<u>(11,916)</u>	<u>-</u>	<u>(11,916)</u>
Net special events revenue	60,176	-	60,176
Revenues:			
State of Tennessee funding	2,646,447	-	2,646,447
Grants	326,588	97,268	423,856
Private pay	17,373	-	17,373
TEIS	102,630	-	102,630
Room and board	25,957	-	25,957
Recycle fees	94,673	-	94,673
Contributions	51,964	-	51,964
In-Kind	24,660	-	24,660
Rental income	17,700	-	17,700
Interest income	82	-	82
Miscellaneous income	9,809	-	9,809
Net assets released from restriction	<u>86,968</u>	<u>(86,968)</u>	<u>-</u>
Total revenues	<u>3,404,851</u>	<u>10,300</u>	<u>3,415,151</u>
Total public support and revenue	3,465,027	10,300	3,475,327
Expenses:			
Program services	2,850,530	-	2,850,530
Management and general	606,849	-	606,849
Fundraising	<u>61,796</u>	<u>-</u>	<u>61,796</u>
Total functional expenses	3,519,175	-	3,519,175
Other loss:			
Loss on disposal of fixed assets	(3,200)	-	(3,200)
Increase (decrease) in net assets	<u>(57,348)</u>	<u>10,300</u>	<u>(47,048)</u>
Net Assets - beginning of year	<u>692,762</u>	<u>86,968</u>	<u>779,730</u>
Net assets - end of year	<u>\$ 635,414</u>	<u>\$ 97,268</u>	<u>\$ 732,682</u>

See accompanying notes to financial statements.



**WAVES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	Program Services					Supporting Services		
	Residential Services	Day Services	Employment Services	Early Learning Services	Total Program Services	Management and general	Fundraising	Total
Salaries	\$ 1,441,338	\$ 308,876	\$ 83,795	\$ 285,966	\$ 2,119,975	\$ 367,802	\$ 43,674	\$ 2,531,451
Employee benefits	51,522	2,521	506	2,151	56,700	5,476	304	62,480
Payroll taxes	231,347	45,804	15,868	33,225	326,244	41,255	4,302	371,801
Travel and vehicle expense	48,904	29,845	15,571	24,205	118,525	23,797	10	142,332
Supplies	35,633	10,926	59	2,424	49,042	17,190	16,296	82,528
Professional services	2,126	328	154	1,141	3,749	56,447	819	61,015
Occupancy	34,874	66,596	8,873	9,019	119,362	41,103	5,915	166,380
Information technology	20,214	12,353	1,934	4,629	39,130	13,523	2,092	54,745
Miscellaneous	14,899	440	35	15	15,389	6,180	300	21,869
Interest	2,414	-	-	-	2,414	-	-	2,414
Depreciation	-	-	-	-	-	34,076	-	34,076
Total expenses by function	1,883,271	477,689	126,795	362,775	2,850,530	606,849	73,712	3,531,091
Less expenses included with revenues on the Statement of Activities:								
Direct cost of special events	-	-	-	-	-	-	(11,916)	(11,916)
Total expenses included in the expense section on the Statement of Activities	<u>\$ 1,883,271</u>	<u>\$ 477,689</u>	<u>\$ 126,795</u>	<u>\$ 362,775</u>	<u>\$ 2,850,530</u>	<u>\$ 606,849</u>	<u>\$ 61,796</u>	<u>\$ 3,519,175</u>

See accompanying notes to financial statements.

**WAVES, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

Cash Flows From Operating Activities:

Decrease in net assets	\$	(47,048)
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Adjustments to reconcile decrease in net assets  
to net cash used in operating activities:

Depreciation	\$	34,076
Loss on disposal of fixed assets		3,200

Changes in:

Accounts receivable		(57,985)
Prepaid expenses		12,967
Assets whose use is limited		(10,300)
Accounts payable		(4,437)
Unearned revenue		(10,000)
Other payables		45,215

12,736

Net cash used in operating activities		(34,312)
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Cash Flows from Investing Activities:

Purchases of property and equipment		(14,588)
Net cash used in investing activities		(14,588)

Cash Flows from Financing Activities:

Payments on installment note payable		(23,541)
Net cash used in financing activities		(23,541)

Net decrease in cash		(72,441)
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Cash - beginning of year		316,563
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Cash - end of year	\$	244,122
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**SUPPLEMENTAL CASH FLOW INFORMATION:**

Interest paid during the year ended June 30, 2019, was \$2,414.

**WAVES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

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.

Revenue

We recognize revenue as it is received or promised to us in accordance with accounting principles generally accepted in the United State of America for non-profit organizations.

Revenue Concentration

We receive approximately 69% of our total support and revenue from the Tennessee Department of Finance and Administration – Division of Intellectual Disabilities Services and Bureau of TennCare. In the event of a significant reduction in the level of this support, our programs and activities could be affected.

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, 2019, we had no cash equivalents.



**WAVES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

NOTE 1 - Summary of Significant Accounting Policies (continued)

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, 2019, 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.

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, 2019:

Cash	\$ 244,122
Accounts receivable	369,381
	<u>\$ 613,503</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.

**WAVES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

NOTE 3 - Accounts Receivable

We classify accounts receivable into the following categories:

Accounts receivable - state agencies - Amounts represent a request for payment for services rendered under state contracts.

Accounts receivable - other - Amounts represent contracted receivables from various agencies.

Bad debts are recognized using the allowance method based on our evaluation of outstanding accounts. At June 30, 2019, no allowance was considered necessary.

At June 30, 2019, 87% of our accounts receivable were due from state agencies, 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, 2019:

Salaries payable	\$ 95,386
Accrued leave payable	96,422
Miscellaneous payables	<u>6,092</u>
	<u>\$ 197,900</u>

NOTE 5 - Net Assets With Donor Restrictions

The following is a summary of net assets with donor restrictions at June 30, 2019:

Adult Day Care	\$ 68,268
Early Learning	<u>29,000</u>
	<u>\$ 97,268</u>

NOTE 6 - Long-Term Debt

As of June 30, 2019, we have an installment note payable as follows:

Note payable to First Tennessee with a maturity of September 21, 2021. Monthly payments of \$2,271 are required based on 60 months amortization with interest at 4.35%.	\$ 59,363
Less: current maturities	<u>(25,216)</u>
	<u>\$ 34,147</u>

The following is a list of future maturities:

<u>Year Ending June 30,</u>	
2020	\$ 25,216
2021	26,356
2022	<u>7,791</u>
	<u>\$ 59,363</u>

**WAVES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 7 - 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 location in Franklin, Tennessee, which expires in March 2022, with monthly payments varying between \$4,667 and \$4,952. We also have a lease agreement for our location in Fairview, Tennessee. The lease agreement for that location is 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 10.

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, 2019:

<u>Year Ending June 30</u>	
2020	\$ 80,088
2021	69,730
2022	56,181
2023	11,616
2024	11,616
Thereafter	4,840
	<u>\$ 234,071</u>

**NOTE 8 - 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, 2019, was \$51,393.

**NOTE 9 - 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 10 - Donated Services**

The following donated services have been included in revenues and expenses (occupancy) in the financial statements for the year ended June 30, 2019:

Fairview facility rent	<u>\$ 24,660</u>
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**NOTE 11 - New Pronouncements**

On August 8, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively and has not affected the beginning balance of net assets.



**WAVES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 11 - New Pronouncements (continued)**

In May 2014, FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The Update provides guidance about recording contract revenue on an organization's Statement of Activities. The amendments in this Update are effective for annual periods beginning after December 15, 2018, and for annual periods and interim periods thereafter with early adoption permitted for annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting this statement.

In August 2016, FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how certain cash receipts and cash payments are presented and classified in the Statement of Cash Flows. The amendments will be effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. We are currently evaluating the impact of adopting this statement.

In November 2016, FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how restricted cash is presented and classified in the Statement of Cash Flows. The amendments will be effective for the Organization for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the impact of adopting this guidance on the financial statements.

**NOTE 12 - Subsequent Events**

We have evaluated events subsequent to June 30, 2019. As of November 18, 2019, 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, 2019.

**WAVES, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Federal Grantor/ Pass Through Grantor	Program/Cluster Name	CFDA Number	Contract Number	Passed Through to Subrecipients	Expenditures	
<u>Federal Awards</u> <b>Pass-through Funding:</b> U.S. Department of Education through the TN Department of Education  U.S. Department of Education through the TN Department of Education  <b>Total Program 84.181A</b>  TOTAL FEDERAL AWARDS	Special Education - Grants for Infants and Families	84.181A	UNKNOWN	\$ -	\$ 167,136	
	Special Education - Grants for Infants and Families	84.181A	UNKNOWN	-	48,000	
				-	215,136	
				\$ -	\$ 215,136	
	<u>State Financial Assistance</u> TN Department of Education  TN Department of Education  TOTAL STATE AWARDS  TOTAL FEDERAL AND STATE AWARDS	Special Education - Grants for Infants and Families	N/A	UNKNOWN	\$ -	\$ 159,452
		Special Education - Grants for Infants and Families	N/A	UNKNOWN	-	54,630
					\$ -	\$ 214,082
			\$ -	\$ 429,218		

**Note 1** - Basis of Presentation: Basis of Presentation: The accompanying Schedule of Expenditures of Federal Awards summarizes the expenditures of Waves, Inc. under programs of the federal and state government for the year ended June 30, 2019. This schedule is presented using the accrual basis of accounting.

**Note 2** - Indirect Cost Rate: Waves, Inc. allocates indirect costs using a method other than the de minimus indirect 10% cost method.

**Note 3** - Amounts are reported on the Statement of Activities as follows:

Included in Grants	\$	326,588
TEIS		102,630
Total	\$	429,218





**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, 2019, 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 18, 2019.

**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) to determine the 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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2019-001, 2019-002 and 2019-003, which we consider to be significant deficiencies.

**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 determination of financial statement amounts. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2019-001 and 2019-002.

### **Waves, Inc.'s Response to Findings**

Waves, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings. Waves, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.

*Patterson Handley & Bellentine*

November 18, 2019

**WAVES, INC.**  
**SCHEDULE OF FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of Waves, Inc.
2. Three significant deficiencies during the audit of the financial statements were reported in the 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*. See 2019-001, 2019-002, and 2019-003.
3. Two instances of material noncompliance were disclosed during the audit.

**FINDINGS—FINANCIAL STATEMENT AUDIT**

**2019-001**

Criteria:	As a part of financial reporting and controls over financial reporting, the Organization should reconcile supporting documentation for DIDD billings to the general ledger on a monthly basis, investigate differences and make adjustments as necessary before sending billings to the State Department.
Condition:	Supporting documentation of daily notes did not agree to the billings sent to the State.
Perspective Information:	The Organization was aware that some supporting documentation was insufficient. The Organization has made significant improvements in identifying and correcting these discrepancies, leading to far fewer instances during the current year.
Cause:	Review of daily notes failed to identify all discrepancies between the notes and the billings to the State.
Effect:	We were unable to obtain support for some billings to the State.
Recommendations:	Review and agree daily notes to the billing spreadsheet before sending the billings to the State.
Response:	See Management's Corrective Action Plan

**2019-002**

Criteria:	As a part of financial reporting and controls over financial reporting, the Organization should maintain Social Security Administration (SSA) authorization forms for all representative payees.
Condition:	SSA authorization forms were not maintained by the Organization.
Perspective Information:	The Organization was aware that some supporting documentation was insufficient. Representative payee documentation was not maintained in one central location, however it will be moving forward.
Cause:	Review of representative payee files not performed to insure all documentation is maintained.
Effect:	We were unable to obtain SSA authorization forms for some representative payees.



**WAVES, INC.**  
**SCHEDULE OF FINDINGS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2019**

Recommendations: Review representative payee files to insure all documentation is maintained.

Response: See Management's Corrective Action Plan

**2019-003**

Criteria: As a part of financial reporting and controls over financial reporting, the Organization should reconcile supporting documentation for all accruals to the general ledger on a monthly basis, investigate differences and make adjustments as necessary.

Condition: Supporting documentation for accrued leave and accrued payroll did not agree to the general ledger at year end and is not being reconciled. Further accounts receivable are not being recorded for remittance advices that include service dates that span over different months.

Perspective Information: Accounts receivable, accrued leave and accrued payroll are being recorded, however the amount recorded in the general ledger is not being reconciled to supporting documentation.

Cause: Amounts recorded in the general ledger for accounts receivable and accruals are not being reconciled to supporting documentation.

Effect: Material adjustments were proposed and recorded as a result of audit procedures.

Recommendations: Reconcile the general ledger to supporting documentation for all accruals.

Response: See Management's Corrective Action Plan





## Management's Corrective Action Plan

ISSUE	TARGET DATE	PLAN ACTION STEPS	RESPONSIBLE PERSONS	PROGRESS REPORT	DATE
Billing Integrity	11/29/19	1. Retrain new Program Managers and uphold Policy/Procedure for required verification of service documentation prior to billing submission.	Adult Services Director	To be completed in 11/26/19 Management Meeting	
	11/29/2019	2. Review Service Documentation Check off forms with Program Managers and Program Coordinators	Adult Services Director	To be completed in 11/26/19 Management Meeting	
	12/31/19	3. Review SR records for updated Rep Payee documents.	Adult Services Director and Program Managers	To be completed in December 2019 Mock Survey	

Respectfully Submitted,

Lance Jordan  
Waves, Inc Executive Director

Additional 2019 Improvement action:

Business office staff will ensure that balance sheet amounts reconcile to supporting documentation for all accounts by a target date of December 31, 2019.

**WAVES, INC.**  
**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**Financial Statement Finding**

<b>Prior Year Finding Number</b>	<b>Finding Title</b>	<b>Status/Current Year Finding Number</b>
2018-001	Insufficient supporting documentation for DIDD billings	Repeated/ 2019-001