

**WAVES, INC.**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

# 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

I have audited the accompanying statement of financial position of WAVES, Inc. (a nonprofit organization) as of June 30, 2006, 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, 2006, 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 November 10, 2006, 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 conjunction with this report in considering 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*

November 10, 2006

# WAVES, INC.

## Statement of Financial Position

June 30, 2006

### Assets

Current assets:	
Cash	\$ 333,559
Accounts receivable	339,776
Unconditional promises receivable	85,254
Prepaid assets	23,181
Total current assets	<u>781,770</u>
Property and equipment at cost:	
Land and building	748,854
Vehicles	286,983
Furniture and equipment	107,592
Less: accumulated depreciation	<u>(446,475)</u>
Net property and equipment	<u>696,954</u>
Other assets	<u>6,571</u>
Total assets	\$ <u><u>1,485,295</u></u>

### Liabilities and Net Assets

Current liabilities:	
Accounts payable	\$ 47,989
Accrued expenses	189,499
Deferred revenue	241,175
Current portion of long-term debt	26,780
Total current liabilities	<u>505,443</u>
Long -term debt	<u>414,744</u>
Total liabilities	<u>920,187</u>
Net assets:	
Temporarily restricted	135,254
Unrestricted	429,854
Total net assets	<u>565,108</u>
Total liabilities and net assets	\$ <u><u>1,485,295</u></u>

The accompanying notes are an integral part of these statements.

# WAVES, INC.

## Statement of Activities

For the year ended June 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues			
Public support:			
Tennessee Department of:			
Mental Health and Mental Retardation	\$ 3,000,577	-	3,000,577
TEIS	19,830	-	19,830
Human Services	22,798	-	22,798
United Way	-	85,254	85,254
Grants	62,388	-	62,388
Private pay and room and board	113,776	-	113,776
City and County	73,739	-	73,739
In-kind	18,960	-	18,960
Recycle fees	22,270	-	22,270
Contributions	9,251	-	9,251
Interest	234	-	234
Miscellaneous	4,285	-	4,285
Net assets added from restrictions:			
Building fund	(50,000)	50,000	-
Net assets released from restrictions:			
United Way funding for the year 2005-2006	85,254	(85,254)	-
Total public support and revenues	<u>3,383,362</u>	<u>50,000</u>	<u>3,433,362</u>
Expenses:			
Residential services	1,725,709	-	1,725,709
Day services	850,244	-	850,244
Employment services	178,391	-	178,391
Child services	183,934	-	183,934
Management and General	433,088	-	433,088
Fundraising	16,434	-	16,434
Total expenses	<u>3,387,800</u>	<u>-</u>	<u>3,387,800</u>
Increase (decrease) in net assets	<u>(4,438)</u>	<u>50,000</u>	<u>45,562</u>
Beginning of year net assets	434,292	85,254	519,546
End of year net assets	<u>\$ 429,854</u>	<u>135,254</u>	<u>565,108</u>

The accompanying notes are an integral part of these statements.

WAVES, INC.

Statement of Functional Expenses

For the year ended June 30, 2006

	Program Services					Supporting Services			Total Expenses
	Residential Services	Day Services	Employment Services	Children Services	Total	Management and General	Fundraising	Total	
Salaries	\$ 1,217,017	514,556	105,729	122,137	1,959,439	279,369	9,238	288,607	2,248,046
Employee benefits	145,311	75,326	21,052	10,464	252,153	39,457	1,057	40,514	292,667
Payroll taxes	88,749	36,870	7,624	8,874	142,117	20,396	643	21,039	163,156
Travel	4,051	1,922	2,859	5,448	14,280	1,770	87	1,857	16,137
Printing	2,444	4,106	1,491	1,554	9,595	9,018	569	9,587	19,182
Utilities	17,467	14,143	-	-	31,610	-	-	-	31,610
Communications	15,378	9,286	5,197	2,281	32,142	9,331	405	9,736	41,878
Maintenance and repairs	11,986	17,216	564	1,735	31,501	2,686	268	2,954	34,455
Professional services	19,428	29,160	1,952	8,305	58,845	20,364	1,724	22,088	80,933
Supplies	17,838	10,961	6,632	3,626	39,057	14,495	1,785	16,280	55,337
Food	25,075	3,298	42	416	28,831	1,666	237	1,903	30,734
Rent	12,562	39,709	3,510	11,820	67,601	16,416	331	16,747	84,348
Insurance	7,720	2,500	209	574	11,003	1,166	-	1,166	12,169
Vehicle expense	53,605	61,470	13,511	-	128,586	5,281	-	5,281	133,867
Client benefits	23,551	12,427	3,594	4,892	44,464	948	31	979	45,443
Training	2,525	1,445	830	1,000	5,800	2,263	59	2,322	8,122
Miscellaneous	2,000	450	-	32	2,482	1,945	-	1,945	4,427
Interest	25,001	2,659	-	-	27,660	275	-	275	27,935
Depreciation	34,001	12,740	3,595	776	51,112	6,242	-	6,242	57,354
Total Expenses	\$ 1,725,709	850,244	178,391	183,934	2,938,278	433,088	16,434	449,522	3,387,800

The accompanying notes are an integral part of these statements.

# WAVES, INC.

## Statement of Cash Flows

For the year ended June 30, 2006

Cash flows from operating activities:	
Support and revenue received	\$ 3,662,386
Cash paid for:	
Salaries and related expenses	(2,703,869)
Program and support services	(508,111)
Net cash provided by operating activities	<u>450,406</u>
Cash flows used by financing activities:	
Payment of long-term debt	<u>(23,043)</u>
Net cash used by financing activities	(23,043)
Cash flows used by investing activities:	
Acquisition of fixed assets	<u>(118,064)</u>
Net cash used by investing activities	(118,064)
Net increase in cash	309,299
Cash and cash equivalents at beginning of year	24,260
Cash and cash equivalents at end of year	\$ <u><u>333,559</u></u>

### Reconciliation of Increase in Net Assets to Net Cash Provided by Operating Activities

Increase (decrease) in net assets	\$ 45,562
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	57,354
Changes in assets (increase) decrease:	
Accounts receivable	229,024
Prepaid assets	(18,373)
Other assets	(250)
Changes in liabilities increase (decrease)	
Accounts payable	16,891
Accrued expenses	47,293
Deferred revenue	72,905
Net cash provided by operating activities	\$ <u><u>450,406</u></u>



# WAVES, INC.

## Notes to the Financial Statements June 30, 2006

### 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, 2006

### 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, 2006

### 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 89% of WAVES, Inc.'s revenues for the year ended June 30, 2006, 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>6/30/05</u>	<u>Addition</u>	<u>Retirement</u>	Balance <u>6/30/06</u>
Land and buildings	\$ 699,882	78,688	29,716	748,854
Vehicles	247,607	39,376	-	286,983
Furniture and equipment	<u>110,904</u>	<u>-</u>	<u>3,312</u>	<u>107,592</u>
Total	1,058,393	118,064	33,028	1,143,429
Less: Accumulated depreciation	<u>(422,061)</u>			<u>(446,475)</u>
Net assets	\$ <u>636,332</u>			<u>696,954</u>

Depreciation expense for the year ended June 30, 2006 was \$ 57,354.

**WAVES, INC.**

**Notes to the Financial Statements  
June 30, 2006**

**3. LONG -TERM DEBT**

Long-term debt at June 30, 2006 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.	\$ 65,819
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6.375% mortgage note payable in monthly payments of \$691 to July 2017, collateralized by Land and Buildings of the Organization.	65,819
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5.750% mortgage note payable in monthly payments of \$1,406 to April 2024, collateralized by Land and Buildings of the Organization.	180,472
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6.700% mortgage note payable in monthly payments to May 2020, collateralized by Land and Buildings of the Organization.	118,797
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5.00% note payable in monthly payments of \$348 to April 2009, collateralized by a vehicle of the Organization.	<u>10,617</u>
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Total long-term debt	441,524
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Less amount classified as current	<u>26,780</u>
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Total long-term debt excluding current portion	<u>\$ 414,744</u>
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Principal requirements of long-term debt in the next five years consists of:

2007	\$ 26,780
2008	28,140
2009	30,765
2010	23,112
2010	<u>24,730</u>
Total	133,527
Thereafter	<u>281,217</u>
Total debt	<u>414,744</u>

## WAVES, INC.

### Notes to the Financial Statements June 30, 2006

#### 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, 2006. There was no outstanding balance on the line of credit as of June 30, 2006.

#### 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% 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, 2006, were \$49,704.

#### 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 2006. These leases are renewable annually. Rent expense for the year ended June 30, 2006 was \$84,348.

#### 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, 2006

CFDA#	Program Name	Grant #	Grantor Agency	Balance 6/30/2005	Cash Receipts	Cash Expenditures	Balance 6/30/2006
N/A	Mental Health and Mental Retardation	N/A	State of Tennessee Finance and Administration Services	533,170	3,210,058	3,000,577	323,689
N/A	TEIS	N/A	State of Tennessee Department of Education	-	19,830	19,830	-
N/A	Human Services	N/A	State of Tennessee Department of Human Services	-	22,798	22,798	-
Total				533,170	3,252,686	3,043,205	323,689

The accompanying notes are an integral part of these statements.