

WAVES, INC.

FINANCIAL STATEMENTS

WITH SUPPLEMENTARY INFORMATION

JUNE 30, 2020

(With Independent Auditor's Report Thereon)

WAVES, INC.
FINANCIAL STATEMENTS
JUNE 30, 2020

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WAVES, INC.
ROSTER OF BOARD OF DIRECTORS
JUNE 30, 2020

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



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

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, 2020, 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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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, roster of Board of Director, and schedules of current year findings, and prior year findings as required by Tennessee Comptroller of the Treasury Division of Local Government Audit, are presented for purposes of additional analysis and are 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 December 23, 2020, 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 Harder & Bellentine

December 23, 2020

WAVES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS

Current Assets:

Cash	\$ 902,688	
Accounts receivable - state agencies	221,176	
Accounts receivable - other	5,736	
Prepaid expenses	19,552	
Total current assets		\$ 1,149,152

Property and equipment:

Land and Building	412,778	
Vehicles	423,532	
Furniture and equipment	57,821	
Less: accumulated depreciation	(687,279)	
Net property and equipment		206,852

Assets Whose Use Is Limited:

Accounts receivable - other	97,268	
Total assets whose use is limited		97,268

Total Assets		<u>\$ 1,453,272</u>
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LIABILITIES AND NET ASSETS

Current Liabilities:

Current portion of long-term debt	\$ 264,025	
Accounts payable	9,552	
Other payables	177,900	
Total current liabilities		\$ 451,477

Note payable, net of current installments		310,450
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Total Liabilities		761,927
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Net Assets:

Without donor restrictions	594,077	
With donor restrictions	97,268	
Total net assets		691,345

Total Liabilities and Net Assets		<u>\$ 1,453,272</u>
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See accompanying notes to financial statements.

WAVES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public Support and Revenue:			
Gross special event revenue	\$ 45,532	\$ -	\$ 45,532
Less direct costs of special events	<u>(8,600)</u>	<u>-</u>	<u>(8,600)</u>
Net special events revenue	36,932	-	36,932
Revenues:			
State of Tennessee funding	2,287,708	-	2,287,708
Grants	305,459	97,268	402,727
Private pay	34,780	-	34,780
TEIS	74,140	-	74,140
Room and board	27,696	-	27,696
Recycle fees	73,135	-	73,135
Contributions	57,242	-	57,242
In-Kind	24,660	-	24,660
Rental income	3,933	-	3,933
Interest income	35	-	35
Miscellaneous income	16,540	-	16,540
Net assets released from restriction	<u>97,268</u>	<u>(97,268)</u>	<u>-</u>
Total revenues	<u>3,002,596</u>	<u>-</u>	<u>3,002,596</u>
Total public support and revenue	3,039,528	-	3,039,528
Expenses:			
Program services	2,464,178	-	2,464,178
Management and general	562,004	-	562,004
Fundraising	<u>55,133</u>	<u>-</u>	<u>55,133</u>
Total functional expenses	3,081,315	-	3,081,315
Other loss:			
Gain on disposal of fixed assets	450	-	450
Decrease in net assets	<u>(41,337)</u>	<u>-</u>	<u>(41,337)</u>
Net Assets - beginning of year	<u>635,414</u>	<u>97,268</u>	<u>732,682</u>
Net Assets - end of year	<u>\$ 594,077</u>	<u>\$ 97,268</u>	<u>\$ 691,345</u>

See accompanying notes to financial statements.

WAVES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020

Cash Flows From Operating Activities:

Decrease in net assets	\$	(41,337)
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Adjustments to reconcile decrease in net assets
to net cash used in operating activities:

Depreciation	\$	63,820
Gain on disposal of fixed assets		(450)

Changes in:

Accounts receivable - state agencies	127,107
Accounts receivable - other	15,362
Prepaid expenses	(250)
Accounts payable	9,552
Other payables	(20,000)

195,141

Net cash provided by operating activities

153,804

Cash Flows from Investing Activities:

Purchases of property and equipment	(10,800)
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Proceeds from sale of property and equipment	450
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Net cash used in investing activities	(10,350)
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Cash Flows from Financing Activities:

Proceeds from issuance of installment notes payable	540,402
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Payments on installment note payable	(25,290)
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Net cash provided by financing activities	515,112
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Net increase in cash

658,566

Cash - beginning of year

244,122

Cash - end of year

\$ 902,688

SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid during the year ended June 30, 2020, was \$1,201.

WAVES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Program Services					Supporting Services		
	Residential Services	Day Services	Employment Services	Early Learning Services	Total Program Services	Management and general	Fundraising	Total
Salaries	\$ 1,207,594	\$ 245,043	\$ 95,209	\$ 281,047	\$ 1,828,893	\$ 326,412	\$ 38,332	\$ 2,193,637
Employee benefits	46,208	1,170	336	978	48,692	4,793	171	53,656
Payroll taxes	215,424	32,557	15,244	31,261	294,486	38,762	3,789	337,037
Travel and vehicle expense	35,751	31,154	19,828	14,361	101,094	5,464	-	106,558
Supplies	33,634	10,058	698	1,773	46,163	11,779	10,127	68,069
Professional services	2,199	552	-	3,278	6,029	66,622	1,715	74,366
Occupancy	13,227	58,351	9,679	11,037	92,294	30,719	6,453	129,466
Training	-	-	176	191	367	158		525
Information technology	23,410	7,956	1,546	5,618	38,530	12,688	2,652	53,870
Miscellaneous	7,337	260	33	-	7,630	787	494	8,911
Depreciation	-	-	-	-	-	63,820	-	63,820
Total expenses by function	1,584,784	387,101	142,749	349,544	2,464,178	562,004	63,733	3,089,915
Less expenses included with revenues on the Statement of Activities:								
Direct cost of special events	-	-	-	-	-	-	(8,600)	(8,600)
Total expenses included in the expense section on the Statement of Activities	<u>\$ 1,584,784</u>	<u>\$ 387,101</u>	<u>\$ 142,749</u>	<u>\$ 349,544</u>	<u>\$ 2,464,178</u>	<u>\$ 562,004</u>	<u>\$ 55,133</u>	<u>\$ 3,081,315</u>

See accompanying notes to financial statements.

WAVES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

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 72% 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, 2020, we had no cash equivalents.

WAVES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

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, 2020, 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.

New Accounting Pronouncement

The Financial Accounting Standards Board (FASB) issued two Accounting Standard Updates that could have an affect the Organization's revenue recognition. The first, Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* affects contracts with customers to transfer goods or services and contracts for the transfer of non-financial assets (unless those contracts are within the scope of other standards). The core principle of this Update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the good or services. This Update requires entities to make new judgements and estimates and provide expanded disclosures about revenue. The second, Accounting Standards Update No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, establishes standards for characterizing grants and similar contracts with resource providers as either exchange transactions or conditional contributions. We have adopted these standards, during the year ended June 30, 2020, and applied them retrospectively to beginning net assets. The adoption of these updates had no effect on beginning net assets on our statement of activities, or for the year ended June 30, 2020.

In November 2016, the FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how restricted cash is presented and classified on the statements of financial position and cash flows. The adoption of this standard had no effect on beginning net assets on our statement of activities for the year ended June 30, 2020.

WAVES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

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, 2020:

Cash	\$ 902,688
Accounts receivable	226,912
	<u>\$ 1,129,600</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.

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, 2020, no allowance was considered necessary.

At June 30, 2020, 100% 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, 2020:

Salaries payable	\$ 86,302
Accrued leave payable	83,322
Miscellaneous payables	<u>8,276</u>
	<u>\$ 177,900</u>

WAVES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 5 – Net Assets With Donor Restrictions

The following is a summary of net assets with donor restrictions at June 30, 2020:

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

NOTE 6 - Long-Term Debt

As of June 30, 2020, we have an installment note payable as follows:

U.S. Small Business Administration Paycheck Protection Plan under the Coronavirus Aid, Relief, and Economic Security Act Loan. Monthly payments of \$30,412 are required based on 18 months amortization with interest at 1.00%	\$ 540,402
Note payable to a bank with a maturity of September 21, 2021. Monthly payments of \$2,274 are required based on 60 months amortization with interest at 4.35%.	34,073
	<u>574,475</u>
Less: current maturities	<u>(264,025)</u>
	<u>\$ 310,450</u>

The following is a list of future maturities:

<u>Year Ending June 30,</u>	
2021	\$ 264,025
2022	310,450
	<u>\$ 574,475</u>

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 main office in Franklin, Tennessee, which expires in March 2022, with monthly payments varying between \$4,667 and \$4,952. We also have an operating lease for another office location in Franklin, Tennessee, which expires June 2021, with monthly payments of \$986. Finally, we 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, 2020:

<u>Year Ending June 30</u>	
2020	\$ 81,563
2021	56,181
2022	11,616
2023	11,616
2025	4,840
	<u>\$ 165,816</u>

WAVES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

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, 2020, was \$33,788.

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, 2020:

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

In February 2016, FASB issued Accounting Standards Update 2016-02, *Leases (Topic 842)*. The Update provides guidance about recording lease transactions on an organization's statements of financial position and activities. The amendments in this Update are effective for annual periods beginning after December 15, 2021, and for annual periods and interim periods thereafter with early adoption permitted. We are currently evaluating the impact of adopting this statement.

NOTE 12 - Contingency

As of December 23, 2020, the COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of business operations. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. However, the related financial impact and duration cannot be reasonably estimated at this time.

NOTE 13 - Subsequent Events

We have evaluated events subsequent to June 30, 2020. As of December 23, 2020, 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, 2020.

WAVES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Federal Grantor/ Pass Through Grantor	Program/Cluster Name	CFDA Number	Contract Number	Passed Through to Subrecipients	Expenditures
<u>Federal Awards</u>					
Pass-through Funding:					
U.S. Department of Education through the TN Department of Education	Special Education - Grants for Infants and Families	84.181A	UNKNOWN	\$ -	\$ 167,136
U.S. Department of Education through the TN Department of Education	Special Education - Grants for Infants and Families	84.181A	UNKNOWN	-	48,000
Total Program 84.181A				-	215,136
TOTAL FEDERAL AWARDS				\$ -	\$ 215,136
<u>State Financial Assistance</u>					
TN Department of Education	Special Education - Grants for Infants and Families	N/A	UNKNOWN	\$ -	\$ 128,324
TN Department of Education	Special Education - Grants for Infants and Families	N/A	UNKNOWN	-	26,140
TOTAL STATE AWARDS				\$ -	\$ 154,464
TOTAL FEDERAL AND STATE AWARDS				\$ -	\$ 369,600
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, 2020. 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		\$	295,460		
TEIS			74,140		
Total		\$	369,600		



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, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 23, 2020.

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 the 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-001, 2020-002, 2020-003, and 2020-004 that we consider to be material weaknesses.

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 and questioned costs as items 2020-001, 2020-002, and 2020-003.

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 and questioned costs. 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 Handler & Ballentine

December 23, 2020

WAVES, INC.
SCHEDULE OF CURRENT YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2020

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Waves, Inc.
2. Four 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 2020-001, 2020-002, 2020-003 and 2020-004.
3. Three instances of material noncompliance were disclosed during the audit.

FINDINGS—FINANCIAL STATEMENT AUDIT

2020-001

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 and receipts from the State.
Condition:	Supporting documentation of daily notes did not agree to the billings sent to the State and amounts received from 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 and receipts from the State.
Effect:	We were unable to obtain support for some billings to the State and receipts from the State.
Recommendations:	Review and agree daily notes to the billing spreadsheet before sending the billings to the State and receipts from the State.
Response:	See Management's Corrective Action Plan

2020-002

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.

WAVES, INC.
SCHEDULE OF CURRENT YEAR FINDINGS (continued)
FOR THE YEAR ENDED JUNE 30, 2020

Effect: We were unable to obtain SSA authorization forms for some representative payees.

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

Response: See Management's Corrective Action Plan

2020-003

Criteria: As a part of financial reporting and controls over financial reporting, the Organization should maintain Employment and Community First CHOICES (ECF) authorization forms for all clients.

Condition: ECF authorization forms were not maintained by the Organization.

Perspective Information: The Organization was aware that some supporting documentation was insufficient. ECF documentation was not maintained in one central location, however it will be moving forward.

Cause: Review of ECF files not performed to insure all documentation is maintained.

Effect: We were unable to obtain ECF authorization forms for some clients.

Recommendations: Review ECF files to insure all documentation is maintained.

Response: See Management's Corrective Action Plan

2020-004

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 properly.

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	1/25/2021	Train new Program managers and reiterate the importance of required verification of service documentation prior to billing submission. Make sure everyone is consistent in documentation.	Adult Services Director	To be completed in 1/25/2021 Management meeting.	
	1/25/2021	Review Service Documentation Check off forms with Program Managers and Coordinators	Adult Services Director	To be completed in 1/25/2021 Management meeting	
	2/25/2021	Review SR records for updated Rep Payee documents	Adult Services Director and Program Managers	To be completed in next mock survey in 2021	

Respectfully Submitted,

Lance Jordan
Waves, Inc Executive Director

Additional 2021 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, 2021.

WAVES, INC.
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Financial Statement Finding

Prior Year Finding Number	Finding Title	Status/Current Year Finding Number
2019-001	Insufficient supporting documentation for DIDD billings	Repeated/ 2020-001
2019-002	SSA authorization forms were not maintained by the Organization	Repeated/ 2020-002
2019-003	Amounts recorded in the general ledger for accounts receivable and accruals are not being reconciled to supporting documentation	Repeated/ 2020-004