

WAVES, INC.
FINANCIAL STATEMENTS
JUNE 30, 2011

WAVES, INC.

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FINANCIAL SECTION

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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, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WAVES, Inc., as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated October 31, 2011, on my consideration of WAVES, Inc.'s internal control over financial reporting and tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of the audit.

My audit was performed for the purpose of forming an opinion on the basic financial statements of WAVES, Inc. The accompanying schedule of State Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements.

John R Poole, CPA

October 31, 2011

WAVES, INC.

Statement of Financial Position

June 30, 2011

Assets

Current assets:

Cash	\$	108,105
Accounts receivable		339,174
Unconditional promises receivable		85,254
Prepaid assets		11,124
Total current assets		<u>543,657</u>

Property and equipment at cost:

Land and building		772,227
Vehicles		434,711
Furniture and equipment		69,499
Less: accumulated depreciation		<u>(688,001)</u>
Net property and equipment		<u>588,436</u>

Other assets

13,336

Total assets	\$	<u><u>1,145,429</u></u>
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Liabilities and Net Assets

Current liabilities:

Accounts payable	\$	22,105
Accrued expenses		199,977
Deferred revenue		3,177
Line of credit		40,000
Current portion of long-term debt		19,695
Total current liabilities		<u>284,954</u>

Long -term debt

362,505

Total liabilities		<u>647,459</u>
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Net assets:

Temporarily restricted		96,697
Unrestricted		401,273
Total net assets		<u>497,970</u>

Total liabilities and net assets	\$	<u><u>1,145,429</u></u>
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WAVES, INC.

Statement of Activities

For the year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues			
Public support:			
Tennessee Department of:			
Intellectual and Disabilities Services	\$ 2,131,973	-	2,131,973
Vocational Rehabilitation	60,703	-	60,703
Education	265,197	-	265,197
United Way	4,701	85,254	89,955
Grants	12,963	-	12,963
Private pay and room and board	117,686	-	117,686
City and County	68,377	-	68,377
In-kind	25,948	-	25,948
Recycle fees	54,231	-	54,231
Contributions	83,783	-	83,783
Interest	266	121	387
Miscellaneous	10,160	-	10,160
Special events	24,699	-	24,699
Net assets released from restrictions:			
United Way funding for the year 2010-2011	85,254	(85,254)	-
Total public support and revenues	<u>2,945,941</u>	<u>121</u>	<u>2,946,062</u>
Expenses:			
Residential services	1,488,180	-	1,488,180
Day services	581,733	-	581,733
Employment services	128,557	-	128,557
Early learning	287,451	-	287,451
Management and General	428,253	-	428,253
Fundraising	34,825	-	34,825
Total expenses	<u>2,948,999</u>	<u>0</u>	<u>2,948,999</u>
Increase (decrease) in net assets	<u>(3,058)</u>	<u>121</u>	<u>(2,937)</u>
Beginning of year net assets	404,331	96,576	500,907
End of year net assets	<u>\$ 401,273</u>	<u>96,697</u>	<u>497,970</u>

WAVES, INC.

Statement of Functional Expenses

For the year ended June 30, 2011

	Program Services					Supporting Services			
	Residential Services	Day Services	Employment Services	Early Learning	Total	Management and General	Fundraising	Total	Total Expenses
Salaries	\$ 1,033,468	307,864	73,387	171,979	1,586,698	284,678	14,449	299,127	1,885,825
Employee benefits	150,523	59,477	13,258	22,391	245,649	43,514	1,960	45,474	291,123
Payroll taxes	75,304	21,402	4,981	13,248	114,935	19,894	1,043	20,937	135,872
Travel	2,739	1,187	305	5,203	9,434	710	64	774	10,208
Printing	2,756	1,477	897	3,364	8,494	4,630	2,271	6,901	15,395
Utilities	3,925	11,920	-	120	15,965	-	-	-	15,965
Communications	14,065	7,780	1,992	5,760	29,597	5,829	745	6,574	36,171
Maintenance and repairs	10,834	8,995	364	2,103	22,296	1,326	155	1,481	23,777
Professional services	30,568	21,851	4,473	13,584	70,476	28,996	10,381	39,377	109,853
Supplies	34,315	8,144	2,110	22,299	66,868	7,003	1,875	8,878	75,746
Rent	10,270	39,292	4,196	25,194	78,952	16,005	1,329	17,334	96,286
Insurance	12,785	2,102	175	1,241	16,303	638	165	803	17,106
Vehicle expense	40,580	55,147	22,281	-	118,008	5,405	-	5,405	123,413
Client benefits	3,200	43	10	-	3,253	-	-	-	3,253
Training	744	227	29	43	1,043	486	43	529	1,572
Miscellaneous	470	180	12	695	1,357	4,967	325	5,292	6,649
Interest	14,387	-	-	-	14,387	2,917	-	2,917	17,304
Depreciation	47,247	34,645	87	227	82,206	1,255	20	1,275	83,481
Total Expenses	\$ 1,488,180	581,733	128,557	287,451	2,485,921	428,253	34,825	463,078	2,948,999

WAVES, INC.

Statement of Cash Flows

For the year ended June 30, 2011

Cash flows from operating activities:	
Support and revenue received	\$ 2,922,585
Cash paid for:	
Salaries and related expenses	(2,312,820)
Program and support services	(538,938)
Net cash provided by operating activities	<u>70,827</u>
Cash flows used by financing activities:	
Proceeds from line of credit	40,000
Payments of principal on loans	(17,068)
Net cash used by financing activities	<u>22,932</u>
Cash flows used by investing activities:	
Acquisition of fixed assets	(17,014)
Net cash used by investing activities	<u>(17,014)</u>
Net increase in cash	76,745
Cash and cash equivalents at beginning of year	31,360
Cash and cash equivalents at end of year	\$ <u><u>108,105</u></u>

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

Increase (decrease) in net assets	\$ (2,937)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	83,481
Changes in assets (increase) decrease:	
Accounts receivable	(23,477)
Other assets	(7,323)
Prepaid assets	1,217
Changes in liabilities increase (decrease)	
Accounts payable	(4,050)
Accrued expenses	25,824
Deferred revenue	(1,908)
Net cash provided by operating activities	\$ <u><u>70,827</u></u>

WAVES, INC.

Notes to the Financial Statements June 30, 2011

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, 2011

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, 2011

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 83% of WAVES, Inc.'s revenues for the year ended June 30, 2011, 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 6/30/10	Addition	Retirement	Balance 6/30/11
Land and buildings	\$ 768,377	3,850	-	772,227
Vehicles	434,711	-	-	434,711
Furniture and equipment	<u>56,335</u>	<u>13,164</u>	<u>-</u>	<u>69,499</u>
Total	1,259,423	17,014	-	1,276,437
Less: Accumulated depreciation	(605,815)			(688,001)
Net assets	<u>\$ 653,608</u>			<u>588,436</u>

Depreciation expense for the year ended June 30, 2011 was \$ 83,481.

WAVES, INC.

Notes to the Financial Statements June 30, 2011

3. LONG -TERM DEBT

Long-term debt at June 30, 2011 consists of the following:

Note payable in monthly payments of \$2,621 collateralized by Land and Buildings of the Organization.	<u>382,200</u>
Less amount classified as current	<u>19,695</u>
Total long-term debt excluding current portion	<u>\$ 362,505</u>

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

2012	19,695
2013	20,876
2014	22,113
2015	23,108
2015	<u>24,263</u>
Total	110,055
Thereafter	<u>272,145</u>
Total debt	<u>382,200</u>

4. LINE OF CREDIT

WAVES, Inc. renewed the line of credit of \$200,000, 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, 2011. There was an outstanding balance of \$40,000 on the line of credit as of June 30, 2011.

WAVES, INC.

Notes to the Financial Statements June 30, 2011

5. PENSION PLAN

WAVES, Inc. adopted in 1997 a 403(b) thrift plan covering substantially all of its full time employees. Employees as of July 1, 1997, were covered immediately. Employees hired after that date were covered after one year of service. The employer contributions to the plan were 2% of each eligible employee's annual gross pay and will make a matching contribution equal to 50% of the first 4% contributed by an employee. Each employee's contribution is 100% vested immediately. All employer contributions are earned over seven years of service. Employer contributions for the year ended June 30, 2011, were \$38,579.

6. COMMITMENTS

WAVES, Inc. has leases for certain of its facilities. All leases expire during the next twelve months.. These leases are renewable annually. Rent expense for the year ended June 30, 2011 was \$96,285.

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.

WAVES, INC.

Schedule of State Financial Assistance

For the Year ended June 30, 2011

CFDA#	Program Name	Grant #	Grantor Agency	Balance 6/30/2010	Cash Receipts	Cash Expenditures	Balance 6/30/2011
N/A	Intellectual and Developmental Disabilities Services	N/A	State of Tennessee Finance and Administration Services	174,533	2,130,937	2,131,973	175,569
N/A	Education	N/A	State of Tennessee Department of Education	-	195,040	200,593	5,553
N/A	Vocational Rehabilitation	N/A	State of Tennessee Department of Education	-	-	60,703	60,703
N/A	Education -ARRA	N/A	State of Tennessee Department of Education	-	-	68,204	68,204
Total				174,533	2,325,977	2,461,473	310,029

The accompanying notes are an integral part of these statements.

**COMPLIANCE AND
INTERNAL CONTROL**

JOHN R. POOLE, CPA
CERTIFIED PUBLIC ACCOUNTANT

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(615) 822-4177

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND OTHER MATTERS
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
WAVES, Inc.
Franklin, Tennessee

I have audited the financial statements of WAVES, Inc. as of and for the year ended June 30, 2011, and have issued a report thereon dated October 31, 2011. I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing the audit, I considered WAVES' internal control over financial reporting as a basis for designing the auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WAVES' internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of WAVES' internal control over financial reporting.

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 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether WAVES' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of the audit and, accordingly, I do not express such an opinion. The results of the tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

John R. Poole, CPA

October 31, 2011