

**WAVES, INC.**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

# WAVES, INC.

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## FINANCIAL SECTION

**JOHN R. POOLE, CPA**  
**CERTIFIED PUBLIC ACCOUNTANT**

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134 NORTHLAKE DRIVE  
HENDERSONVILLE, TN 37075

(615) 822-4177

**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, 2008, 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, 2008, 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, 2008, on my consideration of WAVES, Inc.'s internal control over financial reporting and tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of the audit.

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

*John R. Poole, CPA*

October 31, 2008

# WAVES, INC.

## Statement of Financial Position

June 30, 2008

### Assets

Current assets:	
Cash	\$ 229,460
Accounts receivable	556,983
Unconditional promises receivable	85,254
Prepaid assets	21,996
Total current assets	<u>893,693</u>
Property and equipment at cost:	
Land and building	765,421
Vehicles	320,519
Furniture and equipment	73,412
Less: accumulated depreciation	<u>(474,563)</u>
Net property and equipment	<u>684,789</u>
Other assets	<u>8,871</u>
Total assets	\$ <u><u>1,587,353</u></u>

### Liabilities and Net Assets

Current liabilities:	
Accounts payable	\$ 32,664
Accrued expenses	186,676
Deferred revenue	390,044
Current portion of long-term debt	18,300
Total current liabilities	<u>627,684</u>
Long -term debt	<u>414,532</u>
Total liabilities	<u>1,042,216</u>
Net assets:	
Temporarily restricted	139,113
Unrestricted	<u>406,024</u>
Total net assets	<u>545,137</u>
Total liabilities and net assets	\$ <u><u>1,587,353</u></u>

The accompanying notes are an integral part of these statements.

# WAVES, INC.

## Statement of Activities

For the year ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues			
Public support:			
Tennessee Department of:			
Mental Health and Mental Retardation	\$ 2,807,900	-	2,807,900
TEIS	225,604	-	225,604
Human Services	20,300	-	20,300
United Way	2,000	85,254	87,254
Grants	16,230	-	16,230
Private pay and room and board	172,102	-	172,102
City and County	76,908	-	76,908
In-kind	29,811	-	29,811
Recycle fees	36,715	-	36,715
Contributions	19,003	-	19,003
Interest	6,234	149	6,383
Miscellaneous	18,013	-	18,013
Net assets released from restrictions:			
United Way funding for the year 2007-2008	85,254	(85,254)	-
Total public support and revenues	<u>3,516,074</u>	<u>149</u>	<u>3,516,223</u>
Expenses:			
Residential services	1,942,416	-	1,942,416
Day services	687,024	-	687,024
Employment services	133,919	-	133,919
Early learning	325,365	-	325,365
Management and General	447,009	-	447,009
Fundraising	28,950	-	28,950
Total expenses	<u>3,564,683</u>	<u>-</u>	<u>3,564,683</u>
Increase (decrease) in net assets	<u>(48,609)</u>	<u>149</u>	<u>(48,460)</u>
Beginning of year net assets	454,633	138,964	593,597
End of year net assets	<u>\$ 406,024</u>	<u>139,113</u>	<u>545,137</u>

The accompanying notes are an integral part of these statements.

WAVES, INC.

Statement of Functional Expenses

For the year ended June 30, 2008

	Program Services					Supporting Services			Total Expenses
	Residential Services	Day Services	Employment Services	Early Learning	Total	Management and General	Fundraising	Total	
Salaries	\$ 1,328,425	383,526	81,685	227,321	2,020,957	288,235	16,100	304,335	2,325,292
Employee benefits	213,442	70,029	16,314	21,424	321,209	49,058	3,057	52,115	373,324
Payroll taxes	98,521	27,590	6,101	16,612	148,824	21,042	1,129	22,171	170,995
Travel	3,921	3,121	440	11,996	19,478	1,552	38	1,590	21,068
Printing	3,381	2,200	2,033	1,722	9,336	3,405	954	4,359	13,695
Utilities	21,137	11,838	-	-	32,975	-	-	-	32,975
Communications	18,672	7,284	2,749	2,041	30,746	8,499	621	9,120	39,866
Maintenance and repairs	11,397	12,432	424	2,875	27,128	1,651	65	1,716	28,844
Professional services	26,440	29,489	2,114	4,909	62,952	12,963	2,664	15,627	78,579
Supplies	22,954	8,730	2,016	6,671	40,371	13,709	3,160	16,869	57,240
Food	31,885	1,649	136	1,310	34,980	1,558	-	1,558	36,538
Rent	14,976	43,805	2,348	21,420	82,549	18,846	850	19,696	102,245
Insurance	9,577	3,335	245	903	14,060	1,756	52	1,808	15,868
Vehicle expense	53,401	56,303	10,187	129	120,020	7,710	-	7,710	127,730
Client benefits	13,865	8,253	3,581	4,892	30,591	918	61	979	31,570
Training	3,738	1,573	742	943	6,996	1,003	38	1,041	8,037
Miscellaneous	609	485	8	197	1,299	8,544	161	8,705	10,004
Interest	19,483	-	-	-	19,483	300	-	300	19,783
Depreciation	46,592	15,382	2,796	-	64,770	6,260	-	6,260	71,030
Total Expenses	\$ 1,942,416	687,024	133,919	325,365	3,088,724	447,009	28,950	475,959	3,564,683

The accompanying notes are an integral part of these statements.

# WAVES, INC.

## Statement of Cash Flows

For the year ended June 30, 2008

Cash flows from operating activities:	
Support and revenue received	\$ 3,234,815
Cash paid for:	
Salaries and related expenses	(2,769,611)
Program and support services	(564,949)
Net cash provided by operating activities	<u>(99,745)</u>
Cash flows used by financing activities:	
Proceeds form loan refinancing, net	<u>15,540</u>
Net cash used by financing activities	15,540
Cash flows used by investing activities:	
Acquisition of fixed assets	<u>(46,288)</u>
Net cash used by investing activities	(46,288)
Net increase in cash	(130,493)
Cash and cash equivalents at beginning of year	359,953
Cash and cash equivalents at end of year	\$ <u><u>229,460</u></u>
Reconciliation of Increase in Net Assets to Net Cash Provided by Operating Activities	
Increase (decrease) in net assets	\$ (48,460)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	71,030
Changes in assets (increase) decrease:	
Accounts receivable	(281,408)
Promises receivable	2,000
Prepaid assets	(4,873)
Other assets	459
Changes in liabilities increase (decrease)	
Accounts payable	10,263
Accrued expenses	12,105
Deferred revenue	139,139
Net cash provided by operating activities	\$ <u><u>(99,745)</u></u>

The accompanying notes are an integral part of these statements.



# WAVES, INC.

## Notes to the Financial Statements June 30, 2008

### 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, 2008

#### 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, 2008

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

##### Deferred Revenue

Deferred revenue is recorded when a potential revenue does not meet the 'measurable' and 'available' criteria for recognition in the current period. In subsequent periods, when both of these criteria are met, revenue is recognized.

##### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### Economic Dependence

Approximately 87% of WAVES, Inc.'s revenues for the year ended June 30, 2008, 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			Balance
	<u>6/30/07</u>	<u>Addition</u>	<u>Retirement</u>	<u>6/30/08</u>
Land and buildings	\$ 750,628	14,793	-	765,421
Vehicles	291,161	29,358	-	320,519
Furniture and equipment	<u>71,275</u>	<u>2,137</u>	<u>-</u>	<u>73,412</u>
Total	1,113,064	46,288	-	1,159,352
Less: Accumulated depreciation	<u>(403,531)</u>			<u>(474,563)</u>
Net assets	\$ <u>709,533</u>			<u>684,789</u>

Depreciation expense for the year ended June 30, 2008 was \$ 71,030.

## WAVES, INC.

### Notes to the Financial Statements June 30, 2008

#### 3. LONG -TERM DEBT

Long-term debt at June 30, 2008 consists of the following:

5.00% note payable in monthly payments of \$348 to April 2009, collateralized by a vehicle of the organization	\$ 2,853
Note payable in monthly payments of \$2,621 collateralized by Land and Buildings of the Organization.	<u>429,979</u>
Total	432,832
Less amount classified as current	<u>18,300</u>
Total long-term debt excluding current portion	<u>\$ 414,532</u>

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

2009	\$ 18,300
2010	17,528
2011	18,580
2012	19,695
2013	<u>20,876</u>
Total	94,979
Thereafter	<u>337,853</u>
Total debt	<u>432,832</u>

#### 4. LINE OF CREDIT

WAVES, Inc. renewed the line of credit of \$150,000, with an interest rate of 1% above prime rate as established by the bank with interest to be paid monthly. The note matures on September 1, 2008. There was no outstanding balance on the line of credit as of June 30, 2008.

## WAVES, INC.

### Notes to the Financial Statements June 30, 2008

#### 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, 2008, were \$59,407.

#### 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 2008. These leases are renewable annually. Rent expense for the year ended June 30, 2008 was \$102,245.

#### 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, 2008

CFDA#	Program Name	Grant #	Grantor Agency	Balance 6/30/2007	Cash Receipts	Cash Expenditures	Balance 6/30/2008
N/A	Mental Health and Mental Retardation	N/A	State of Tennessee Finance and Administration Services	254,342	2,581,827	2,807,900	480,415
N/A	TEIS	N/A	State of Tennessee Department of Education	-	225,604	225,604	-
N/A	Human Services	N/A	State of Tennessee Department of Human Services	-	20,300	20,300	-
Total				254,342	2,827,731	3,053,804	480,415

The accompanying notes are an integral part of these statements.