

WAVES, INC.
FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012, 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, 2012, 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, 2012, 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, 2012

WAVES, INC.

Statement of Financial Position

June 30, 2012

Assets

Current assets:

Cash	\$	128,470
Accounts receivable		190,732
Unconditional promises receivable		91,200
Prepaid assets		22,465
Total current assets		<u>432,867</u>

Property and equipment at cost:

Land and building		869,133
Vehicles		434,711
Furniture and equipment		69,499
Less: accumulated depreciation		<u>(772,431)</u>
Net property and equipment		<u>600,912</u>

Security deposits

13,336

Total assets

\$ 1,047,115

Liabilities and Net Assets

Current liabilities:

Accounts payable	\$	28,220
Accrued expenses		106,596
Current portion of long-term debt		20,876
Total current liabilities		<u>155,692</u>

Long -term debt

362,711

Total liabilities

518,403

Net assets:

Temporarily restricted		102,768
Unrestricted		425,944
Total net assets		<u>528,712</u>

Total liabilities and net assets

\$ 1,047,115

The accompanying notes are an integral part of these statements.

WAVES, INC.

Statement of Activities

For the year ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues			
Public support:			
Tennessee Department of:			
Intellectual and Disabilities Services	\$ 2,081,191	-	2,081,191
Vocational Rehabilitation	29,190	-	29,190
Education	43,302	-	43,302
United Way	15,844	91,200	107,044
Grants	232,322	-	232,322
Private pay and room and board	134,651	-	134,651
City and County	68,377	-	68,377
In-kind	24,660	-	24,660
Recycle fees	54,953	-	54,953
Contributions	28,061	-	28,061
Interest	-	125	125
Miscellaneous	2,786	-	2,786
Fundraising	28,772	-	28,772
Net assets released from restrictions:			
United Way funding for the year 2011-2012	85,254	(85,254)	-
Total public support and revenues	<u>2,829,363</u>	<u>6,071</u>	<u>2,835,434</u>
Expenses:			
Residential services	1,414,068	-	1,414,068
Day services	559,043	-	559,043
Employment services	128,619	-	128,619
Early learning	224,420	-	224,420
Management and General	438,214	-	438,214
Fundraising	40,328	-	40,328
Total expenses	<u>2,804,692</u>	<u>0</u>	<u>2,804,692</u>
Increase (decrease) in net assets	<u>24,671</u>	<u>6,071</u>	<u>30,742</u>
Beginning of year net assets	401,273	96,697	497,970
End of year net assets	<u>\$ 425,944</u>	<u>102,768</u>	<u>528,712</u>

The accompanying notes are an integral part of these statements.

WAVES, INC.

Statement of Functional Expenses

For the year ended June 30, 2012

	Program Services					Supporting Services			
	Residential Services	Day Services	Employment Services	Early Learning	Total	Management and General	Fundraising	Total	Total Expenses
Salaries	\$ 969,548	295,176	74,853	101,887	1,441,464	290,610	19,699	310,309	1,751,773
Employee benefits	132,215	48,955	15,637	8,205	205,012	43,016	2,979	45,995	251,007
Payroll taxes	74,725	21,555	7,369	8,359	112,008	22,169	1,635	23,804	135,812
Travel	3,684	862	285	3,054	7,885	1,807	211	2,018	9,903
Printing	2,129	1,503	627	3,672	7,931	4,033	1,225	5,258	13,189
Utilities	7,536	11,566	-	120	19,222	90	30	120	19,342
Communications	10,952	8,027	1,245	2,150	22,374	4,641	560	5,201	27,575
Maintenance and repairs	13,082	13,101	49	9,237	35,469	703	7	710	36,179
Professional services	33,153	24,330	4,381	6,182	68,046	23,023	7,728	30,751	98,797
Supplies	31,425	7,053	1,529	31,677	71,684	8,261	2,419	10,680	82,364
Rent	16,283	38,543	5,610	36,595	97,031	20,568	1,950	22,518	119,549
Insurance	16,515	2,504	618	1,478	21,115	2,312	156	2,468	23,583
Vehicle expense	42,631	54,941	16,237	-	113,809	8,728	-	8,728	122,537
Client benefits	2,036	50	-	-	2,086	1,075	1,075	2,150	4,236
Training	745	171	2	9	927	219	14	233	1,160
Miscellaneous	2,058	157	4	146	2,365	2,798	561	3,359	5,724
Interest	14,315	-	-	611	14,926	2,606	-	2,606	17,532
Depreciation	41,036	30,549	173	11,038	82,796	1,555	79	1,634	84,430
Total Expenses	\$ 1,414,068	559,043	128,619	224,420	2,326,150	438,214	40,328	478,542	2,804,692

The accompanying notes are an integral part of these statements.

WAVES, INC.

Statement of Cash Flows

For the year ended June 30, 2012

Cash flows from operating activities:	
Support and revenue received	\$ 2,977,930
Cash paid for:	
Salaries and related expenses	(2,138,592)
Program and support services	(683,454)
Net cash provided by operating activities	<u>155,884</u>
Cash flows used by financing activities:	
Payment on line of credit	(40,000)
Proceeds from borrowings	21,000
Payments of principal on loans	(19,613)
Net cash used by financing activities	<u>(38,613)</u>
Cash flows used by investing activities:	
Acquisition of fixed assets	(96,906)
Net cash used by investing activities	<u>(96,906)</u>
Net increase in cash	20,365
Cash and cash equivalents at beginning of year	108,105
Cash and cash equivalents at end of year	\$ <u><u>128,470</u></u>
Reconciliation of Increase in Net Assets to Net Cash Provided by Operating Activities	
Increase (decrease) in net assets	\$ 30,742
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	84,430
Changes in assets (increase) decrease:	
Accounts receivable	148,442
Unconditional promises receivable	(5,946)
Prepaid assets	(11,341)
Changes in liabilities increase (decrease)	
Accounts payable	6,115
Accrued expenses	(93,381)
Deferred revenue	(3,177)
Net cash provided by operating activities	\$ <u><u>155,884</u></u>

The accompanying notes are an integral part of these statements.

WAVES, INC.

Notes to the Financial Statements June 30, 2012

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, 2012

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, 2012

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 76% of WAVES, Inc.'s revenues for the year ended June 30, 2012, 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>6/30/11</u>	<u>Addition</u>	<u>Retirement</u>	Balance <u>6/30/12</u>
Land and buildings	\$ 772,227	96,906	-	869,133
Vehicles	434,711	-	-	434,711
Furniture and equipment	<u>69,499</u>	<u>-</u>	<u>-</u>	<u>69,499</u>
Total	1,276,437	96,906	-	1,373,343
Less: Accumulated depreciation	<u>(688,001)</u>			<u>(772,431)</u>
Net assets	\$ <u>588,436</u>			<u>600,912</u>

Depreciation expense for the year ended June 30, 2012 was \$ 84,430.

WAVES, INC.

Notes to the Financial Statements June 30, 2012

3. LONG -TERM DEBT

Long-term debt at June 30, 2012 consists of the following:

Note payable in monthly payments of \$400 collateralized by Land and Buildings of the Organization.	18,528
Note payable in monthly payments of \$2,621 collateralized by Land and Buildings of the Organization.	<u>365,059</u>
Less amount classified as current	<u>20,876</u>
Total long-term debt excluding current portion	<u>\$ 362,711</u>

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

2013	20,876
2014	22,113
2015	23,108
2016	24,263
2017	<u>25,234</u>
Total	115,594
Thereafter	<u>267,993</u>
Total debt	<u>383,587</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, 2012. There was no outstanding balance on the line of credit as of June 30, 2012.

WAVES, INC.

Notes to the Financial Statements June 30, 2012

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, 2012, were \$38,561.

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, 2012 was \$94,889.

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, 2012

CFDA #	Program Name	Grant #	Grantor Agency	Balance 6/30/2011	Cash Receipts	Cash Expenditures	Balance 6/30/2012
N/A	Intellectual and Developmental Disabilities Services	N/A	State of Tennessee Finance and Administration Services	94,546	1,688,897	1,755,640	161,289
N/A	TEIS	N/A	State of Tennessee Department of Education	-	36,562	43,302	6,740
N/A	Education	N/A	State of Tennessee Department of Education	136,254	333,119	200,429	3,564
N/A	Vocational Rehabilitation	N/A	State of Tennessee Department of Education	11,025	37,747	29,190	2,468
N/A	Education -ARRA	N/A	State of Tennessee Department of Education	68,204	193,326	125,122	-
Total				310,029	2,289,651	2,153,683	174,061

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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HENDERSONVILLE, TN 37075

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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, 2012, and have issued a report thereon dated October 31, 2012. 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

Management of WAVES' is responsible for establishing and maintaining effective 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, 2012