

WAVES, INC.
FINANCIAL STATEMENTS
JUNE 30, 2014

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

Report on the Financial Statements

I have audited the accompanying financial statements of WAVES (a nonprofit organization) which comprise the statement of financial position as of June 30, 2014, 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

My responsibility is to express opinions 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 of America. 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 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for the audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WAVES as of June 30, 2014, 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

The audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the WAVES' basic financial statements. The Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including and comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated September 30, 2014 on the consideration of WAVES' internal control over financial reporting and the tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering the entity's internal control over financial reporting and compliance.

John R. Poole, CPA

September 30, 2014

Financial Statements

WAVES, INC.

Statement of Financial Position

June 30, 2014

Assets

Current assets:

Cash	\$	203,555
Accounts receivable		188,293
Unconditional promises receivable		93,950
Prepaid assets		4,372
Total current assets		<u>490,170</u>

Property and equipment at cost:

Land and building		618,848
Vehicles		545,679
Furniture and equipment		77,910
Less: accumulated depreciation		<u>(816,486)</u>
Net property and equipment		<u>425,951</u>

Security deposits

6,265

Total assets

\$ 922,386

Liabilities and Net Assets

Current liabilities:

Accounts payable	\$	31,479
Accrued expenses		113,919
Current portion of long-term debt		15,194
Total current liabilities		<u>160,592</u>

Long-term debt

316,426

Total liabilities

477,018

Net assets:

Temporarily restricted		93,950
Unrestricted		351,418
Total net assets		<u>445,368</u>

Total liabilities and net assets

\$ 922,386

WAVES, INC.

Statement of Activities

For the year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues			
Public support:			
Early Learning	\$ 75,127	-	75,127
Adult Day	702,819	-	702,819
DIDD Residential	1,545,301	-	1,545,301
United Way	-	93,950	93,950
Grants	113,520	-	113,520
City and County	68,377	-	68,377
In-kind	24,660	-	24,660
Recycle fees	58,659	-	58,659
Contributions	44,485	-	44,485
Interest	90	-	90
Other	8,038	-	8,038
Fundraising	15,479	-	15,479
Net assets transferred to temporarily restricted	142,290	(142,290)	0
Net assets released from restrictions:			
United Way funding for the year 2013-2014	93,950	(93,950)	-
Total public support and revenues	<u>2,892,795</u>	<u>(142,290)</u>	<u>2,750,505</u>
Expenses:			
Residential services	1,499,094	-	1,499,094
Day services	547,793	-	547,793
Employment services	87,737	-	87,737
Early learning	103,529	-	103,529
Management and General	481,194	-	481,194
Fundraising	34,509	-	34,509
Total functional expenses	<u>2,753,856</u>	<u>0</u>	<u>2,753,856</u>
Other expenses - loss on disposal of assets	67,388	0	67,388
Total expenses	<u>2,821,244</u>	<u>0</u>	<u>2,821,244</u>
Increase (decrease) in net assets	71,551	(142,290)	(70,739)
Beginning of year net assets	279,867	236,240	516,107
End of year net assets	<u>\$ 351,418</u>	<u>93,950</u>	<u>445,368</u>

WAVES, INC.

Statement of Functional Expenses

For the year ended June 30, 2014

	Program Services				Supporting Services		
	Residential Services	Day Services	Employment Services	Early Learning	Management and General	Fundraising	Total Expenses
Salaries	\$ 1,029,574	277,291	52,561	61,176	298,438	19,104	1,738,144
Employee benefits	156,043	52,794	10,651	3,968	46,032	709	270,197
Payroll taxes	76,113	19,873	3,906	4,549	19,615	1,434	125,490
Travel and vehicle expense	48,175	65,976	7,553	3,816	14,197	36	139,753
Printing	4,322	4,995	78	343	7,097	2,204	19,039
Professional services	15,185	8,134	835	1,250	18,103	5,224	48,731
Supplies	31,219	11,325	2,369	859	5,149	376	51,297
Occupancy	68,282	78,204	6,602	17,019	46,952	3,633	220,692
Training	1,005	689	22	219	385	8	2,328
Information Technology	21,124	13,676	992	680	10,829	206	47,507
Miscellaneous	3,288	301	-	663	12,549	1,496	18,297
Interest	12,995	-	-	-	-	-	12,995
Depreciation	31,769	14,535	2,168	8,987	1,848	79	59,386
Total Expenses	\$ 1,499,094	547,793	87,737	103,529	481,194	34,509	2,753,856

The accompanying notes are an integral part of these statements.

WAVES, INC.

Statement of Cash Flows

For the year ended June 30, 2014

Cash flows from operating activities:		
Support and revenue received	\$	2,875,054
Cash paid for:		
Salaries and related expenses		(2,133,831)
Program and support services		(545,765)
Net cash provided by operating activities		<u>195,458</u>
Cash flows used by financing activities:		
Payments of principal on loans		<u>(18,604)</u>
Net cash used by financing activities		(18,604)
Cash flows used by investing activities:		
Acquisition of property and equipment		<u>(144,025)</u>
Net cash used by investing activities		(144,025)
Net increase in cash		32,829
Cash and cash equivalents at beginning of year		170,726
Cash and cash equivalents at end of year	\$	<u><u>203,555</u></u>

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

Increase (decrease) in net assets	\$	(70,739)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation		59,386
Loss on disposal of property and equipment		67,388
Changes in assets (increase) decrease:		
Accounts receivable		124,549
Security deposits		7,071
Prepaid assets		16,029
Changes in liabilities increase (decrease)		
Accounts payable		(7,461)
Accrued expenses		(765)
Net cash provided by operating activities	\$	<u><u>195,458</u></u>

Notes to Financial Statements

WAVES, INC.

Notes to the Financial Statements

June 30, 2014

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, 2014

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, 2014

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 84% of WAVES, Inc.'s revenues for the year ended June 30, 2014, 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. PROPERTY AND EQUIPMENT

A summary of property and equipment activity is noted below:

	Balance 6/30/13	Addition	Retirement	Balance 6/30/14
Land and buildings	\$ 700,133	27,422	108,707	618,848
Vehicles	434,711	110,968	-	545,679
Furniture and equipment	72,275	5,635	-	77,910
Total	1,207,119	144,025	108,707	1,242,437
Less: Accumulated depreciation	(786,629)			(816,486)
Net assets	\$ 420,490			425,951

Depreciation expense for the year ended June 30, 2014 was \$ 59,386.

WAVES, INC.

Notes to the Financial Statements

June 30, 2014

3. LONG -TERM DEBT

Long-term debt at June 30, 2014 consists of the following:

Note payable in monthly payments of \$2,621 collateralized by Land and Buildings of the Organization.	<u>331,620</u>
Less amount classified as current	<u>15,194</u>
Total long-term debt excluding current portion	<u>316,426</u>

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

2015	15,194
2016	15,954
2017	16,751
2018	17,589
2019	<u>18,292</u>
Total	83,780
Thereafter	<u>247,840</u>
Total debt	<u>331,620</u>

WAVES, INC.

Notes to the Financial Statements

June 30, 2014

4. 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, 2014, were \$34,167.

5. COMMITMENTS

WAVES, Inc. has leases for certain of its facilities. Most leases expire during the next twelve months. These leases are renewable annually. WAVES, Inc. leases is primary facility. The original lease for this facility was for an eight year term. This lease has the following remaining term:

April 2014- March 2015	\$86,170
April 2015- March 2016	\$87,891
April 2016- March 2017	\$60,099
April 2017- March 2018	\$61,301
April 2018- March 2019	\$62,527

Rent expense for the year ended June 30, 2014 was \$97,960.

6. 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

WAVES, INC.

Schedule of State Financial Assistance

For the Year ended June 30, 2014

CFDA#	Program Name	Grant #	Grantor Agency	Balance 6/30/2013	Cash Receipts	Cash Expenditures	Balance 6/30/2014
N/A	Intellectual and Developmental Disabilities Services	N/A	State of Tennessee Finance and Administration Services	279,951	2,369,015	2,248,120	159,056
N/A	Early Learning	N/A	State of Tennessee Department of Education	-	70,951	75,127	4,176
Total				279,951	2,439,966	2,323,247	163,232

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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**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.
Franklin, Tennessee

I 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 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise WAVES' financial statements and have issued a report thereon dated September 30, 2014.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the WAVES' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the WAVES' internal control. Accordingly, I do not express an opinion on the effectiveness of the Organization'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 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.

My consideration of the 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. Given these limitations, during the audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of the testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

John R Poole, CPA

September 30, 2014