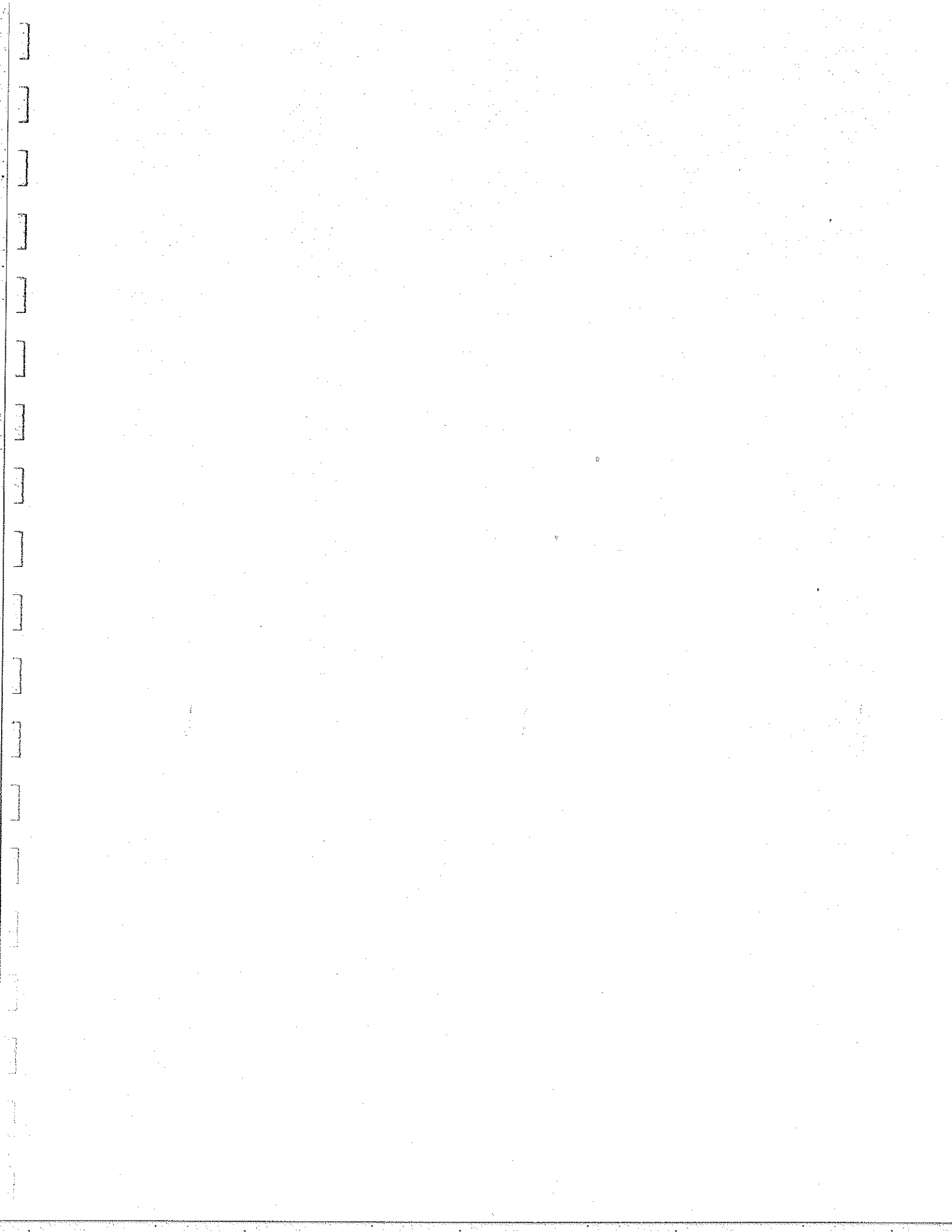


**OKALOOSA-WALTON CHILD CARE
SERVICES, INC.**

**Financial Statements and
Supplemental Information**

June 30, 2011 and 2010



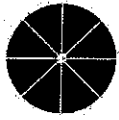
**OKALOOSA-WALTON CHILD CARE
SERVICES, INC.**

**Financial Statements and
Supplemental Information**

June 30, 2011 and 2010

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O'SULLIVAN CREEL, LLP
Certified Public Accountants & Consultants

45 Eglin Pkwy. NE, Ste. 301, Fort Walton Beach, FL 32548 (850) 244-5121

Board of Directors
Okaloosa-Walton Child Care Services, Inc.
Fort Walton Beach, Florida

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial position of Okaloosa-Walton Child Care Services, Inc. as of June 30, 2011, and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Okaloosa-Walton Child Care Services, Inc. as of June 30, 2011, and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 14, 2011, on our consideration of Okaloosa-Walton Child Care Services, Inc.'s internal control over financial reporting and our 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 our 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 and 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 our audits.

Board of Directors
Okaloosa-Walton Child Care Services, Inc.
Independent Auditor's Report (Continued)

Our audits were conducted for the purpose of forming an opinion on the financial statements of Okaloosa-Walton Child Care Services, Inc. taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance, on page 17, is presented for purposes of additional analysis, as required by United States Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.650, *Rules of the Auditor General*, and is not a required part of 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 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 taken as a whole.

O'Sullivan Creel, LLP

November 14, 2011

Okaloosa-Walton Child Care Services, Inc.
STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,629,974	\$ 1,677,394
Certificate of deposit	250,000	250,000
Government funding sources, contracts, and local funding receivable	955,930	973,656
Prepaid expenses	62,890	51,709
Total current assets	2,898,794	2,952,759
 PROPERTY AND EQUIPMENT, NET	 120,167	 112,042
 TOTAL ASSETS	 \$ 3,018,961	 \$ 3,064,801
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 782,914	\$ 848,181
Accrued liabilities	51,943	49,730
Deferred revenue	-	21,539
Total current liabilities	834,857	919,450
 LONG-TERM LIABILITIES		
Accrued leave	51,819	55,604
Total liabilities	886,676	975,054
 NET ASSETS		
Unrestricted	2,059,954	2,004,095
Temporarily restricted	72,331	85,652
Total net assets	2,132,285	2,089,747
 TOTAL LIABILITIES AND NET ASSETS	 \$ 3,018,961	 \$ 3,064,801

The accompanying notes are an integral
part of these financial statements.

Okaloosa-Walton Child Care Services, Inc.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2011 and 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2011</u>
PUBLIC SUPPORT AND REVENUE			
Federal and state awards	\$13,036,013	\$ -	\$13,036,013
County and other local government funds	217,423	-	217,423
Other contract revenue	82,119	-	82,119
In-kind contributions	50,620	-	50,620
Other contributions	96,383	-	96,383
Interest	10,632	-	10,632
TOTAL PUBLIC SUPPORT AND REVENUE	<u>13,493,190</u>	<u>-</u>	<u>13,493,190</u>
Net assets released from restrictions			
Transfers from temporarily restricted net assets due to expiration of time restrictions	13,321	(13,321)	-
TOTAL PUBLIC SUPPORT AND REVENUE AFTER NET ASSETS RELEASED FROM RESTRICTIONS	<u>13,506,511</u>	<u>(13,321)</u>	<u>13,493,190</u>
EXPENSES			
Program services			
Subsidized child care	7,850,784	-	7,850,784
Voluntary pre-kindergarten	4,912,588	-	4,912,588
Resource and referral	163,629	-	163,629
Teen parenting	86,033	-	86,033
Training program	178,152	-	178,152
Total program services	<u>13,191,186</u>	<u>-</u>	<u>13,191,186</u>
Supporting services			
Administrative and general	257,889	-	257,889
Fundraising	4,577	-	4,577
Total supporting services	<u>262,466</u>	<u>-</u>	<u>262,466</u>
TOTAL EXPENSES	<u>13,453,652</u>	<u>-</u>	<u>13,453,652</u>
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS	52,859	(13,321)	39,538
Gain (loss) on disposal of property and equipment	3,000	-	3,000
CHANGE IN NET ASSETS	55,859	(13,321)	42,538
NET ASSETS, BEGINNING OF YEAR	<u>2,004,095</u>	<u>85,652</u>	<u>2,089,747</u>
NET ASSETS, END OF YEAR	<u>\$ 2,059,954</u>	<u>\$ 72,331</u>	<u>\$ 2,132,285</u>

Continued...

The accompanying notes are an integral part of these financial statements.

Okaloosa-Walton Child Care Services, Inc.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2011 and 2010

	Unrestricted	Temporarily Restricted	2010
PUBLIC SUPPORT AND REVENUE			
Federal and state awards	\$12,598,446	\$ 12,064	\$12,610,510
County and other local government funds	236,866	-	236,866
Other contract revenue	86,646	-	86,646
In-kind contributions	54,438	62,931	117,369
Other contributions	190,769	-	190,769
Miscellaneous	19,620	-	19,620
TOTAL PUBLIC SUPPORT AND REVENUE	<u>13,186,785</u>	<u>74,995</u>	<u>13,261,780</u>
Net assets released from restrictions			
Transfers from temporarily restricted net assets due to expiration of time restrictions	9,793	(9,793)	-
TOTAL PUBLIC SUPPORT AND REVENUES AFTER NET ASSETS RELEASED FROM RESTRICTIONS	<u>13,196,578</u>	<u>65,202</u>	<u>13,261,780</u>
EXPENSES			
Program services			
Subsidized child care	7,701,644	-	7,701,644
Voluntary pre-kindergarten	4,640,175	-	4,640,175
Resource and referral	153,500	-	153,500
Teen parenting	87,908	-	87,908
Training program	174,468	-	174,468
Total program services	<u>12,757,695</u>	<u>-</u>	<u>12,757,695</u>
Supporting services			
Administrative and general	275,608	-	275,608
Fundraising	5,000	-	5,000
Total supporting services	<u>280,608</u>	<u>-</u>	<u>280,608</u>
TOTAL EXPENSES	<u>13,038,303</u>	<u>-</u>	<u>13,038,303</u>
CHANGE IN NET ASSETS	158,275	65,202	223,477
NET ASSETS, BEGINNING OF YEAR	<u>1,845,820</u>	<u>20,450</u>	<u>1,866,270</u>
NET ASSETS, END OF YEAR	<u>\$ 2,004,095</u>	<u>\$ 85,652</u>	<u>\$ 2,089,747</u>

The accompanying notes are an integral
part of these financial statements.

Okaloosa-Walton Child Care Services, Inc.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2011 and 2010

	PROGRAM SERVICES					SUPPORTING SERVICES		
	Subsidized Child Care	Voluntary Pre-Kindergarten	Resource and Referral	Teen Parenting	Training Program	Total Program Services	Administrative and General	Fundraising
PERSONNEL SERVICES								
Salaries	\$ 677,000	\$ 68,725	\$ 96,703	\$ -	\$ 88,616	\$ 931,044	\$ 117,994	\$ 3,649
Fringes	194,231	21,577	28,872	-	36,328	281,008	29,993	928
Total personnel services	<u>871,231</u>	<u>90,302</u>	<u>125,575</u>	-	<u>124,944</u>	<u>1,212,052</u>	<u>147,987</u>	<u>4,577</u>
OPERATING EXPENSES								
Contract services	6,682,602	4,807,979	-	-	-	11,490,581	-	-
Other program expense	-	-	-	86,010	-	86,010	-	-
Consulting, contract labor	17,689	-	5,412	-	11,174	34,275	9,301	-
Staff travel and development	13,556	35	222	-	4,730	18,543	520	-
Professional services	-	-	-	-	-	-	22,896	-
Occupancy	105,789	6,708	16,839	-	19,518	148,854	36,042	-
Communications	13,132	964	1,544	-	1,363	17,003	1,465	-
Insurance	14,463	-	1,377	-	788	16,628	8,368	-
Equipment and software	43,028	3,237	3,284	-	2,298	51,847	14,344	-
Office expense	43,209	2,952	7,646	23	2,253	56,083	7,294	-
Program supplies	36,522	-	35	-	3,710	40,267	-	-
Vehicle cost pool	4,279	352	-	-	86	4,717	9	-
Miscellaneous expense	5,284	59	1,695	-	7,288	14,326	9,663	-
Total operating expenses	<u>6,979,553</u>	<u>4,822,286</u>	<u>38,054</u>	<u>86,033</u>	<u>53,208</u>	<u>11,979,134</u>	<u>109,902</u>	<u>-</u>
TOTAL PERSONNEL SERVICES AND OPERATING EXPENSES								
Contract-related administrative and general	7,850,784	4,912,588	163,629	86,033	178,152	13,191,186	257,889	4,577
	<u>223,311</u>	<u>1,260</u>	-	<u>1,000</u>	<u>2,940</u>	<u>228,511</u>	<u>(228,511)</u>	<u>-</u>
TOTAL EXPENSES	<u>\$ 8,074,094</u>	<u>\$ 4,913,847</u>	<u>\$ 163,629</u>	<u>\$ 87,033</u>	<u>\$ 181,091</u>	<u>\$ 13,419,694</u>	<u>\$ 29,379</u>	<u>\$ 4,577</u>
								<u>\$ 13,453,650</u>

The accompanying notes are an integral part of these financial statements.

Continued...

Okaloosa-Walton Child Care Services, Inc.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2011 and 2010

	PROGRAM SERVICES					SUPPORTING SERVICES		
	Subsidized Child Care	Voluntary Pre-Kindergarten	Resource and Referral	Teen Parenting	Training Program	Total Program Services	Administrative and General	Fundraising
PERSONNEL SERVICES								
Salaries	\$ 698,719	\$ 71,365	\$ 92,218	\$ 177	\$ 88,716	\$ 951,195	\$ 129,434	\$ 4,049
Fringes	164,578	17,991	20,443	-	29,849	232,861	30,898	951
Total personnel services	863,297	89,356	112,661	177	118,565	1,184,056	160,332	5,000
OPERATING EXPENSES								
Contract services	6,537,120	4,538,147	-	-	11,628	11,086,895	10,885	-
Other program expense	-	-	-	87,699	-	87,699	-	-
Consulting, contract labor	10,135	-	3,840	-	-	13,975	-	-
Staff travel and development	12,885	362	729	-	7,317	21,293	581	-
Professional services	-	-	-	-	-	-	26,486	-
Occupancy	106,627	6,661	15,420	-	19,041	147,749	26,812	-
Communications	10,602	882	3,022	-	1,545	16,051	1,805	-
Insurance	17,292	-	1,742	-	996	20,030	10,877	-
Equipment and software	50,911	2,166	5,987	-	2,945	62,009	13,767	-
Office expense	38,910	2,128	7,720	32	1,359	50,149	12,921	-
Program supplies	41,925	-	655	-	4,831	47,411	-	-
Provider training	-	-	-	-	1,400	1,400	-	-
Vehicle cost pool	4,564	287	-	-	37	4,888	34	-
Miscellaneous expense	7,376	186	1,724	-	4,804	14,090	11,108	-
Total operating expenses	6,838,347	4,550,819	40,839	87,731	55,903	11,573,639	115,276	-
TOTAL PERSONNEL SERVICES AND OPERATING EXPENSES								
Contract-related administrative and general	7,701,644	4,640,175	153,500	87,908	174,468	12,757,695	275,608	5,000
	229,575	1,260	-	1,850	2,940	235,625	(235,625)	-
TOTAL EXPENSES	\$ 7,931,219	\$ 4,641,435	\$ 153,500	\$ 89,758	\$ 177,408	\$ 12,993,320	\$ 39,983	\$ 5,000
								\$ 13,038,303

The accompanying notes are an integral part of these financial statements.

Okaloosa-Walton Child Care Services, Inc.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 42,538	\$ 223,477
Adjustments to reconcile change in net assets to cash flows from operating activities		
Depreciation	22,461	13,077
Contribution of capital assets at net	-	(62,931)
Gain on disposal of property and equipment	(3,000)	-
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable	17,726	120,673
Prepaid expenses	(11,181)	47,702
Increase (decrease) in		
Accounts payable	(65,267)	(31,008)
Accrued liabilities	2,213	3,450
Deferred revenue	(21,539)	21,539
Accrued annual leave	(3,786)	12,693
Net cash flows from operating activities	<u>(19,835)</u>	<u>348,672</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	3,000	-
Purchase of equipment	<u>(30,585)</u>	<u>(40,032)</u>
Net cash flows from investing activities	<u>(27,585)</u>	<u>(40,032)</u>
NET CHANGE IN CASH	(47,420)	308,640
CASH AT BEGINNING OF YEAR	<u>1,677,394</u>	<u>1,368,754</u>
CASH AT END OF YEAR	<u>\$ 1,629,974</u>	<u>\$ 1,677,394</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

Okaloosa-Walton Child Care Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose

Okaloosa-Walton Child Care Services, Inc. (OWCCS) was incorporated as a not-for-profit organization on September 28, 1972. OWCCS provides subsidized child care services to low and middle income families and children who are at risk of abuse or neglect, or in need of emergency care to prevent abuse, by providing resource and referral services to parents and child care providers in the Okaloosa and Walton County areas. Services include child care funding for low-income, at-risk and teenage parent families, training and technical assistance for child care programs, and a referral service and administration for the Florida Voluntary Pre-Kindergarten program.

B. Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification. OWCCS is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets are classified based on donor restrictions, if any, that may or may not be met by actions of management or by the passage of time. Currently, there are no permanently restricted net assets.

C. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, OWCCS considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

D. Receivables

Receivables consist of contract and other receivables. A substantial portion of the receivable balance represents funds to be received from the State of Florida as reimbursement for contract services. Contract receivables are considered past due if not received in accordance with contract terms. Interest is not charged on past due receivables.

Contract and other receivables are stated at the amount management expects to collect from balances outstanding at year-end. Management believes an allowance for doubtful accounts is not necessary based on experience and terms of third-party contracts. It is OWCCS' policy to charge off uncollectible amounts receivable when management determines the receivable will not be collected.

Okaloosa-Walton Child Care Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Expense Allocation

The costs of providing the various programs and other activities have been detailed in the Statement of Functional Expenses and summarized on a functional basis in the Statement of Activities. Salaries and other expenses directly benefiting an individual program are charged directly to that program. Salaries and expenses that directly benefit more than one program are allocated to individual programs based upon criteria relevant to the type of expense. Costs that benefit all programs are accumulated in an indirect cost pool and spread to all programs based on an established basis. Vehicle expenses are accumulated in a vehicle cost pool and spread to programs based on mileage used by various programs. Costs that do not benefit programs directly or indirectly are not allocated to programs.

F. Federal and State Awards

Public support revenue from federal and state grants is recorded based upon the terms of the grantor agreement, which generally provides that revenue is earned when the allowable costs of the specific grant provisions have been incurred. The majority of public support is received on a reimbursement basis for costs already incurred. Revenue is recorded as unrestricted when received.

G. Property and Equipment

OWCCS follows the practice of capitalizing all payments for property and equipment in excess of \$1,000. If donated, assets are recorded at fair market value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using straight-line and accelerated methods.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is recognized. The cost of maintenance and repairs is expensed as incurred.

The estimated useful lives of assets at June 30, 2011, and 2010, are as follows:

Buildings	21 years
Furniture and fixtures	5-7 years
Equipment	4-10 years

Grantor agencies retain a reversionary interest in assets purchased with grant or program revenue. These assets are recorded in the financial statements as temporarily restricted assets. Each year, an amount equal to the annual depreciation expensed on these assets is transferred to unrestricted assets.

Okaloosa-Walton Child Care Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Accrued Annual Leave

OWCCS' employees may accumulate earned but unused annual leave up to 240 hours. Accordingly, an accrual for earned but unused annual leave has been included in the accompanying financial statements.

I. Deferred Revenue

Deferred revenue consists of funds received for the Florida Voluntary Pre-Kindergarten program in advance of the revenue being earned. The deferred revenue is typically recognized as revenue in the following month.

J. Income Taxes

The Agency has been granted an exemption from income taxes under Internal Revenue Code, Section 501(c)(3) as a not-for-profit corporation. The Agency is not aware of any uncertain tax positions that would require disclosure or accrual in accordance with generally accepted accounting principles. With few exceptions, the Association is no longer subject to federal, state, or local income tax examination by tax authorities for years before 2008.

K. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

L. Statements of Functional Expenses

Contract-related administrative and general expenses have been allocated to various programs on the Statements of Functional Expenses in order to demonstrate the administrative and general expenses that are allowed under contracts related to each respective program listed; the information presented in this line item is for informational purposes only. Total expenses allowed within FASB Accounting Standards Codification are listed on the row "Total Personnel Services and Operating Expenses"; these totals are also reported as line items in the Statements of Activities.

M. Reclassifications

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year presentation.

Okaloosa-Walton Child Care Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 5 - OPERATING LEASES

OWCCS leases its office space and equipment under operating leases with terms ranging from one to four years. Minimum lease payments are as follows:

2012	\$ 28,263
2013	<u>11,270</u>
Total	<u>\$ 39,533</u>

Included in the occupancy expense on the Statement of Functional Expenses for the year ending June 30, 2010, is the lease of the main office building. OWCCS leased its main office building from West Florida Children's Association, Inc. (WFCA) from February 1, 2006 through January 2010. The land and building were contributed to OWCCS in January 2010, as described further in Note 9.

Lease expense of the building consisted of a cash payment of \$3,500 and an in-kind contribution from the lessor of \$4,875 each month. The in-kind rent was recognized as both program support revenue and allocated to program, and general and administrative expense on the Statement of Activities. While the in-kind rent contribution has been recognized in these financial statements, as part of the agreement (further described in Note 9) with the Florida Agency for Workforce Innovation, the in-kind contributed rent revenue and expense for OWCCS' main office building was not an allowable expense under its main funding contract for the year ended June 30, 2010.

Rent expense, which includes certain other operating leases, totaled \$71,188 and \$133,127, for the years ended June 30, 2011, and 2010, respectively.

Certain members of OWCCS' management were also Board members of WFCA. WFCA was dissolved September 2010.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Certain property and equipment owned by OWCCS were acquired with funds provided by, or were received as in-kind contributions from, the State of Florida through various state agencies. The original cost of these assets was \$485,964 and \$617,376 at June 30, 2011, and 2010, respectively, and the net book value was \$72,331 and \$85,652, respectively. The property and equipment are considered to be temporarily restricted net assets, due to their restricted use to the purposes of the OWCCS' program services only. The assets are released from restriction over time, as depreciation is recognized on the related assets. For the years ending June 30, 2011 and 2010, property purchased by or contributed to OWCCS that is restricted for federal and/or state-related activities only totaled \$0 and \$74,995, respectively.

Okaloosa-Walton Child Care Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

For the year ending June 30, 2011, \$13,321 was released to unrestricted net assets, representing the depreciation and amortization charged to operations on these assets during the year. For the year ending June 30, 2010, \$9,793 was released to unrestricted net assets representing the depreciation and amortization charged to operations on these same assets.

NOTE 7 - EMPLOYEE BENEFIT PLAN

On January 1, 1998, OWCCS adopted a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE). The SIMPLE allows eligible employees to make salary reduction contributions subject to limitations established by the Internal Revenue Service. OWCCS provides matching contributions up to 3% of an employee's compensation as defined in the Plan. Employer contributions for the years ended June 30, 2011, and 2010, were \$22,009 and \$22,160, respectively.

NOTE 8 - SUPPORT FROM THE STATE OF FLORIDA THAT REQUIRED MATCH

OWCCS received a substantial portion of its support from the State of Florida, as a sub-recipient under a grant contract with the Early Learning Coalition, Inc. (ELC). The contract with ELC required a local cash or in-kind match for certain federal and state funded programs. For the year ended June 30, 2011, OWCCS was required to provide \$199,713 in local matching funds for the Subsidized Child Care Contract with ELC. OWCCS received \$143,628 in cash contributions and \$50,620 in non-cash contributions, for a total of \$194,248, thus not meeting the required local match by \$5,465. Consent for the shortfall was acknowledged by ELC and the Florida Agency for Workforce Innovation (AWI).

For the year ended June 30, 2010, OWCCS was required to provide \$190,364 of local match for the Subsidized Child Care Contract. OWCCS received a total of \$152,894 in cash contributions and \$42,953 of in-kind contributions, resulting in a surplus of \$5,483 over the required local match.

NOTE 9 - SETTLEMENT AGREEMENT

In 1991, and modified in 1998, OWCCS entered into capital lease agreements for the building and land used to house their main administration facility. The lease contained a bargain purchase option at its conclusion in February 2006. In 2006, OWCCS assigned the bargain purchase option to West Florida Children's Association, Inc. (WFCA), of which certain members of management of OWCCS were Board members of WFCA. WFCA subsequently entered into an agreement to lease the property to OWCCS.

Okaloosa-Walton Child Care Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 9 - SETTLEMENT AGREEMENT (CONTINUED)

The State of Florida Agency for Workforce Innovation, Inc. (AWI), as the administrative entity for the federal funds at issue, in 2009 determined that the property was constructively purchased by charging costs to federal funds that were not allowable per Office of Management and Budget Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*.

AWI and OWCCS resolved the issue with a settlement agreement which required:

- The land and building be owned and titled in the name of OWCCS.
- OWCCS agreed to provide the Agency a 100% security interest in the property.
- All parties acknowledged if the building is sold, the disposition requirements of OMB Circular A-110 would be followed.
- All parties agreed that the use of the land and building be restricted to child care programs.
- All parties acknowledged that, effective July 1, 2009, only costs necessary for repairs, maintenance and upkeep for the property and other required costs such as insurance can be charged to federal or state programs.
- All parties acknowledged that the property cannot be used for matching purposes.
- All parties acknowledged that the U.S. Department of Health and Human Services (HHS) has the authority to demand repayment of disallowed federal funds and or repayment of costs related to the execution of the settlement, which cannot collectively exceed the disallowed costs as determined by the Agency in the amount of \$272,816.

The settlement agreement was signed December 18, 2009. The property was deeded to OWCCS on January 21, 2010. OWCCS recorded the transfer of the land and building from OFCA as an in-kind contribution of \$62,931 (\$51,500 land and \$11,431 building) at WFCAs book value, for the year ending June 30, 2010.

NOTE 10 - CONCENTRATIONS

Uninsured Cash Balances

OWCCS periodically maintains cash balances in a local bank in excess of the federally insured limits of \$250,000. OWCCS' exposure to credit loss for deposits held in the bank was \$1,661,668 and \$1,506,475 at June 30, 2011, and 2010, respectively. OWCCS has not experienced any losses in any such accounts and believes there is little or no exposure to any significant credit risk.

Okaloosa-Walton Child Care Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 10 - CONCENTRATIONS (CONTINUED)

Grants and Contracts

OWCCS receives a substantial portion of its funding directly or indirectly in the form of pass-through funds from the State of Florida. During the years ended June 30, 2011, and 2010, \$13,036,013 and \$12,610,510, respectively, were received from this source, which represented 98% and 96% of total funding each year. The disbursement of funds received under these programs is subject to review and audit by grantor agencies. Any disbursements disallowed by these agencies could become a liability of OWCCS.

COMPLIANCE SECTION

Okaloosa-Walton Child Care Services, Inc.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2011

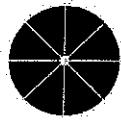
Federal/State Agency Pass-Through Entity Federal Program/State Project	CFDA CSFA Number	Contract/ Grant Number	Expenditures
U.S. Department of Health and Human Services			
<i>Pass-Through from the State of Florida</i>			
<i>Agency for Workforce Innovation and Early Learning</i>			
<i>Coalition of Okaloosa and Walton Counties, Inc.</i>			
Temporary Assistance for Needy Families (TANF)	93.558	SR 351	\$ 2,831,746
Child Care and Development Block Grant	93.575	SR 351	1,956,990
Child Care and Development Fund	93.596	SR 351	2,579,366
Social Services Block Grant - Title XX	93.667	SR 351	15,182
ARRA - Child Care and Development Block Grant	93.713	SR 351	695,701
<i>Department of Children and Families</i>			
Child Care and Development Block Grant	93.575	LC 901	56,308
Social Services Block Grant - Title XX	93.667	LC 901	<u>24,071</u>
Total U.S. Department of Health and Human Services			<u>8,159,364</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 8,159,364</u>
Florida Agency for Workforce Innovation			
Direct programs			
Voluntary Pre-Kindergarten Education Program			
for 2010-2011 Fiscal Year			
ARRA - State Fiscal Stabilization Fund (SFSF) - Government	75.007	SV 351	\$ 4,059,763
Services Fund	84.397	SV 351	<u>945,909</u>
Total Florida Agency for Workforce Innovation			<u>5,005,672</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$ 5,005,672</u>

The accompanying notes are an
integral part of this schedule.

Okaloosa-Walton Child Care Services, Inc.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2011

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance includes the federal and state funding activity of Okaloosa-Walton Child Care Services, Inc., and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.650, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.



O'SULLIVAN CREEL, LLP
Certified Public Accountants & Consultants

45 Eglin Pkwy. NE, Ste. 301, Fort Walton Beach, FL 32548 (850) 244-5121

Board of Directors
Okaloosa-Walton Child Care Services, Inc.
Fort Walton Beach, Florida

**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***

We have audited the financial statements of Okaloosa-Walton Child Care Services, Inc. (OWCCS) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 14, 2011. 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.

Internal Control over Financial Reporting

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

Our consideration of 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
Okaloosa-Walton Child Care Services, Inc.
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 (Continued)

Compliance and Other Matters

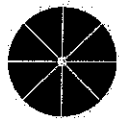
As part of obtaining reasonable assurance about whether OWCCS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

We noted certain matters that we reported to management of OWCCS in a separate letter dated November 14, 2011.

This report is intended solely for the information and use of the Audit Committee, management, Board of Directors, the Auditor General of the State of Florida, and federal and state awarding agencies, and is not intended to be, and should not be used by anyone other than these specified parties.

O'Sullivan Creel, LLP

November 14, 2011



O'SULLIVAN CREEL, LLP

Certified Public Accountants & Consultants

45 Eglin Pkwy. NE, Ste. 301, Fort Walton Beach, FL 32548 (850) 244-5121

Board of Directors
Okaloosa-Walton Child Care Services, Inc.
Fort Walton Beach, Florida

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND STATE
PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133 AND CHAPTER 10.650, RULES
OF THE AUDITOR GENERAL**

Compliance

We have audited the compliance of Okaloosa-Walton Child Care Services, Inc. (OWCCS) with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*, and the requirements described in the *Florida Department of Financial Services' State Projects and Compliance Supplement* that could have a direct and material effect on each of its major federal programs and state projects for the year ended June 30, 2011. OWCCS' major federal programs and state projects are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and state projects is the responsibility of OWCCS' management. Our responsibility is to express an opinion on OWCCS' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.650, *Rules of the Auditor General*. Those standards, OMB Circular A-133, and Chapter 10.650, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about OWCCS' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on OWCCS' compliance with those requirements.

In our opinion, OWCCS complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs and state projects for the year ended June 30, 2011.

Board of Directors
Okaloosa-Walton Child Care Services, Inc.
Independent Auditor's Report on Compliance with
Requirements Applicable to Each Major Program and
State Project and on Internal Control over Compliance in
Accordance with OMB Circular A-133 and Chapter
10.650, *Rules of the Auditor General* (Continued)

Internal Control over Compliance

The management of OWCCS is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs and state projects. In planning and performing our audit, we considered OWCCS' internal control over compliance with the requirements that could have a direct and material effect on a major federal program or state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of OWCCS' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal or state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of control deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Audit Committee, management, Board of Directors, the Auditor General of the State of Florida, federal and state awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

O'Sullivan Creel, LLP

November 14, 2011

Okaloosa-Walton Child Care Services, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None Reported
- Noncompliance material to financial statements noted? Yes X No

Federal and State Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 and Chapter 10.650, *Rules of the Auditor General*? Yes X No

Identification of major programs and projects:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.558	U. S. Department of Health and Human Services Temporary Assistance for Needy Families
93.713	ARRA - Child Care and Development Block Grant
<u>CSFA Number</u>	<u>Name of State Project</u>
75.007	Florida Agency for Workforce Innovation Voluntary Pre-Kindergarten Education Program for 2010-2011 Fiscal Year
84.397	ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services Fund

Continued...

Okaloosa-Walton Child Care Services, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

I. SUMMARY OF AUDITOR'S RESULTS (CONTINUED)

Dollar threshold used to distinguish between type A and type B programs for federal awards:	<u>\$300,000</u>
Dollar threshold used to distinguish between type A and type B programs for state awards:	<u>\$300,000</u>
Auditee qualified as a federal low-risk auditee?	<u> X </u> Yes <u> </u> No

II. FINANCIAL STATEMENT FINDINGS

The results of our audit of OWCCS did not disclose any findings required to be reported under *Government Auditing Standards*.

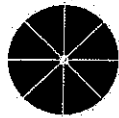
III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS AND STATE PROJECTS

We noted no matters involving noncompliance that are required to be reported in accordance with the U.S. Office of Management and Budget Circular A-133 and Chapter 10.650, *Rules of the Auditor General*.

IV. SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

The prior year's single audit disclosed no findings in the Schedule of Findings and Questioned Costs and no uncorrected or unresolved findings exist for the prior audit's Summary of Prior Audit Findings.

MANAGEMENT LETTER



O'SULLIVAN CREEL, LLP
Certified Public Accountants & Consultants

45 Eglin Pkwy. NE, Ste. 301, Fort Walton Beach, FL 32548 (850) 244-5121

Board of Directors
Okaloosa-Walton Child Care Services, Inc.
Fort Walton Beach, Florida

MANAGEMENT LETTER

We have audited the financial statements of Okaloosa-Walton Child Care Services, Inc. (OWCCS), as of and for the year ended June 30, 2011, and have issued our report thereon dated November 14, 2011.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our 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*, Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and State Project and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Chapter 10.650, Schedule of Findings and Questioned Costs and Summary Schedule of Prior Audit Findings. Disclosures in those reports and schedules, which are dated November 23, 2011, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.650, *Rules of the Auditor General*, which requires disclosure in the management letter of violations of provisions of contracts or grant agreements, or abuse, that have an effect on the financial statements or State project amounts that is less than material but more than inconsequential. In addition, for matters that have an inconsequential effect on the financial statements or State project amounts, considering both quantitative and qualitative factors, the following may be reported based on professional judgment: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts or abuse that have occurred, or are likely to have occurred, (2) deficiencies in internal control that are not significant deficiencies. In connection with our audits, there are no such matters that are required to be disclosed.

Board of Directors
Okaloosa-Walton Child Care Services, Inc.
Management Letter (Continued)

OTHER MATTERS

***REQUIRED LOCAL MATCH FUNDING FOR CONTRACT WITH EARLY LEARNING
COALITION***

Observation

Per Florida Statutes and the contract with Early Learning Coalition (ELC), OWCCS is required to obtain a local match equal to six percent of the dollars funded by families qualifying as "Working Poor" participants (State OCA number 97POO). While ELC provided written documentation communicating that Florida's Agency for Workforce Innovation (AWI) had not rejected ELC's request for payment, thereby providing consent to OWCCS meeting the requirement of the local match, we noted that according to OWCCS' own calculation, OWCCS was short of the local match requirement by \$5,465. The local match requirement was \$199,713; cash contributions totaled \$143,628 and in-kind contributions totaled \$50,620 for a total of \$194,248 in local match funding.

Recommendation

We recommend that OWCCS implement a plan to meet the local match requirement stated in the contract with ELC. Funds from local governments, other not-for-profit agencies and individuals have decreased in the past several years, so it is important that OWCCS determine new methods and possibly new targets in attempting to achieve the local match requirement.

Management's Response

We agree with the recommendation. We will prepare and implement a plan as recommended.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be, and should not be, used by anyone other than these specified parties.

We greatly appreciate the assistance and cooperation extended to us during our audit.

O'Sullivan Creel, LLP

November 14, 2011