

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

**Financial Statements and  
Supplemental Information**

**June 30, 2012 and 2011**



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SERVICES, INC.**

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Supplemental Information**

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A Business of Warren Averett, LLC | CPAs & Consultants

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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, 2012, and 2011, 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, 2012, and 2011, 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 December 6, 2012, 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 or 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 as a whole. The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance, on page 15, 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, *Florida Single Audit Act Audits - Nonprofit and For-profit Organizations* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Warren Averett, LLC*

December 6, 2012

**Okaloosa-Walton Child Care Services, Inc.**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2012 and 2011**

	2012	2011
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,557,646	\$ 1,629,974
Certificate of deposit	250,000	250,000
Government funding sources, contracts, and local funding receivable	1,054,438	955,930
Prepaid expenses	84,090	62,890
Total current assets	2,946,174	2,898,794
PROPERTY AND EQUIPMENT, NET	98,994	120,167
TOTAL ASSETS	\$ 3,045,168	\$ 3,018,961
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 763,733	\$ 782,914
Accrued liabilities	48,266	51,943
Total current liabilities	811,999	834,857
<b>LONG-TERM LIABILITIES</b>		
Accrued leave	53,080	51,819
Total liabilities	865,079	886,676
<b>NET ASSETS</b>		
Unrestricted	2,119,332	2,059,954
Temporarily restricted	60,757	72,331
Total net assets	2,180,089	2,132,285
TOTAL LIABILITIES AND NET ASSETS	\$ 3,045,168	\$ 3,018,961

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

**Okaloosa-Walton Child Care Services, Inc.**  
**STATEMENTS OF ACTIVITIES**  
**Years Ended June 30, 2012 and 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2012</u>
<b>PUBLIC SUPPORT AND REVENUE</b>			
Federal and state awards	\$ 12,409,903	\$ -	\$ 12,409,903
County and other local government funds	227,260	-	227,260
Other contract revenue	90,858	-	90,858
In-kind contributions	49,252	-	49,252
Other contributions	34,466	-	34,466
Other revenue	63,893	-	63,893
Interest	<u>8,365</u>	<u>-</u>	<u>8,365</u>
<b>TOTAL PUBLIC SUPPORT AND REVENUE</b>	<u>12,883,997</u>	<u>-</u>	<u>12,883,997</u>
Net assets released from restrictions			
Transfers from temporarily restricted net assets due to expiration of time restrictions	<u>11,574</u>	<u>(11,574)</u>	<u>-</u>
<b>TOTAL PUBLIC SUPPORT AND REVENUE AFTER NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>12,895,571</u>	<u>(11,574)</u>	<u>12,883,997</u>
<b>EXPENSES</b>			
Program services			
Subsidized child care	6,948,724	-	6,948,724
Voluntary pre-kindergarten	5,210,675	-	5,210,675
Resource and referral	150,205	-	150,205
Teen parenting	95,873	-	95,873
Training program	<u>187,729</u>	<u>-</u>	<u>187,729</u>
Total program services	<u>12,593,206</u>	<u>-</u>	<u>12,593,206</u>
Supporting services			
Administrative and general	238,009	-	238,009
Fundraising	<u>4,978</u>	<u>-</u>	<u>4,978</u>
Total supporting services	<u>242,987</u>	<u>-</u>	<u>242,987</u>
<b>TOTAL EXPENSES</b>	<u>12,836,193</u>	<u>-</u>	<u>12,836,193</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	59,378	(11,574)	47,804
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>2,059,954</u>	<u>72,331</u>	<u>2,132,285</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 2,119,332</u>	<u>\$ 60,757</u>	<u>\$ 2,180,089</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, 2012 and 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2011</u>
<b>PUBLIC SUPPORT AND REVENUE</b>			
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	35,074	-	35,074
Other revenue	61,309	-	61,309
Interest	<u>10,632</u>	<u>-</u>	<u>10,632</u>
<b>TOTAL PUBLIC SUPPORT AND REVENUE</b>	<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	<u>13,321</u>	<u>(13,321)</u>	<u>-</u>
<b>TOTAL PUBLIC SUPPORT AND REVENUES AFTER NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>13,506,511</u>	<u>(13,321)</u>	<u>13,493,190</u>
<b>EXPENSES</b>			
Program services			
Subsidized child care	7,872,733	-	7,872,733
Voluntary pre-kindergarten	4,912,712	-	4,912,712
Resource and referral	163,727	-	163,727
Teen parenting	86,033	-	86,033
Training program	<u>178,441</u>	<u>-</u>	<u>178,441</u>
Total program services	<u>13,213,646</u>	<u>-</u>	<u>13,213,646</u>
Supporting services			
Administrative and general	235,429	-	235,429
Fundraising	<u>4,577</u>	<u>-</u>	<u>4,577</u>
Total supporting services	<u>240,006</u>	<u>-</u>	<u>240,006</u>
<b>TOTAL EXPENSES</b>	<u>13,453,652</u>	<u>-</u>	<u>13,453,652</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	52,859	(13,321)	39,538
Gain (loss) on disposal assets	<u>3,000</u>	<u>-</u>	<u>3,000</u>
<b>CHANGE IN NET ASSETS</b>	55,859	(13,321)	42,538
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>2,004,095</u>	<u>85,652</u>	<u>2,089,747</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 2,059,954</u>	<u>\$ 72,331</u>	<u>\$ 2,132,285</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, 2012 and 2011**

	PROGRAM SERVICES					Total Program Services	SUPPORTING SERVICES		2012
	Subsidized Child Care	Voluntary Pre-Kindergarten	Resource and Referral	Teen Parenting	Training Program		Administrative and General	Fundraising	
<b>PERSONNEL SERVICES</b>									
Salaries	\$ 642,749	\$ 86,509	\$ 87,488	\$ -	\$ 91,675	\$ 908,421	\$ 130,282	\$ 4,029	\$ 1,042,732
Fringes	187,414	17,007	26,667	-	37,089	268,177	30,679	949	299,805
Total personnel services	<u>830,163</u>	<u>103,516</u>	<u>114,155</u>	<u>-</u>	<u>128,764</u>	<u>1,176,598</u>	<u>160,961</u>	<u>4,978</u>	<u>1,342,537</u>
<b>OPERATING EXPENSES</b>									
Contract services	5,849,353	5,074,023	-	-	-	10,923,376	-	-	10,923,376
Other program expense	-	-	-	95,859	-	95,859	-	-	95,859
Consulting, contract labor	13,042	1,620	2,717	-	10,128	27,507	6,616	-	34,123
Staff travel and development	11,296	-	153	-	5,781	17,230	469	-	17,699
Professional services	-	8,581	-	-	174	8,755	12,945	-	21,700
Occupancy	92,442	8,784	15,768	-	20,420	137,414	11,514	-	148,928
Communications	13,909	892	1,407	-	1,427	17,635	1,159	-	18,794
Insurance	6,364	2,023	1,495	-	1,498	11,380	13,473	-	24,853
Equipment and software	35,942	2,077	3,671	-	2,460	44,150	12,798	-	56,948
Office expense	30,199	6,182	7,609	14	4,179	48,183	5,221	-	53,404
Program supplies	41,811	525	-	-	1,847	44,183	90	-	44,273
Depreciation and amortization	14,653	1,972	1,995	-	2,090	20,710	3,062	-	23,772
Vehicle cost pool	3,904	441	-	-	526	4,871	30	-	4,901
Miscellaneous expense	5,646	39	1,235	-	8,435	15,355	9,671	-	25,026
Total operating expenses	<u>6,118,561</u>	<u>5,107,159</u>	<u>36,050</u>	<u>95,873</u>	<u>58,965</u>	<u>11,416,608</u>	<u>77,048</u>	<u>-</u>	<u>11,493,656</u>
<b>TOTAL PERSONNEL SERVICES AND OPERATING EXPENSES</b>	6,948,724	5,210,675	150,205	95,873	187,729	12,593,206	238,009	4,978	12,836,193
Contract-related administrative and general	225,125	-	-	-	-	225,125	(225,125)	-	-
<b>TOTAL EXPENSES</b>	<u>\$ 7,173,849</u>	<u>\$ 5,210,675</u>	<u>\$ 150,205</u>	<u>\$ 95,873</u>	<u>\$ 187,729</u>	<u>\$ 12,818,331</u>	<u>\$ 12,884</u>	<u>\$ 4,978</u>	<u>\$ 12,836,193</u>

Continued...

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, 2012 and 2011**

	PROGRAM SERVICES					SUPPORTING SERVICES			2011
	Subsidized Child Care	Voluntary Pre- Kindergarten	Resource and Referral	Teen Parenting	Training Program	Total Program Services	Administrative and General	Fundraising	
<b>PERSONNEL SERVICES</b>									
Salaries	\$ 677,000	\$ 68,725	\$ 96,703	\$ -	\$ 88,616	\$ 931,044	\$ 117,994	\$ 3,649	\$ 1,052,687
Fringes	194,231	21,577	28,872	-	36,328	281,008	29,993	928	311,929
Total personnel services	<u>871,231</u>	<u>90,302</u>	<u>125,575</u>	<u>-</u>	<u>124,944</u>	<u>1,212,052</u>	<u>147,987</u>	<u>4,577</u>	<u>1,364,616</u>
<b>OPERATING EXPENSES</b>									
Contract services	6,682,602	4,807,979	-	-	-	11,490,581	-	-	11,490,581
Other program expense	-	-	-	86,010	-	86,010	-	-	86,010
Consulting, contract labor	17,689	-	5,412	-	11,174	34,275	9,301	-	43,576
Staff travel and development	13,556	35	222	-	4,730	18,543	520	-	19,063
Professional services	-	-	-	-	-	-	22,896	-	22,896
Occupancy	105,789	6,708	16,839	-	19,518	148,854	13,582	-	162,436
Communications	13,132	964	1,544	-	1,363	17,003	1,465	-	18,468
Insurance	14,463	-	1,377	-	788	16,628	8,368	-	24,996
Equipment and software	43,028	3,237	3,284	-	2,298	51,847	14,344	-	66,191
Office expense	43,209	2,952	7,646	23	2,253	56,083	7,294	-	63,377
Program supplies	36,522	-	35	-	3,710	40,267	-	-	40,267
Depreciation and amortization	21,949	124	98	-	289	22,460	-	-	22,460
Vehicle cost pool	4,279	352	-	-	86	4,717	9	-	4,726
Miscellaneous expense	5,284	59	1,695	-	7,288	14,326	9,663	-	23,989
Total operating expenses	<u>7,001,502</u>	<u>4,822,410</u>	<u>38,152</u>	<u>86,033</u>	<u>53,497</u>	<u>12,001,594</u>	<u>87,442</u>	<u>-</u>	<u>12,089,036</u>
<b>TOTAL PERSONNEL SERVICES AND OPERATING EXPENSES</b>	<u>7,872,733</u>	<u>4,912,712</u>	<u>163,727</u>	<u>86,033</u>	<u>178,441</u>	<u>13,213,646</u>	<u>235,429</u>	<u>4,577</u>	<u>13,453,652</u>
Contract-related administrative and general	<u>223,311</u>	<u>1,260</u>	<u>-</u>	<u>1,000</u>	<u>2,940</u>	<u>228,511</u>	<u>(228,511)</u>	<u>-</u>	<u>-</u>
<b>TOTAL EXPENSES</b>	<u>\$ 8,096,043</u>	<u>\$ 4,913,971</u>	<u>\$ 163,727</u>	<u>\$ 87,033</u>	<u>\$ 181,380</u>	<u>\$ 13,442,154</u>	<u>\$ 6,919</u>	<u>\$ 4,577</u>	<u>\$ 13,453,650</u>

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, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 47,804	\$ 42,538
Adjustments to reconcile change in net assets to cash flows from operating activities		
Depreciation	23,772	22,461
Gain on disposal of asset	-	(3,000)
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable	(98,508)	17,726
Prepaid expenses	(21,200)	(11,181)
Increase (decrease) in		
Accounts payable	(19,181)	(65,267)
Accrued liabilities	(3,677)	2,213
Deferred revenue	-	(21,539)
Accrued annual leave	1,262	(3,786)
Net cash flows from operating activities	<u>(69,728)</u>	<u>(19,835)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of capital assets	-	3,000
Capital asset acquisitions	<u>(2,600)</u>	<u>(30,585)</u>
Net cash flows from investing activities	<u>(2,600)</u>	<u>(27,585)</u>
NET CHANGE IN CASH	(72,328)	(47,420)
CASH AT BEGINNING OF YEAR	<u>1,629,974</u>	<u>1,677,394</u>
CASH AT END OF YEAR	<u>\$ 1,557,646</u>	<u>\$ 1,629,974</u>

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

**Okaloosa-Walton Child Care Services, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012 and 2011**

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**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, 2012 and 2011**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

E. 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.

F. Property and Equipment

OWCCS follows the practice of capitalizing all payments for property and equipment in excess of \$1,000. If donated, capital 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, 2012, and 2011, 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.

G. 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.

H. 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 2009.

**Okaloosa-Walton Child Care Services, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012 and 2011**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

I. 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.

J. Statements of Functional Expenses

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.

Contract-related administrative and general expenses have also 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.

K. Reclassifications

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

L. Subsequent Event

Management has evaluated subsequent events through December 6, 2012, the date which the financial statements were available for issue.

**Okaloosa-Walton Child Care Services, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012 and 2011**

**NOTE 2 - CONTRACTS AND OTHER FUNDING SOURCES RECEIVABLE**

The following is a summary of government funding sources, contracts and local funding revenue receivable as of June 30, 2012, and 2011:

	<u>2012</u>	<u>2011</u>
Early Learning Coalition of Okaloosa and Walton Counties	\$ 1,042,343	\$ 938,896
Miscellaneous contracts	9,711	14,896
Local funding sources	<u>2,384</u>	<u>2,138</u>
Total	<u>\$ 1,054,438</u>	<u>\$ 955,930</u>

**NOTE 3 - PROPERTY AND EQUIPMENT**

The following is a summary of property and equipment at June 30, 2012, and 2011:

	<u>2012</u>	<u>2011</u>
Land	\$ 51,500	\$ 51,500
Buildings and improvements	233,768	233,768
Furniture and fixtures	11,755	11,755
Equipment	<u>252,532</u>	<u>249,932</u>
	549,555	546,955
Less accumulated depreciation	<u>(450,561)</u>	<u>(426,788)</u>
Property and equipment, net	<u>\$ 98,994</u>	<u>\$ 120,167</u>

Depreciation expense for the years ended June 30, 2012, and 2011, was \$23,772 and \$22,461, respectively.

**NOTE 4 - LINE OF CREDIT**

OWCCS has a \$200,000 three-year line of credit with a local bank at the prime lending rate plus a margin of 0.75%, which matures in January 2014. The line is secured by a pledge of property and equipment. There were no outstanding balances on the line of credit for the years ending June 30, 2012, and 2011.

**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:

2013	<u>\$ 28,955</u>
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**Okaloosa-Walton Child Care Services, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012 and 2011**

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**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 at June 30, 2012, and 2011, respectively, and the net book value was \$60,757 and \$72,331, 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 year ending June 30, 2012, \$11,574 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, 2011, \$13,321 was released to unrestricted net assets, representing the depreciation and amortization charged to operations on these same assets.

**NOTE 7 - RELATED PARTY TRANSACTIONS**

OWCCS recognized \$3,800 of in kind contributions during the year ended June 30, 2012 for website maintenance. The services were provided by a related party to the organization's management team.

**NOTE 8 - 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, 2012, and 2011, were \$21,954 and \$22,009, respectively.

**NOTE 9 - 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, 2012, OWCCS was required to provide \$177,661 in local matching funds for the Subsidized Child Care Contract with ELC. OWCCS received \$131,414 in cash contributions and \$49,252 in non-cash contributions, for a total of \$179,245, thus surpassing the required local match by \$3,004.

**Okaloosa-Walton Child Care Services, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012 and 2011**

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**NOTE 9 - SUPPORT FROM THE STATE OF FLORIDA THAT REQUIRED MATCH  
(CONTINUED)**

For the year ended June 30, 2011, OWCCS was required to provide \$199,713 of local match for the Subsidized Child Care Contract. OWCCS received a total of \$143,628 in cash contributions and \$50,620 of in-kind contributions, thus not meeting the required local match by \$5,465.

**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 for the years ended June 30, 2012, and 2011. OWCCS' exposure to credit loss for deposits held in the bank was \$1,214,934 and \$1,661,668 at June 30, 2012, and 2011, respectively. OWCCS has not experienced any losses in any such accounts and believes there is little or no exposure to any significant credit risk.

**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, 2012, and 2011, \$12,409,903 and \$13,036,013, respectively, were received from this source, which represented 97% and 98% 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.

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## **COMPLIANCE SECTION**

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**Okaloosa-Walton Child Care Services, Inc.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**AND STATE FINANCIAL ASSISTANCE**  
**Year Ended June 30, 2012**

<b>Federal/State Agency Pass-Through Entity Federal Program/State Project</b>	<b>CFDA CSFA Number</b>	<b>Contract/ Grant Number</b>	<b>Expenditures</b>
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 358	\$ 2,662,339
Child Care and Development Block Grant	93.575	SR 358	1,852,267
Child Care and Development Fund	93.596	SR 358	2,644,712
Social Services Block Grant - Title XX	93.667	SR 358	15,282
<b><i>Total U.S. Department of Health and Human Services</i></b>			<u>7,174,600</u>
<b><i>TOTAL EXPENDITURES OF FEDERAL AWARDS</i></b>			<u>\$ 7,174,600</u>
Department of Education & Commissioner of Education Direct programs			
Voluntary Pre-Kindergarten Education Program for 2011-2012 Fiscal Year	48.108	SV 358	\$ 5,140,508
<b><i>Total Florida Agency for Workforce Innovation</i></b>			<u>5,140,508</u>
<b><i>TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE</i></b>			<u>\$ 5,140,508</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, 2012**

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**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.

**NOTE 2- QUALIFICATIONS FOR LOW RISK AUDITEE STATUS**

Per the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, if a federal program has not been audited as a major program in at least one of the two most recent audit periods, then the auditee cannot be considered for low-risk auditee status. OWCCS has a major program, CFDA 93.596, for the year ended June 30, 2012, that has not been audited as a major program in the prior two years. As a result, OWCCS cannot be considered a low-risk auditee for the year ended June 30, 2012.

# WARREN AVERETT

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## O'SULLIVAN CREEL

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Suite 301  
Fort Walton Beach, FL 32548

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, 2012, and have issued our report thereon dated December 6, 2012. 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.  
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 December 6, 2012.

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.

*Warren Averett, LLC*

December 6, 2012



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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, 2012. 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.

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

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, 2012.

**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.

*Warren Averett, LLC*

December 6, 2012

**Okaloosa-Walton Child Care Services, Inc.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2012**

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

*Federal and State Awards*

Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses?  Yes  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  No

Identification of major programs and projects:

<b>CFDA Number</b>	<b>Name of Federal Program or Cluster</b>
93.596	U. S. Department of Health and Human Services Child Care and Development Block Grant
<b>CSFA Number</b>	<b>Name of State Project</b>
48.108	Department of Education & Commissioner of Education Voluntary Pre-Kindergarten Education Program for 2011-2012 Fiscal Year

Continued...

**Okaloosa-Walton Child Care Services, Inc.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2012**

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**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>      </u> Yes <u>  X  </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.

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**MANAGEMENT LETTER**

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A Business of Warren Averett, LLC | CPAs & Consultants

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Fort Walton Beach, FL 32548

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, 2012, and have issued our report thereon dated December 6, 2012.

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 December 6, 2012, 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.

**OTHER MATTERS**

***I. 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). For fiscal year ending June 30, 2011, although 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. In fiscal year ending June 30, 2012, OWCCS was able to meet the local match requirement by year end.

***Recommendation***

We recommend that OWCCS implement a plan to strengthen their controls around the calculation process when they are determining their monthly match amounts to meet the local match requirement stated in the contract with ELC. During the year ended June 30, 2012 calculation errors in the match occurred that were resolved by year end. Additionally, 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.

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

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.

*Warren Averett, LLC*

December 6, 2012