

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

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY
INFORMATION**

JUNE 30, 2014 AND 2013

OKALOOSA – WALTON CHILD CARE SERVICES, INC.
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JUNE 30, 2014 AND 2013

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Okaloosa-Walton Child Care Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of State Awards and State Financial Assistance, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.650, Rules of the Auditor General, *Florida Single Audit Acts Audits – Nonprofit and For-profit Organizations* is presented for purposes of additional analysis 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 to 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 as a whole.

Dissolution of Operations

Effective December 31, 2014, OWCCS will dissolve and cease operations. The Early Learning Coalition of Okaloosa and Walton Counties (ELC) will bring in-house the delivery of School Readiness and Voluntary Pre-kindergarten and will terminate their contract for service with OWCCS.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2015, on our consideration of Okaloosa-Walton Child Care Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Okaloosa-Walton Child Care Services, Inc.'s internal control over financial reporting and compliance.

Warren Averett, LLC

Fort Walton Beach, Florida
January 16, 2015

OKALOOSA-WALTON CHILD CARE SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,079,580	\$ 1,356,178
Certificates of deposit	250,000	250,000
Government funding sources, contracts, and local funding receivable	1,641,121	1,359,798
Prepaid expenses	53,075	37,003
Total current assets	3,023,776	3,002,979
PROPERTY AND EQUIPMENT, NET	82,086	81,448
TOTAL ASSETS	\$ 3,105,862	\$ 3,084,427
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 731,342	\$ 759,366
Accrued liabilities	47,387	51,124
Total current liabilities	778,729	810,490
LONG-TERM LIABILITIES		
Accrued leave	55,671	55,388
Total liabilities	834,400	865,878
NET ASSETS		
Unrestricted	2,234,371	2,169,747
Temporarily restricted	37,091	48,802
Total net assets	2,271,462	2,218,549
TOTAL LIABILITIES AND NET ASSETS	\$ 3,105,862	\$ 3,084,427

See notes to the financial statements.

OKALOOSA-WALTON CHILD CARE SERVICES, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	Unrestricted	Temporarily Restricted	2014
PUBLIC SUPPORT AND REVENUE			
Federal and state awards	\$ 12,539,756	\$ -	\$ 12,539,756
County and other local government funds	148,038	-	148,038
Other contract revenue	60,659	-	60,659
In-kind contributions	57,910	-	57,910
Other contributions	49,172	-	49,172
Other revenue	60,782	-	60,782
Interest	5,472	-	5,472
TOTAL PUBLIC SUPPORT AND REVENUE	12,921,789	-	12,921,789
Net assets released from restrictions			
Transfers from temporarily restricted net assets due to expiration of time restrictions	11,711	(11,711)	-
TOTAL PUBLIC SUPPORT AND REVENUE AFTER NET ASSETS RELEASED FROM RESTRICTIONS	12,933,500	(11,711)	12,921,789
EXPENSES			
Program services			
Subsidized child care	6,847,609	-	6,847,609
Voluntary pre-kindergarten	5,333,582	-	5,333,582
Resource and referral	145,319	-	145,319
Teen parenting	67,695	-	67,695
Training program	168,343	-	168,343
Total program expenses	12,562,548	-	12,562,548
Supporting services			
Administrative and general	296,285	-	296,285
Fundraising	10,044	-	10,044
Total supporting expenses	306,329	-	306,329
TOTAL EXPENSES	12,868,877	-	12,868,877
INCREASE (DECREASE) IN NET ASSETS	64,623	(11,711)	52,912
NET ASSETS AT BEGINNING OF YEAR	2,169,747	48,802	2,218,549
NET ASSETS AT END OF YEAR	\$ 2,234,371	\$ 37,091	\$ 2,271,462

See notes to the financial statements.

OKALOOSA-WALTON CHILD CARE SERVICES, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	Unrestricted	Temporarily Restricted	2013
PUBLIC SUPPORT AND REVENUE			
Federal and state awards	\$ 12,187,410	\$ -	\$ 12,187,410
County and other local government funds	186,610	-	186,610
Other contract revenue	58,000	-	58,000
In-kind contributions	44,135	-	44,135
Other contributions	40,796	-	40,796
Other revenue	68,689	-	68,689
Interest	6,906	-	6,906
TOTAL PUBLIC SUPPORT AND REVENUE	12,592,546	-	12,592,546
Net assets released from restrictions			
Transfers from temporarily restricted net assets due to expiration of time restrictions	11,955	(11,955)	-
TOTAL PUBLIC SUPPORT AND REVENUE AFTER NET ASSETS RELEASED FROM RESTRICTIONS	12,604,501	(11,955)	12,592,546
EXPENSES			
Program services			
Subsidized child care	6,722,690	-	6,722,690
Voluntary pre-kindergarten	5,176,061	-	5,176,061
Resource and referral	133,833	-	133,833
Teen parenting	88,931	-	88,931
Training program	190,320	-	190,320
Total program expenses	12,311,835	-	12,311,835
Supporting services			
Administrative and general	238,637	-	238,637
Fundraising	3,614	-	3,614
Total supporting expenses	242,251	-	242,251
TOTAL EXPENSES	12,554,086	-	12,554,086
INCREASE (DECREASE) IN NET ASSETS	50,415	(11,955)	38,460
NET ASSETS AT BEGINNING OF YEAR	2,119,332	60,757	2,180,089
NET ASSETS AT END OF YEAR	\$ 2,169,747	\$ 48,802	\$ 2,218,549

See notes to the financial statements.

OKALOOSA-WALTON CHILD CARE SERVICES, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	PROGRAM SERVICES					SUPPORTING SERVICES			2014
	Subsidized Child Care	Voluntary Pre- Kindergarten	Resource and Referral	Teen Parenting	Training Program	Total Program Services	Administrative and General	Fundraising	
PERSONNEL SERVICES									
Salaries	\$ 635,182	\$ 67,363	\$ 90,238	\$ -	\$ 79,705	\$ 872,489	\$ 139,163	\$ 4,126	\$ 1,015,778
Fringes	193,148	20,805	25,554	-	34,605	274,111	32,605	1,096	307,812
Total personnel services	828,330	88,168	115,792	-	114,310	1,146,600	171,768	5,222	1,323,590
OPERATING EXPENSES									
Contract services	5,856,086	5,220,101	-	-	-	11,076,187	-	-	11,076,187
Other program expense	-	-	-	67,680	-	67,680	-	-	67,680
Consulting, contract labor	16,049	1,436	4,134	-	12,299	33,918	2,285	20	36,224
Staff travel and development	4,762	104	273	-	2,661	7,800	893	7	8,701
Professional services	-	10,008	-	-	180	10,188	13,212	-	23,400
Occupancy	65,053	4,615	8,971	-	20,318	98,957	63,543	3,475	165,975
Communications	9,353	921	1,785	-	1,220	13,279	1,696	-	14,975
Insurance	4,506	1,854	1,695	-	2,079	10,134	17,245	297	27,677
Equipment and software	14,083	1,668	2,063	-	1,638	19,452	8,765	334	28,551
Office expense	20,942	2,751	8,511	14	3,255	35,473	4,570	116	40,158
Program supplies	6,088	41	13	-	347	6,489	-	-	6,489
Depreciation	12,865	1,114	1,492	-	1,318	16,788	5	-	16,793
Vehicle cost pool	2,805	403	-	-	601	3,809	119	-	3,928
Miscellaneous expense	6,687	399	590	-	8,117	15,793	12,185	572	28,550
Total operating expenses	6,019,279	5,245,414	29,528	67,695	54,033	11,415,948	124,517	4,822	11,545,287
TOTAL PERSONNEL SERVICES AND OPERATING EXPENSES	6,847,609	5,333,582	145,319	67,695	168,343	12,562,548	296,285	10,044	12,868,877
Contract-related administrative and general	229,685	1,423	-	-	1,257	232,365	(232,365)	-	-
TOTAL EXPENSES	\$ 7,077,294	\$ 5,335,005	\$ 145,319	\$ 67,695	\$ 169,599	\$ 12,794,912	\$ 63,920	\$ 10,044	\$ 12,868,877

See notes to the financial statements.

OKALOOSA-WALTON CHILD CARE SERVICES, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	PROGRAM SERVICES					SUPPORTING SERVICES			2013
	Subsidized Child Care	Voluntary Pre- Kindergarten	Resource and Referral	Teen Parenting	Training Program	Total Program Services	Administrative and General	Fundraising	
PERSONNEL SERVICES									
Salaries	\$ 676,133	\$ 74,997	\$ 76,506	\$ -	\$ 89,343	\$ 916,979	\$ 93,752	\$ 2,900	\$ 1,013,631
Fringes	190,484	22,673	23,234	-	36,760	273,151	23,047	714	296,912
Total personnel services	866,617	97,670	99,740	-	126,103	1,190,130	116,800	3,614	1,310,544
OPERATING EXPENSES									
Contract services	5,642,909	5,055,866	-	-	-	10,698,775	-	-	10,698,775
Other program expense	-	-	-	88,910	-	88,910	-	-	88,910
Consulting, contract labor	24,222	1,515	3,949	-	12,444	42,130	2,355	-	44,485
Staff travel and development	9,728	398	649	-	5,197	15,972	571	-	16,542
Professional services	5,992	8,838	-	-	180	15,010	7,490	-	22,500
Occupancy	64,749	3,630	8,159	-	21,650	98,188	51,719	-	149,907
Communications	11,905	1,093	1,824	-	1,428	16,250	1,034	-	17,284
Insurance	7,914	1,935	1,662	-	1,926	13,437	14,178	-	27,615
Equipment and software	36,112	2,241	3,229	-	2,373	43,955	11,241	-	55,196
Office expense	28,099	2,424	11,248	21	1,851	43,643	3,192	-	46,835
Program supplies	14,922	12	1,018	-	5,720	21,672	-	-	21,672
Depreciation	-	-	-	-	-	-	17,546	-	17,546
Vehicle cost pool	3,601	358	4	-	527	4,490	100	-	4,590
Miscellaneous expense	5,920	81	2,351	-	10,921	19,273	12,412	-	31,685
Total operating expenses	5,856,073	5,078,391	34,093	88,931	64,217	11,121,705	121,837	-	11,243,542
TOTAL PERSONNEL SERVICES AND OPERATING EXPENSES									
	6,722,690	5,176,061	133,833	88,931	190,320	12,311,835	238,637	3,614	12,554,086
Contract-related administrative and general	157,421	2,917	-	-	2,240	162,578	(162,578)	-	-
TOTAL EXPENSES	\$ 6,880,111	\$ 5,178,978	\$ 133,833	\$ 88,931	\$ 192,560	\$ 12,474,413	\$ 76,059	\$ 3,614	\$ 12,554,086

See notes to the financial statements.

OKALOOSA-WALTON CHILD CARE SERVICES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 52,912	\$ 38,460
Adjustments to reconcile change in net assets to cash flows from operating activities		
Depreciation	16,793	17,546
Gain on disposal of assets	19	(375)
Decrease (increase) in Government funding sources, contracts, and local funding receivable	(281,322)	(305,360)
Prepaid expenses	(16,072)	47,086
Increase (decrease) in Accounts payable	(28,024)	(4,367)
Accrued liabilities	(3,737)	2,858
Accrued leave	283	2,309
Net cash flows used in operating activities	<u>(259,148)</u>	<u>(201,843)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	(17,450)	-
Proceeds from sale of capital assets	-	375
Net cash provided by (used in) investing activities	<u>(17,450)</u>	<u>375</u>
NET INCREASE (DECREASE) IN CASH	(276,598)	(201,468)
CASH AT BEGINNING OF YEAR	<u>1,356,178</u>	<u>1,557,646</u>
CASH AT END OF YEAR	<u><u>\$ 1,079,580</u></u>	<u><u>\$ 1,356,178</u></u>

See notes to the financial statements.

OKALOOSA-WALTON CHILD CARE SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Dissolution of Operations

Effective December 31, 2014, OWCCS will dissolve and cease operations. The Early Learning Coalition of Okaloosa and Walton Counties (ELC) will bring in-house the delivery of School Readiness and Voluntary Pre-kindergarten and will terminate their contract for service with OWCCS. When the Articles of Dissolution are filed with the State of Florida, management will adopt the liquidation basis of accounting. Management believes that the recorded amounts of the assets and liabilities will approximate the amounts to be realized upon liquidation.

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.

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.

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 THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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, 2014, and 2013, 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.

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.

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 2011.

**OKALOOSA-WALTON CHILD CARE SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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.

Subsequent Events

Management has evaluated subsequent events through January 16, 2015, the date which the financial statements were available for issue.

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, 2014, and 2013:

	<u>2014</u>	<u>2013</u>
Early Learning Coalition of Okaloosa and Walton Counties	\$ 1,625,498	\$ 1,340,002
Miscellaneous contracts	7,899	17,567
Local funding sources	<u>7,724</u>	<u>2,229</u>
Total	<u>\$ 1,641,121</u>	<u>\$ 1,359,798</u>

OKALOOSA-WALTON CHILD CARE SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

3. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at June 30, 2014, and 2013:

	<u>2014</u>	<u>2013</u>
Land	\$ 51,500	\$ 51,500
Buildings and improvements	233,768	233,768
Furniture and fixtures	11,755	11,755
Equipment	163,133	205,045
	<u>460,156</u>	<u>502,068</u>
Less accumulated depreciation	<u>(378,070)</u>	<u>(420,620)</u>
Property and equipment, net	<u>\$ 82,086</u>	<u>\$ 81,448</u>

Depreciation expense for the years ended June 30, 2014, and 2013, was \$16,793 and \$17,546, respectively.

4. LINE OF CREDIT

OWCCS had 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 2015. The line was secured by a pledge of property and equipment. There were no outstanding balances on the line of credit for the years ending June 30, 2014, and 2013.

5. OPERATING LEASES

OWCCS leases its office space and equipment under operating leases which all end in December 2014. Rental expense under the operating leases was \$66,301 and \$75,033 for the years ended June 30, 2014 and 2013, respectively.

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, 2014, and 2013, respectively, and the net book value was \$37,091 and \$48,802, 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, 2014, \$11,711 was released to unrestricted net assets, representing the depreciation charged to operations on these assets during the year. For the year ending June 30, 2013, \$11,955 was released to unrestricted net assets, representing the depreciation charged to operations on these same assets.

OKALOOSA-WALTON CHILD CARE SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

7. RELATED PARTY TRANSACTIONS

OWCCS recognized \$4,750 of in kind contributions during the years ended June 30, 2014 and 2013 for website maintenance. The services were provided by a related party to the organization's management team.

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, 2014, and 2013, were \$18,750 and \$19,256, respectively.

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, 2014, OWCCS was required to provide \$192,987 in local matching funds for the Subsidized Child Care Contract with ELC. The match shortfall completed by the Florida Office of Early Learning was \$36,179 for the year ended June 30, 2014.

For the year ended June 30, 2013, OWCCS was required to provide \$160,126 in local matching funds for the Subsidized Child Care Contract with ELC. OWCCS received \$110,684 in cash contributions and \$38,998 in non-cash contributions, for a total of \$149,682, thus failing to meet the required local match by \$10,444.

10. CONCENTRATIONS

Uninsured Cash Balances

OWCCS periodically maintained cash balances in a local bank in excess of the federally insured limits of \$250,000 during the years ended June 30, 2014, and 2013. OWCCS' exposure to credit loss for deposits held in the bank was \$1,094,543 and \$1,428,809 at June 30, 2014, and 2013, 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, 2014, and 2013, \$12,539,756 and \$12,187,410, respectively, were received from this source, which represented 97% 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
FOR THE YEAR ENDED JUNE 30, 2014**

Federal/State Agency Pass-Through Entity Federal Program/State Project	CFDA CSFA Number	Contract 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	93.558	SR 353	\$ 2,084,158
Child Care and Development Block Grant	93.575	SR 353	2,619,930
Child Care Mandatory & Matching Funds of the Child Care and Development Fund	93.596	SR 353	2,400,892
Social Services Block Grant	93.667	SR 353	6,400
			<u>7,111,380</u>
<i>Pass-through from Department of Children & Families</i>			
Child Care and Development Block Grant	93.575	LC901	68,931
Social Services Block Grant-Title XX	93.667	LC901	25,862
			<u>94,793</u>
Total U.S. Department of Health and Human Services			<u>7,206,173</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 7,206,173</u>
Department of Education & Commissioner of Education			
Direct programs			
Voluntary Pre-Kindergarten Education Program for 2013-2014 Fiscal Year	48.108	SR 353	\$ 5,333,582
Total Florida Agency for Workforce Innovation			<u>5,333,582</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$ 5,333,582</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
FOR THE YEAR ENDED JUNE 30, 2014**

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.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Okaloosa–Walton Child Care Services, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Okaloosa-Walton Child Care Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 16, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Okaloosa-Walton Child Care Services, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Okaloosa-Walton Child Care Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of OWCCS' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Okaloosa-Walton Child Care Services, Inc.'s financial statements are free from 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 *Government Auditing Standards*.

We noted certain matters that we reported to management of Okaloosa – Walton Child Care Services, Inc. on a separate letter dated January 16, 2015.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Warren Averett, LLC

Fort Walton Beach, Florida
January 16, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 AND CHAPTER 10.650, RULES OF THE AUDITOR GENERAL

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

Report on Compliance for Each Major Federal Program and State Project

We have audited Okaloosa-Walton Child Care Services, Inc.'s (OWCCS) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the requirements described in the *Florida Department of Financial Services' State Compliance Supplement* that could have a direct and material effect on each of OWCCS' major federal programs and state projects for the year ended June 30, 2014. OWCCS' major federal programs and state projects are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs and state projects.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of OWCCS' major federal programs and state projects based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal and state program. However, our audit does not provide a legal determination of OWCCS' compliance.

Opinion on Each Major Federal Program and State Project

In our opinion, OWCCS complied, in all material respects, with the types of compliance 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, 2014.

Report on Internal Control over Compliance

Management of OWCCS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered OWCCS' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program and state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and state project and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.650, *Rules of the Auditor General*, 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 program or state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of 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 program or state project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program or state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and Chapter 10.650, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.

Warren Averett, LLC

Fort Walton Beach, Florida
January 16, 2015

**OKALOOSA-WALTON CHILD CARE SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

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 auditors' report issued on compliance for major programs: _____

Unmodified

- 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:

CFDA Number	Name of Federal Program
93.558	U. S. Department of Health and Human Services Temporary Assistance for Needy Families
CSFA Number	Name of State Project
48.108	Department of Education & Commissioner of Education Voluntary Pre-Kindergarten Education Program for 2013-2014 Fiscal Year

**OKALOOSA-WALTON CHILD CARE SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013 AND 2013**

I. SUMMARY OF AUDITORS' RESULTS – CONTINUED

Dollar threshold used to distinguish between type A and type B programs for federal awards: \$300,000

Dollar threshold used to distinguish between type A and type B programs for state awards: \$300,000

Auditee qualified as a federal low-risk auditee? X Yes 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

MANAGEMENT LETTER

To the Honorable Board of Directors
Okaloosa-Walton Child Care Services, Inc.

Report on the Financial Statements

We have audited the financial statements of the Okaloosa-Walton Child Care Services, Inc. (OWCCS), as of and for the fiscal year ended June 30, 2014, and have issued our report thereon dated January 16, 2015.

Auditors' Responsibility

We conducted our audit 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* and Chapter 10.650, *Rules of the Florida Auditor General*.

Other Reports and Schedule

We have issued our Independent Auditors' 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* and Independent Auditors' Report on Compliance with Requirements for 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 Florida Auditor General*. Disclosures in those reports and schedule, which are dated January 16, 2015, should be considered in conjunction with this management letter.

Other Matter

Section 10.654(1)(e), *Rules of the Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements or federal program and state project amounts that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings. **Note:** Fraud, noncompliance with provisions of laws or regulations and contracts or grant agreements, or abuse material weaknesses or significant deficiencies may be reported in the management letter based on professional judgment.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

OTHER MATTERS

I. REQUIRED LOCAL MATCH FUNDING FOR CONTRACT WITH EARLY LEARNING COALITION

Observation

In fiscal year ending June 30, 2014, OWCCS was short of the local match requirement of the United States Health and Human Services grants passed through the State of Florida Agency for Workforce Innovation and Early Learning by \$36,179.

Recommendation

Given that funding from local governments, other not-for-profit agencies and individuals have decreased in the past several years, we recommend that OWCCS implement a plan to determine new methods and possibly new targets in attempting to achieve the local match requirement

Management's Response

OWCCS has been active in various markets and methods in an effort to obtain the required match. Management will continue to identify strategies and targets in an effort to obtain the match.

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

Warren Averett, LLC

Fort Walton Beach, Florida
January 16, 2015