

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2015

OKALOOSA-WALTON CHILD CARE SERVICES, INC.
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Okaloosa-Walton Child Care Services, Inc. (a nonprofit organization), which comprise the statement of financial position in liquidation as of June 30, 2015, and the related statement of activities in liquidation, functional expenses in liquidation, and cash flows in liquidation for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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.

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, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As further discussed in Note 1 to the financial statements, the board of directors of Okaloosa-Walton Child Care Services, Inc. approved a plan of liquidation in April 2015. In accordance with accounting principles generally accepted in the United States of America, the organization has changed its basis of accounting to the liquidation basis.

Other Matters

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 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
December 2, 2015

**OKALOOSA-WALTON CHILD CARE SERVICES, INC.
STATEMENT OF FINANCIAL POSITION IN LIQUIDATION
JUNE 30, 2015**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 58,478
Government funding sources, contracts, and local funding receivable	<u>4,008</u>
Total current assets	<u>62,486</u>

TOTAL ASSETS	<u>\$ 62,486</u>
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LIABILITIES AND NET ASSETS IN LIQUIDATION

CURRENT LIABILITIES

Accounts payable	<u>\$ 493</u>
Total current liabilities	<u>493</u>

NET ASSETS IN LIQUIDATION

Unrestricted	<u>61,993</u>
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TOTAL NET ASSETS IN LIQUIDATION	<u>\$ 62,486</u>
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See notes to the financial statements.

**OKALOOSA-WALTON CHILD CARE SERVICES, INC.
STATEMENT OF ACTIVITIES IN LIQUIDATION
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Federal and state awards	\$ 6,194,389	\$ -	\$ 6,194,389
County and other local government funds	48,807	-	48,807
Other contract revenue	31,157	-	31,157
In-kind contributions	30,033	-	30,033
Other contributions	15,662	-	15,662
Other revenue	21,880	-	21,880
Interest	7,485	-	7,485
Total public support and revenue	<u>6,349,413</u>	<u>-</u>	<u>6,349,413</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
Transfers from temporarily restricted net assets due to expiration of time restrictions	37,091	(37,091)	-
TOTAL PUBLIC SUPPORT AND REVENUE AFTER NET ASSETS RELEASED FROM RESTRICTIONS	<u>6,386,504</u>	<u>(37,091)</u>	<u>6,349,413</u>
EXPENSES			
Program services			
Subsidized child care	3,660,399	-	3,660,399
Voluntary pre-kindergarten	2,438,795	-	2,438,795
Resource and referral	72,372	-	72,372
Teen parenting	20,491	-	20,491
Training program	76,365	-	76,365
Total program expenses	<u>6,268,422</u>	<u>-</u>	<u>6,268,422</u>
Supporting services			
Administrative and general	405,920	-	405,920
Fundraising	7,184	-	7,184
Total supporting expenses	<u>413,104</u>	<u>-</u>	<u>413,104</u>
TOTAL EXPENSES	<u>6,681,526</u>	<u>-</u>	<u>6,681,526</u>
DECREASE IN NET ASSETS	(295,022)	(37,091)	(332,113)
NET ASSETS AT BEGINNING OF YEAR	2,234,370	37,091	2,271,461
TRANSFERS OF NET ASSETS	<u>(1,877,355)</u>	<u>-</u>	<u>(1,877,355)</u>
NET ASSETS AT END OF YEAR IN LIQUIDATION	<u>\$ 61,993</u>	<u>\$ -</u>	<u>\$ 61,993</u>

See notes to the financial statements.

**OKALOOSA-WALTON CHILD CARE SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES IN LIQUIDATION
FOR THE YEAR ENDED JUNE 30, 2015**

	PROGRAM SERVICES					SUPPORTING SERVICES			
	Subsidized Child Care	Voluntary Pre- Kindergarten	Resource and Referral	Teen Parenting	Training Program	Total Program Services	Administrative and General	Fundraising	Total
PERSONNEL SERVICES									
Salaries	\$ 378,771	\$ 32,881	\$ 47,406	\$ -	\$ 34,302	\$ 493,360	\$ 210,219	\$ -	\$ 703,579
Fringes	119,614	10,614	13,593	-	16,389	160,210	44,241	-	204,451
Total personnel services	498,385	43,495	60,999	-	50,691	653,570	254,460	-	908,030
OPERATING EXPENSES									
Contract services	3,080,219	2,383,293	-	-	-	5,463,512	-	-	5,463,512
Other program expense	-	-	-	20,485	-	20,485	-	-	20,485
Consulting, contract labor	6,431	539	1,645	-	5,666	14,281	26,355	1,682	42,318
Staff travel and development	5,048	71	360	-	2,108	7,587	350	22	7,959
Professional services	7,625	5,631	-	-	145	13,401	40,530	-	53,931
Occupancy	30,951	1,947	4,396	-	9,380	46,674	32,238	2,058	80,970
Communications	4,646	401	764	-	625	6,436	803	-	7,239
Insurance	1,557	889	915	-	936	4,297	13,871	1,228	19,396
Equipment and software	5,756	575	736	-	706	7,773	22,331	1,425	31,529
Office expense	5,925	1,305	1,626	6	957	9,819	1,922	123	11,864
Program supplies	2,688	-	-	-	275	2,963	-	-	2,963
Depreciation	5,056	439	633	-	458	6,586	2,806	-	9,392
Vehicle cost pool	1,533	210	57	-	202	2,002	-	-	2,002
Miscellaneous expense	4,579	-	241	-	4,216	9,036	10,254	646	19,936
Total operating expenses	3,162,014	2,395,300	11,373	20,491	25,674	5,614,852	151,460	7,184	5,773,496
TOTAL PERSONNEL SERVICES AND OPERATING EXPENSES	3,660,399	2,438,795	72,372	20,491	76,365	6,268,422	405,920	7,184	6,681,526
Contract-related administrative and general	15,048	1,277	-	-	1,434	17,759	(17,759)	-	-
TOTAL EXPENSES	\$ 3,675,447	\$ 2,440,072	\$ 72,372	\$ 20,491	\$ 77,799	\$ 6,286,181	\$ 388,161	\$ 7,184	\$ 6,681,526

See notes to the financial statements.

**OKALOOSA-WALTON CHILD CARE SERVICES, INC.
STATEMENT OF CASH FLOWS IN LIQUIDATION
FOR THE YEAR ENDED JUNE 30, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (332,113)
Adjustments to reconcile change in net assets to cash flows from operating activities:	
Depreciation	9,391
Decrease (increase) in Government funding sources, contracts, and local funding receivable	1,637,113
Prepaid expenses	53,075
Increase (decrease) in Accounts payable	(730,850)
Accrued liabilities	(47,387)
Accrued leave	<u>(55,671)</u>
Net cash flows provided by operating activities	<u>533,558</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of investments	<u>250,000</u>
Net cash used in investing activities	<u>250,000</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Transfers of net assets	<u>(1,804,660)</u>
Net cash provided by financing activities	<u>(1,804,660)</u>
DECREASE IN CASH	(1,021,102)
CASH AT BEGINNING OF YEAR	<u>1,079,580</u>
CASH AT END OF YEAR	<u><u>\$ 58,478</u></u>
NON-CASH ACTIVITIES	
Transfers of capital assets	<u><u>\$ (72,695)</u></u>

See notes the financial statements.

OKALOOSA-WALTON CHILD CARE SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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.

Basis of Accounting

Effective April 1, 2015, OWCCS voted to liquidate and, accordingly, revalued its assets and liabilities to the amounts expected to be collected and paid during the liquidation. The effect of the revaluation is included in the statement of net assets in liquidation as administrative and general expenses.

OWCCS stopped operations on December 31, 2014. The Early Learning Coalition of Okaloosa and Walton Counties, Inc. (ELC-OW) brought early learning program services in house effective January 1, 2015. A final plan of distribution of net assets was adopted by the OWCCS Board of Directors on April 1, 2015. Liquidation is expected to be complete by October 31, 2015. See Note 6 for additional information.

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 statements of cash flows in liquidation, 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.

OKALOOSA-WALTON CHILD CARE SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Receivables – Continued

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.

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.

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.

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.

Statement of Functional Expenses in Liquidation

The costs of providing the various programs and other activities have been detailed in the statement of functional expenses in liquidation and summarized on a functional basis in the statement of activities in liquidation. 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.

OKALOOSA-WALTON CHILD CARE SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Statement of Functional Expenses in Liquidation – Continued

Contract-related administrative and general expenses have also been allocated to various programs on the statement of functional expenses in liquidation 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 December 2, 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, 2015:

Okaloosa and Walton County Board of County Commissioners	<u>\$ 4,008</u>
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3. 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 was scheduled to mature in December 2016. On February 4, 2015, the line was terminated due to the pending dissolution of OWCCS. The line was secured by a pledge of property and equipment.

4. OPERATING LEASES

OWCCS leases its office space and equipment under operating leases, all of which ended in December 2014. Rental expense under the operating leases was \$49,359 for the year ended June 30, 2015.

OKALOOSA-WALTON CHILD CARE SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

5. 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. These fixed assets with a net book value of \$72,695, were transferred to ELC-OW per the direction of the Florida Department of Education Office of Early Learning.

For the year ending June 30, 2015, \$37,091 was released to unrestricted net assets, representing the depreciation charged to operations on these assets during the year, as well as the remaining balance of temporarily restricted net assets.

6. TRANSFER OF NET ASSETS

Following the close of operations, the OWCCS Board of Directors consulted with the Florida Department of Education Office of Early Learning to provide guidance on allowable distribution of net assets since OWCCS operated as a sub-recipient of federal and state grant funding in addition to operating other programs during its forty years of operation. Fixed assets with a net book value of \$72,695, consumable supplies with no book value, and cash of \$320,830, were transferred to the ELC-OW based on an analysis of programs that generated the net assets. OWCCS also transferred a total of \$419,330 to the Okaloosa County School District, Walton County School District and the Okaloosa Academy relating to estimated net assets earned from contractual operation of the Teenage Parent Program. The Florida Department of Children and Families authorized the Board of Directors to distribute estimated net assets of \$144,747 which were earned by OWCCS in contractual operation of training programs as part of its proposed distribution plan.

The remaining assets of \$1,064,500, which includes the funds earned from contractual operation of the training program, were distributed to qualifying 501(c)(3) organizations based on a distribution plan approved by its Board of Directors on April 1, 2015. Any residual net assets after paying final expenses will be transferred to ELC-OW.

7. POST OPERATIONS EXPENSES

OWCCS incurred approximately \$115,289 of winding down expenses during the period from January 1, 2015 to June 30, 2015. These costs are included as general and administrative expenses in the accompanying statement of activities in liquidation. The natural classification of these expenses are as follows:

Personal services and contract labor	\$ 35,988
Professional fees	49,160
Occupancy	3,065
Insurance	11,846
Equipment rental and termination fee	10,688
Office, computer, and other expenses	4,542
	<u>\$ 115,289</u>

OKALOOSA-WALTON CHILD CARE SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

7. POST OPERATIONS EXPENSES – CONTINUED

The Board of Directors in August 2014 also approved retention pay for employees to ensure delivery of services between notice of contract termination and close of operations. The expense is allocated to program and support services based on the methodology used to allocate salaries for services performed. The retention pay was funded from unrestricted net assets of OWCCS.

8. RELATED PARTY TRANSACTIONS

OWCCS recognized \$1,200 of in-kind contributions during the year ended June 30, 2015 for website maintenance. The services were provided by a related party to the organization's management team.

9. 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 year ended June 30, 2015, were \$13,617.

10. 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 ELC-OW. The contract with ELC-OW required a local cash or in-kind match for certain federal and state funded programs. OWCCS was required to provide local matching funds for the six month period of operations through December 31, 2014. Local matching funds of \$62,183 were provided for the Subsidized Child Care Contract with ELC-OW. The match consisted of \$38,790 in cash and \$23,392 in non-cash contributions. In addition, OWCCS collected \$29,516 in matching funds for the period January 1, 2015 through June 30, 2015, which were ultimately remitted to ELC-OW. The match requirement became the responsibility of ELC-OW as of December 31, 2014.

11. CONCENTRATIONS

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 year ended June 30, 2015, \$6,194,389 was received from this source, which represented 97% of total funding. 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, 2015**

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	\$ 1,094,433
Child Care and Development Block Grant	93.575	SR 353	1,383,340
Child Care Mandatory & Matching Funds of the Child Care and Development Fund	93.596	SR 353	1,227,575
Social Services Block Grant	93.667	SR 353	<u>3,339</u>
			<u>3,708,687</u>
<i>Pass-through from Department of Children & Families</i>			
Child Care and Development Block Grant	93.575	LC901	37,942
Social Services Block Grant-Title XX	93.667	LC901	<u>9,455</u>
			<u>47,397</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>3,756,084</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,756,084</u>
Department of Education & Commissioner of Education			
Direct programs			
Voluntary Pre-Kindergarten Education Program for 2014-2015 Fiscal Year	48.108	SR 353	<u>\$ 2,438,305</u>
TOTAL FLORIDA AGENCY FOR WORKFORCE INNOVATION			<u>2,438,305</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$ 2,438,305</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, 2015**

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, 2015, 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 December 2, 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 Okaloosa-Walton Child Care Services, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 December 2, 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.



Fort Walton Beach, Florida
December 2, 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, 2015. 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, 2015.

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
December 2, 2015

**OKALOOSA-WALTON CHILD CARE SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEARS ENDED JUNE 30, 2015**

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 weakness(es)? _____ 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 deficiency(ies) identified that are not considered to be material weakness(es)? _____ 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
93.596	U. S. Department of Health and Human Services Administration for Children and Families
CSFA Number	Name of State Project
48.108	Department of Education & Commissioner of Education Voluntary Pre-Kindergarten Education Program for 2014-2015 Fiscal Year

**OKALOOSA-WALTON CHILD CARE SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
FOR THE YEARS ENDED JUNE 30, 2015**

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 STATEMENTS 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 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, 2015, and have issued our report thereon dated December 2, 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 December 2, 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 are 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.

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.

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



Fort Walton Beach, Florida
December 2, 2015