FLORENCE FULLER CHILD DEVELOPMENT CENTERS, INC. AND AFFILIATE

AUDITED COMBINED FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE AND REPORTS REQUIRED BY OMB CIRCULAR A-133

DECEMBER 31, 2012 AND 2011

FLORENCE FULLER CHILD DEVELOPMENT CENTERS, INC. AND AFFILIATE

AUDITED COMBINED FINANCIAL STATEMENTS WITH SUPPLEMENTAL SCHEDULE AND REPORTS REQUIRED BY OMB CIRCULAR A-133

DECEMBER 31, 2012 AND 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Florence Fuller Child Development Centers, Inc. and Affiliate
Boca Raton, Florida

We have audited the accompanying combined financial statements of Florence Fuller Child Development Centers, Inc. and Affiliate, (the Organization), which comprise the combined statement of financial position as of December 31, 2012, and the related combined statements of activities and change in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Florence Fuller Child Development Centers, Inc. and Affiliate as of December 31, 2012, and the change in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2011 combined financial statements of Florence Fuller Child Development Centers, Inc. and Affiliate were audited by other auditors who combined with BDO USA, LLP in 2012. Their report dated August 10, 2012, expressed an unmodified opinion on those statements. The summarized comparative information included in the combined statement of functional expenses for the year ended December 31, 2012 has been derived from the Organization's December 31, 2011 combined financial statements.

Other Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined 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 July 26, 2013 on our consideration of the Organization'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 the Organization's internal control over financial reporting and compliance.

BDO USA, LLP

Fort Lauderdale, Florida
July 26, 2013

FLORENCE FULLER CHILD DEVELOPMENT CENTERS, INC. AND AFFILIATE

COMBINED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	$ 428,427	$ 569,530
Pledges receivable	82,218	922,948
Grants receivable	408,588	311,257
Prepaid expenses	97,677	91,751
Total current assets	1,016,910	1,895,486
Investments	1,752,228	820,073
Property and equipment, net	2,748,669	2,591,824
Deposits	21,196	19,111
Total assets	$ 5,539,003	$ 5,326,494
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	$ 481,622	$ 570,335
Total liabilities	481,622	570,335
Commitments and contingencies		
Net assets		
Unrestricted	1,837,743	1,604,807
Temporarily restricted	2,809,638	2,741,352
Permanently restricted	410,000	410,000
Total net assets	5,057,381	4,756,159
Total liabilities and net assets	$ 5,539,003	$ 5,326,494

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

FLORENCE FULLER CHILD DEVELOPMENT CENTERS, INC. AND AFFILIATE

COMBINED STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	Year Ended December 31, 2012				Year Ended December 31, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues								
Grants	$ 2,932,686	$ 0	$ 0	$ 2,932,686	$ 2,996,037	$ 0	$ 0	$ 2,996,037
Contributions from private sources	717,552	217,754	0	935,306	488,684	958,455	0	1,447,139
Program service fees	866,629	0	0	866,629	883,070	0	0	883,070
Special events	733,114	0	0	733,114	620,367	0	0	620,367
Thrift shop revenues	345,619	0	0	345,619	367,779	0	0	367,779
Rental income - thrift shop	8,295	0	0	8,295	99,539	0	0	99,539
Bequest and other income	51,424	0	0	51,424	20,521	0	0	20,521
Investment income	72,762	0	0	72,762	2,086	7,063	0	9,149
Net assets released from restrictions	149,468	(149,468)	0	0	280,876	(126,806)	(154,070)	0
Total support and revenues	5,877,549	68,286	0	5,945,835	5,758,959	838,712	(154,070)	6,443,601
Expenses								
Program services	4,521,737	0	0	4,521,737	4,504,816	0	0	4,504,816
Supporting services								
Management and general	366,800	0	0	366,800	301,139	0	0	301,139
Special events	225,331	0	0	225,331	198,623	0	0	198,623
Fundraising	213,743	0	0	213,743	175,266	0	0	175,266
Thrift shop	317,002	0	0	317,002	442,335	0	0	442,335
Total supporting services	1,122,876	0	0	1,122,876	1,117,363	0	0	1,117,363
Total expenses	5,644,613	0	0	5,644,613	5,622,179	0	0	5,622,179
Change in net assets	232,936	68,286	0	301,222	136,780	838,712	(154,070)	821,422
Net assets at the beginning of the year	1,604,807	2,741,352	410,000	4,756,159	1,468,027	1,902,640	564,070	3,934,737
Net assets at the end of the year	$ 1,837,743	$ 2,809,638	$ 410,000	$ 5,057,381	$ 1,604,807	$ 2,741,352	$ 410,000	$ 4,756,159

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

FLORENCE FULLER CHILD DEVELOPMENT CENTERS, INC. AND AFFILIATE

COMBINED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ 301,222	$ 821,422
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation and amortization	181,228	174,853
Realized and unrealized losses (gains) on investments	(35,123)	18,672
Loss on disposal of property and equipment	0	306
Changes in operating assets and liabilities:		
Pledges receivable	840,730	(832,698)
Grants receivable	(97,331)	135,426
Prepaid expenses	(5,926)	21,731
Accounts payable and accrued expenses	(88,713)	56,734
Total adjustments	794,865	(424,976)
Net cash provided by operating activities	1,096,087	396,446
Cash flows from investing activities:		
Purchases of investments	(1,844,178)	(262,732)
Proceeds from sales and maturities of investments	947,146	173,600
Proceeds from sale of certificate of deposit	0	33,342
Purchases of property and equipment	(338,073)	(63,430)
Increase in deposits	(2,085)	(983)
Net cash used in investing activities	(1,237,190)	(120,203)
Net (decrease) increase in cash and cash equivalents	(141,103)	276,243
Cash and cash equivalents at the beginning of the year	569,530	293,287
Cash and cash equivalents at the end of the year	$ 428,427	$ 569,530

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

FLORENCE FULLER CHILD DEVELOPMENT CENTERS, INC. AND AFFILIATE

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2012, WITH COMPARATIVE TOTALS FOR 2011

		Supporting Services						
	Program Services	Management and General	Special Events	Fundraising	Thrift Shop	Total Support Services	Total for the Year Ended December 31, 2012	Total for the Year Ended December 31, 2011
Payroll and payroll taxes	$ 2,894,267	$ 231,047	$ 67,560	$ 157,640	$ 157,208	$ 613,455	$ 3,507,722	$ 3,455,588
Health insurance and other benefits	342,582	27,612	0	26,813	17,967	72,392	414,974	393,747
Food and kitchen supplies	333,468	0	0	0	0	0	333,468	360,505
Rent	0	0	0	0	86,167	86,167	86,167	199,079
Repairs and maintenance	178,795	9,410	0	350	3,667	13,427	192,222	176,332
Depreciation and amortization	170,354	9,061	906	906	0	10,873	181,227	174,853
General and business insurance	135,812	1,777	0	0	0	1,777	137,589	151,652
Utilities	147,291	7,835	783	783	12,925	22,326	169,617	142,304
Special events expense	0	0	156,082	0	0	156,082	156,082	132,984
Office expense and supplies	97,496	5,131	0	11,979	9,557	26,667	124,163	120,630
Community education and public relations	34,444	0	0	929	7,907	8,836	43,280	64,061
Professional fees	22,962	73,782	0	0	0	73,782	96,744	52,014
Children's medical and dental	35,316	0	0	0	0	0	35,316	39,317
Field trips	37,241	0	0	0	0	0	37,241	34,265
Miscellaneous	6,017	0	0	12,994	6,213	19,207	25,224	29,362
Gas, oil and bus transportation	27,973	0	0	0	0	0	27,973	27,594
Cost of thrift shop sales	0	0	0	0	15,265	15,265	15,265	25,045
Donor project expense	19,266	0	0	0	0	0	19,266	18,071
Taxes and licenses	20,260	1,145	0	0	0	1,145	21,405	12,182
Conference and business travel	11,317	0	0	1,349	126	1,475	12,792	9,049
Bad debts	6,876	0	0	0	0	0	6,876	3,545
Total for the year ended December 31, 2012	$ 4,521,737	$ 366,800	$ 225,331	$ 213,743	$ 317,002	$ 1,122,876	$ 5,644,613	
Total for the year ended December 31, 2011	$ 4,504,816	$ 301,139	$ 198,623	$ 175,266	$ 442,335	$ 1,117,363		$ 5,622,179

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

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Florence Fuller Child Development Centers, Inc. (the Center) was founded in 1969 and incorporated in 1971 as a private, not-for-profit organization devoted to the educational development and care of children. The Center directly manages two child development centers and a thrift shop. The Center provides economically disadvantaged children and their families with quality infant, pre-school and school-age child care and family support and health services.

Florence Fuller Child Development Foundation, Inc. (the Foundation) was incorporated on June 28, 2002. The Foundation was approved on January 30, 2003 as a private, not-for-profit organization, created as a fundraising arm of the Center. The purpose of the Foundation is to provide long-term endowment funding for the continued operation and growth of the Center.

The Center’s support and revenues are received from federal government grants through its funding sources, non-contractual grants designated for certain projects or programs, local public matching funds, contributions from private sources, a thrift shop owned and operated by the Center, and other miscellaneous sources.

The significant accounting policies followed by the Center and the Foundation are described below.

Basis of presentation

The combined financial statements have been prepared using accrual basis of accounting. The accompanying combined financial statements include the accounts of Florence Fuller Child Development Centers, Inc. and its affiliate, the Florence Fuller Child Development Foundation, Inc. (collectively referred to as the Organization). All material inter-organizational transactions and balances have been eliminated in combination.

Use of estimates

The preparation of combined 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 combined financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting year. Actual results may differ from estimates under different assumptions or conditions.

Revenue recognition

Contributions, including unconditional promises to give, are recognized in the period received. Contributions received are considered to be available for use unless specifically restricted by the donor. Amounts received that are designated for a future period or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Unconditional promises to give are presumed to be time-restricted by the donor until received and are reported as temporarily restricted net assets. Wills are recorded as bequest revenue when the probate courts declare the wills valid and the proceeds are measurable.

Contributions are recorded at fair value, which is net of estimated uncollectible amounts. The Organization uses the allowance method to determine uncollectible unconditional pledges receivable. The allowance is based on experience as well as management’s analysis of specific pledges made, including such factors as prior collection history, type of contribution, and nature of fundraising activity. Contributions, including multi-year pledges, to be received after one year are recorded at the present value of the estimated future cash flows. Subsequent changes in this discount resulting from the passage of time are accounted for as contributions in subsequent years.

The Organization receives grant funding from federal agencies, state and local governments, and private foundations. Revenue is recognized only to the extent of expenditures under the terms of the grants. Grant awards not yet received are accrued to the extent unreimbursed expenses have been incurred for the purposes specified by an approved grant. Excess expenses incurred are borne by the Organization. Unexpended funds are returned to the grantors if required by the grant agreement. Some grant payments are received in advance of related expenditures. These amounts are reflected in the accompanying combined statements of financial position as deferred revenue.

All other revenues are recognized when earned.

Cash equivalents

Cash equivalents consist principally of money market funds and amounts held for operations in interest or non-interest bearing accounts with original maturities of three months or less, and exclude cash equivalents held temporarily for long-term investment purposes by investment custodians.

Pledges receivable

Pledges receivable are recorded as face value, which approximates the present value when computed using interest rates appropriate to the estimated length of time for realization. All pledges receivable are reviewed annually for collectability. Management determines the allowance for doubtful receivables by regularly evaluating individual receivables and considering donor's financial condition and current economic conditions. Management believes that pledges receivable are collectible.

Grants receivable

Grants receivable represent amounts due for expenditures incurred prior to year-end. Management evaluates all grants receivable on a periodic basis. Management believes that grants receivable are collectible.

Investments

The Organization records investments at fair value. Interest and dividend income is accounted for on the accrual basis. Realized and unrealized gains and losses are included in the accompanying combined statements of activities and change in net assets.

Property and equipment

The Organization's policy is to capitalize property and equipment purchases in excess of $500. Property and equipment is stated at cost. Expenditures for major additions and improvements are capitalized, and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment is retired, or otherwise disposed of, the cost and accumulated depreciation and amortization is removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation and amortization of property and equipment is computed on a straight-line basis over the estimated useful lives of five to forty years. Land is not depreciated or amortized. Property and equipment, if donated, is recorded at the approximate fair market value on the date of the donation.

Net assets

The Organization classifies net assets into three categories: unrestricted, temporarily restricted, and permanently restricted. All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor.

Unrestricted net assets - Unrestricted net assets are those net assets that are not subject to donor-imposed stipulations or board designations.

Temporarily restricted net assets - Temporarily restricted net assets generally result from net contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and the restriction removed by actions of the Organization pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying combined statements of activities as net assets released from restrictions. Temporarily restricted contributions with restrictions that are fulfilled in the same fiscal year that the contributions are received are reported in the accompanying combined statements of activities and change in net assets as unrestricted contributions.

Permanently restricted net assets - Permanently restricted net assets generally result from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Organization. Generally, the donors of these assets permit the Organization to use the income earned on related investments for general or specific purposes

The Organization's donor-restricted endowment is subject to the authoritative guidance issued by the Financial Accounting Standards Board (the FASB) on net asset classification of endowment funds, such that earnings on donor-restricted endowment funds are reflected as temporarily restricted net assets until spent.

Functional allocation of expenses

The costs of providing the programs and other activities have been summarized on a functional basis in the accompanying combined statements of activities and change in net assets. Certain program and support expenses, such as salaries, benefits and other administrative costs, are allocated among programs, management and general, special events, fundraising, and thrift shop based on management's analysis of these costs.

Income taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), except for income from activities not related to its tax-exempt purpose, which primarily includes rental income. No provision for income taxes was recorded during the years ended December 31, 2012 or 2011 since the Organization had no significant unrelated business income. The Organization is not a private foundation pursuant to section 509(a)(1) of the IRC.

In accordance with authoritative guidance on accounting for uncertainty in income taxes issued by the FASB, the Organization recognizes tax liabilities for uncertain tax positions when it is more likely than not that a tax position will not be sustained upon examination and settlement with various taxing authorities. Liabilities for uncertain tax positions are measured based upon the largest amount of benefit that is greater than 50% likely of being realized upon settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. The Organization is generally no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years ended December 31, 2008 and prior.

Valuation of long-lived assets

The Organization accounts for the valuation of long-lived assets under authoritative guidance issued by FASB, which requires that long-lived assets and certain intangible assets be reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. No indicators of impairment were identified for the years ended December 31, 2012 and 2011.

Fair value of financial instruments

The fair value of the Organization's cash and cash equivalents, grants receivable, pledges receivable, and accounts payable and accrued expenses approximates their carrying amounts due to the relatively short maturity of these items.

Concentrations of credit risk

The Organization's assets that are exposed to credit risk consist primarily of cash and cash equivalents, investments, pledges receivable and grants receivable. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Organization has never experienced any losses related to these balances. All non-interest bearing cash balances were fully insured at December 31, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning 2013, insurance coverage will revert to $250,000 per depositor at each financial institution, and the Organization's non-interest bearing cash balances may again exceed federally insured limits. Interest-bearing amounts on deposit in excess of federally insured limits at December 31, 2012 approximates $114,000. The Organization invests its excess cash and cash equivalents, and maintains its investments with high-quality financial institutions. The Organization performs yearly evaluations of these institutions for relative credit standing. Management regularly monitors the composition and maturities of investments. Investments are subject to market fluctuations that may materially affect the investment balances. Grants receivable consist primarily of amounts due from various agencies of the federal government, private foundations, or corporations. Pledges receivable consist mainly of amounts due from individuals, corporations and other not-for-profit organizations. Historically, the Organization has not experienced significant losses related to pledges and grants receivable and, therefore, believes that the credit risk related to these receivables is minimal.

Subsequent events

The Organization has evaluated its December 31, 2012 combined financial statements for subsequent events through July 26, 2013, the date the combined financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the combined financial statements.

Recently adopted authoritative guidance

In May 2011, the FASB issued guidance to amend the accounting and disclosure requirements on fair value measurements. The new guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. Additionally, the new guidance expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. Adoption of this new guidance did not have a material impact on the combined financial statements.

Reclassifications

Certain amounts in the 2011 combined financial statements have been reclassified to conform to the 2012 presentation. These reclassifications have no effect on the previously reported change in net assets.

NOTE 2 - PLEDGES RECEIVABLE

Pledges receivable consists of the following at December 31:

	2012	2011
Due in less than one year	$ 82,218	$ 202,948
Due in one to five years	0	720,000
	$ 82,218	$ 922,948

NOTE 3 - INVESTMENT INCOME

Investment income consists of the following for the years ended December 31:

	2012	2011
Interest and dividend income	$ 37,639	$ 27,821
Net unrealized and realized gains (losses) on investments	35,123	(18,672)
	$ 72,762	$ 9,149

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2012	2011
Buildings	$ 3,271,074	$ 3,271,074
Campus improvements	553,168	465,181
Land	410,000	410,000
Vehicles	344,175	243,966
Machinery and equipment	248,274	220,013
Computer equipment	149,324	89,853
Computer software	82,958	75,093
Furniture and fixture	61,227	59,386
Construction in progress	52,439	0
	5,172,639	4,834,566
Less: accumulated depreciation and amortization	(2,423,970)	(2,242,742)
	$ 2,748,669	$ 2,591,824

Depreciation and amortization expense on property and equipment aggregated $181,228 and $174,853 for the years ended December 31, 2012 and 2011, respectively.

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at December 31:

	2012	2011
Accounts payable	$ 171,847	$ 170,113
Accrued sick leave	161,400	167,264
Accrued payroll	148,375	133,418
Accrued rent	0	99,540
	$ 481,622	$ 570,335

Prior to January 2008, accrued sick leave for full-time employees was accumulated one day per month and pro-rated for part-time employees based on the actual hours worked. The Organization's policy also allowed the year-to-year accumulation of unused sick leave credit. Upon termination, employees are paid bi-weekly for unused sick leave in accordance with the Organization's policy. Beginning in January 2008, the Organization adopted a new sick leave policy that eliminated the yearly accumulation of future sick leave credits. The value of accumulated sick leave payable for sick leave credit accumulated prior to the change in policy is expected to be settled in accordance with the Organization's policy.

NOTE 6 - GRANTS REVENUE

Grants revenue consists of the following for the years ended December 31:

	2012	2011
Government:		
Head Start and Early Head Start programs, for reimbursement through Palm Beach County*	$ 1,199,037	$ 1,185,390
Federal, state and county funds received under subsidized Child Care Fund passed through from Family Central, Inc. for reimbursement of child care expenses for the economically disadvantaged	951,131	1,003,901
USDA Child Care Food Program for reimbursement through Florida Department of Education and Florida Department of Health	489,794	510,711
City of Boca Raton	43,800	43,800
Total government	2,683,762	2,743,802
Non-government:		
James Annenberg LaVea Charitable Trust	59,598	58,292
United Way	25,000	0
Schmidt Family Foundation	20,000	20,000
Libra Foundation	20,000	10,000
Morgan Stanley Foundation	15,000	15,000
Toy Industry Foundation	10,000	0
Sun Sentinel Children’s Fund	10,000	25,000
Boca Raton Regional Hospital	10,000	15,000
Jarden Consumer Solutions	8,000	8,000
Publix Supermarket Charities	8,000	8,000
Share Our Strength	7,827	9,537
Eugene and Marilyn Glick Foundation	7,500	0
Polly Annenberg LeVee	6,999	5,406
TJX foundation	5,000	0
Wells Fargo Foundation	5,000	10,500
BJ’s Charitable Foundation	5,000	0
Raymond George & Ruth Bitner Fisher Foundation	5,000	5,000
John & Nellie Bastien Memorial Foundation	5,000	5,000
Jefferson Memorial Foundation	3,500	0
The Jacob S. Zweig Foundation Inc.	2,500	3,000
Macy’s	2,500	2,500
George Wasserman Family Foundation	2,000	0
The EIS Foundation	1,000	2,000
Soroptimist International of Boca Raton	1,000	1,200
Allstate Foundation	1,000	1,000
Office Depot Foundation	1,000	300
Make A Difference Foundation	500	1,000
Comerica Bank	500	1,000
Bay Branch Foundation	500	0
The Harold & Faye Liss Foundation	0	20,000
Bank of America Summer Camp	0	10,000
Levitetz Family Foundation	0	10,000
Wells Fargo For Shoes	0	2,500
Coyne Family Foundation	0	1,500
The Daphne Seybolt Culpeper Memorial Foundation	0	1,000
Florida Marlins	0	500
Total non-government	248,924	252,235
Total grants	$ 2,932,686	$ 2,996,037

* During 2012 and 2011, the Organization received $378,789 and $374,583 of local matching funds which are included in total government grants.

NOTE 7 - EMPLOYEE BENEFIT PLAN

The Organization maintains a defined contribution 401(k) profit sharing plan (the Plan) covering all full-time employees fulfilling certain minimum age and service requirements. Under the Plan, eligible employees may defer a portion of their earnings up to the annual contribution limit allowed by the Internal Revenue Service. The Organization may contribute a discretionary matching contribution to the Plan. The Organization recorded matching contributions of $14,083 and $14,292 to the Plan for the years ended December 31, 2012 and 2011, respectively.

NOTE 8 - FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset between market participants in an orderly transaction on the measurement date. The market in which the reporting entity would sell the asset with the greatest volume and level of activity for the asset is known as the principal market. When no principal market exists, the most advantageous market is used. This is the market in which the reporting entity would sell the asset with the price that maximizes the amount that would be received or minimizes the amount that would be paid. Fair value is based on assumptions market participants would make in pricing the asset. Generally, fair value is based on observable quoted market prices or derived from observable market data when such market prices or data are available. When such prices or inputs are not available, the reporting entity should use valuation models.

The Organization’s assets recorded at fair value are categorized based on the priority of the inputs used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The inputs used in measuring fair value are categorized into three levels, as follows:

- **Level 1** - Inputs that are based upon quoted prices for identical instruments traded in active markets.

- **Level 2** - Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar investments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the investment.

- **Level 3** - Inputs that are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The following section describes the valuation methodologies the Organization uses to measure its assets at fair value.

Investments

In general, and where applicable, the Organization uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments. If quoted prices in active markets for identical assets are not available to determine fair value, then the Organization uses quoted prices for similar assets or inputs other than the quoted prices that are observable either directly or indirectly. These investments are included in Level 2.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value:

	Fair Value Measurements at December 31, 2012			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds				
Fixed income	$ 556,461	$ 0	$ 0	$ 556,461
Large cap growth	50,824	0	0	50,824
Large cap value	124,219	0	0	124,219
International equity	60,514	0	0	60,514
Small cap	32,816	0	0	32,816
Equity blend	5,914	0	0	5,914
Total mutual funds	830,748	0	0	830,748
Cash and money market accounts	910,731	0	0	910,731
International bond	0	9,999	0	9,999
Preferred stock	0	750	0	750
Total assets at fair value	$ 1,741,479	$ 10,749	$ 0	$ 1,752,228

	Fair Value Measurements at December 31, 2011			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds				
Fixed income	$ 545,074	$ 0	$ 0	$ 545,074
Large cap growth	68,634	0	0	68,634
Large cap value	57,547	0	0	57,547
International equity	32,227	0	0	32,227
Small cap	27,647	0	0	27,647
Equity blend	0	0	0	0
Total mutual funds	731,129	0	0	731,129
Common stocks				
Financial	2,617	0	0	2,617
Total common stocks	2,617	0	0	2,617
Cash and money market accounts	75,578	0	0	75,578
International bond	0	9,999	0	9,999
Preferred stock	0	750	0	750
Total assets at fair value	$ 809,324	$ 10,749	$ 0	$ 820,073

NOTE 9 - NET ASSETS

Unrestricted net assets

At December 31, 2012 and 2011, unrestricted net assets include $1,837,743 and $1,604,807, respectively, to be used to support the Organization's general operations, capital expenditures, and general operating deficits, subject to approval by the Executive Committee.

Temporarily restricted net assets

Temporarily restricted net assets consist of the following at December 31:

	2012	2011
Building renovations and improvements	$ 1,727,909	$ 1,751,328
Future building renovations	962,561	925,000
Phone and IT system	40,792	15,792
Pre-school scholarships	38,441	38,441
Music program	21,200	0
Children playground and other	0	9,354
Other	18,735	1,437
	$ 2,809,638	$ 2,741,352

At December 31, 2012 and 2011, building renovations and improvements at the West Campus totaling $712,745 and $696,048 (net of accumulated depreciation and amortization), respectively, are subject to an agreement with the donor that, should the Center cease to use the property for the purpose of operating a child care facility for low-income families, these assets would revert to the donor.

At December 31, 2012 and 2011, building renovations and improvements at the East Campus totaling $1,015,164 and $1,055,280 (net of accumulated depreciation and amortization), respectively, are built on land subject to a lease agreement. Under the terms of this agreement, these assets must be used to operate a child care facility for low-income families. Upon termination of the lease, these assets would revert to the lessor.

During the years ended December 31, 2012 and 2011, temporarily restricted net assets were released from donor restrictions as the Center incurred expenses satisfying the restricted purposes as follows:

	2012	2011
Building renovations and improvements	$ 75,858	$ 79,426
Future building renovations	52,439	16,277
Children playground and other	9,354	0
Music program	3,800	0
Phone and IT system	0	17,663
Endowment	0	13,420
Other	8,017	20
	$ 149,468	$ 126,806

Permanently restricted net assets

Land

Land at the West Campus totaling $410,000 at December 31, 2012 and 2011 is subject to an agreement with the donor that, should the Center cease to use the property for the purpose of operating a child care facility for low-income families, the land would automatically revert to the donor.

Endowment

Through June 2011, the Organization's endowment consisted of a donor-restricted endowment fund. On June 24, 2011, the Circuit Court of Palm Beach County terminated the endowment fund's underlying trust for the benefit of the Organization, which allowed the Organization to reclassify the endowment fund from permanently and temporarily restricted net assets to unrestricted net assets. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The donor's intent in contributing to the Organization's endowment fund was to provide an ongoing source of funding for the Center's libraries. The annual interest income from the underlying trust fund was used to maintain the libraries and for the purchase of books, other learning materials and supplies for the libraries. The investment committee of the Board of Directors was responsible for the oversight and management of the Organization’s endowment.

The Board of Directors of the Organization has interpreted the Florida Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the Organization to appropriate for expenditure or accumulate so much of an endowment fund as the Organization determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets of the endowment fund shall be donor-restricted until appropriated for expenditure by the Board of Directors. The Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Organization
(7) The investment policies of the Organization

The Organization had adopted investment and spending policies for endowment assets that attempted to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets included those assets of the donor-restricted fund that the Organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to maximize the total rate of return for assets consistent with prudent investment management, taking into consideration the potential for market appreciation, the safety of principal, and income.

To satisfy its long-term rate-of-return objectives, the Organization relied on a total return strategy in which investment returns were achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targeted a diversified asset allocation that placed a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The purpose of the Organization’s endowment fund was to achieve, over a full-market cycle, a real rate of return in interest and dividends.

The Organization’s Board of Directors had authorized an annual distribution of interest and dividends generated by the fund. Such distributions were made at senior management’s discretion and may be used in the current and/or in a subsequent fiscal year to cover a portion of Organization expenses not reimbursed by external project funding. Any portion of the principal that is distributed needed approval of the Organization’s Board of Directors.

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level the donor or UPMIFA required the Organization to retain as a fund of perpetual duration. When donor endowment deficits exist, they were classified as a reduction of unrestricted net assets. There were no such deficiencies as of December 31, 2011.

The following table presents the endowment-related balances and activities by net asset classification as of and for the years ended December 31, 2011:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, balance at December 31, 2010	$ 6,357	$ 154,070	$ 160,427
Investment income	7,063	0	7,063
Release from restriction	(13,420)	(154,070)	(167,490)
Endowment net assets, balance at December 31, 2011	$ 0	$ 0	$ 0

There were no endowments in 2012.

NOTE 10 - MAJOR GRANTORS AND DONOR

For the year ended December 31, 2012, two grantors accounted for 44% of the Organization's total revenue. For the year ended December 31, 2011, two grantors and one donor accounted for 57% of the Organization's total revenue. For the years ended December 31, 2012 and 2011, these grantors and donor accounted for 63% and 95%, respectively, of the Organization's grants and pledges receivable.

NOTE 11 - COMMITMENTS

The Organization's East Boca Raton thrift shop is leased under the terms of a noncancellable operating lease agreement which expires on March, 2014. The Organization used to sublease 50% of the premises. The sublease agreement was terminated in February 2012. The operating lease agreement provides for an annual escalation of 4% to 8% annually of the base rent. The Organization is also responsible for certain operating expenses. As of December 31, 2012, the following is a schedule by year of the future minimum lease payments required under the operating lease, which has an initial or remaining non-cancelable term in excess of one year:

Years ending December 31,	
2013	$ 45,000
2014	11,000
	$ 56,000

Rent expense for the thrift shop for each of the years ended December 31, 2012 and 2011 was $86,167 and $199,079, respectively. The Organization received sublease rental income of $8,295 and $99,539 for each of the years ended December 31, 2012 and 2011, respectively.

A portion of the property at the Organization's East Campus is leased from the City of Boca Raton for $1 per year. There are no defined lease terms or periods. The fair value of the operating land lease expense cannot be reasonably estimated and, as such, is not reflected in the accompanying combined financial statements.

NOTE 12 - CONTINGENCIES

Grants

The Organization participates in various federal-assisted grant programs that are subject to review and audit by the respective grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of the Organization. The Organization has not provided for any liabilities that may arise from such audits.

As the revenue from these federal assisted grant programs is significant to the combined financial statements, reduction or loss of funding from these grant programs may affect the Organization's ability to operate in its present form.

FLORENCE FULLER CHILD DEVELOPMENT CENTERS, INC. AND AFFILIATE

SUPPLEMENTAL SCHEDULE AND REPORTS REQUIRED BY OMB CIRCULAR A-133

YEAR ENDED DECEMBER 31, 2012

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

Board of Directors
Florence Fuller Child Development Centers, Inc. and Affiliate
Boca Raton, Florida

We have audited, 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, the combined financial statements of Florence Fuller Child Development Centers, Inc. and Affiliate, (the Organization), which comprise the combined statement of financial position as of December 31, 2012, and the related combined statements of activities and change in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated July 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Organization'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 combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's combined 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 the Organization's combined 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 combined 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*.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

Fort Lauderdale, Florida
July 26, 2013

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAMS AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Directors
Florence Fuller Child Development Centers, Inc. and Affiliate
Boca Raton, Florida

Report on Compliance for Each Major Federal Program

We have audited Florence Fuller Child Development Centers, Inc. and Affiliate's (the Organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2012. The Organization's major federal programs are identified in the summary of auditor's 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 each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 occurred. An audit includes examining, on a test basis, evidence about the Organization's 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 program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization 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 identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the Organization 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 the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal programs and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the Organization's 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 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 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 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. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

Fort Lauderdale, Florida
July 26, 2013

FLORENCE FULLER CHILD DEVELOPMENT CENTERS, INC. AND AFFILIATE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2012

Federal & Pass-through Grantor / Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures
U.S. Department of Health and Human Services			
Pass-through from Palm Beach County Head Start / Early Head Start Programs	93.600	FLOR0401	$ 820,248
U.S. Department of Agriculture			
Pass-through from Florida Department of Health Child and Adult Care Food Program	10.558	S - 649	489,794
Total expenditures of federal awards			$ 1,310,042

See independent auditor's report and notes to the schedule of expenditures of federal awards.

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Florence Fuller Child Development Centers, Inc. and Affiliate's (the Organization) and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic combined financial statements.

NOTE 2 - SUBRECIPIENTS

There were no federal awards provided to subrecipients during the year ended December 31, 2012.

NOTE 3 - RECONCILIATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE COMBINED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

The following schedule is a reconciliation of total expenditures as shown on the Schedule to the revenue shown in the accompanying combined statement of activities and change in net assets for the year ended December 31, 2012:

Total expenditures per Schedule	$ 1,310,042
Add: non-federal government grants (relates to state, county and city grants)	1,373,720
Add: non-government grants	248,924
Total grants revenue per the combined statement of activities and change in net assets	$ 2,932,686

FLORENCE FULLER CHILD DEVELOPMENT CENTERS, INC. AND AFFILIATE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2012

SECTION I - SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Combined Financial Statements

Type of auditor's 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 combined financial statements noted? ______ Yes __X__ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ______ Yes __X__ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ______ Yes __X__ None reported

Type of auditor's 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 OMB Circular A-133? ______ Yes __X__ No

Identification of major programs:

Federal CFDA Number	Name of Federal Program or Cluster
93.600	Head Start Cluster
10.558	Child and Adult Care Food Program

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

Auditee qualified as low-risk auditee? __X__ Yes ______ No

SECTION II - FINANCIAL STATEMENT FINDINGS

There were no financial statement findings reported during the 2012 audit.

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs reported during the 2012 audit

FLORENCE FULLER CHILD DEVELOPMENT CENTERS, INC. AND AFFILIATE

SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2012

Audit Reference Number 2011-01 - Eligibility determination process

During our 2011 testing, we noted two of 93 children tested were improperly classified in the wrong income category. In the first instance, the child was categorized as “reduced” but review of the eligibility guidelines, family size and family income of that child noted the child should be in the “non-needy” category. In the second instance, the child was categorized as “free” but review of the eligibility guidelines, family size and family income of that child noted the child should be in the “non-needy” category (CFDA #10.558 and pass through EIN: S-649). The improper classification of these two children resulted in an overstatement of the reimbursement claimed of $1,122. In addition, we calculated the likely questioned costs by projecting known questioned costs identified above to the entire population, noting likely questioned costs to be $12,004. The Organization did not adequately review the enrollment process to ensure the applicants were enrolled under the proper income classification.

During the year ended December 31, 2012, management reviewed all forms and verified all other forms were correctly categorized. Management also implemented a corrective action plan which added a third layer of review to the process. The Registrar reviews the eligibility form and approves it. The form goes to the Fiscal Analyst to review and approve, and then the Center Director reviews and approves the form to confirm the correct income category has been assigned.

Audit Reference Number 2011-02 - Cash management process

During our 2011 testing, we noted 17 of 60 transactions in which payment to the vendor did not occur by the earlier of the payment due date or within five business days after receipt of the CCFP reimbursement. We noted that while invoices were paid by the invoice due date, they were not necessarily paid within five days of CCFP reimbursement. Management did not adequately understand the cash management provisions of the award agreement. The Organization was paying vendors by the invoice due date but misunderstood the provision in the agreement requiring the *earlier of* the invoice due date or within five days of the CCFP reimbursement. Noncompliance with the cash management requirements of OMB Circular A-133 and the grant agreement could result in certain costs being disallowed for reimbursement. This did not result in any questioned costs.

During the year ended December 31, 2012, management submitted a Corrective Action Plan to the state auditor. Under the Organization’s new policy, once notification and verification of reimbursement is received, the Chief Financial Officer (CFO) instructs Accounts Payable to immediately pay any outstanding invoices for the reimbursement period. The CFO also verifies in the general ledger that all invoices for the reimbursement period are paid.