

ORANGE COUNTY HEAD START, INC.

SANTA ANA, CALIFORNIA

**FINANCIAL STATEMENTS
AND
SINGLE AUDIT REPORT**

JUNE 30, 2007

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Head Start, Inc.
Santa Ana, California

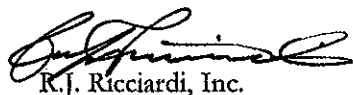
We have audited the accompanying statement of financial position of Orange County Head Start, Inc. as of June 30, 2007, and the related statement of activities and statement of cash flows for the fiscal year then ended. These financial statements are the responsibility of Orange County Head Start, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from Orange County Head Start, Inc.'s 2006 financial statements and, in our report dated December 15, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orange County Head Start, Inc. as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2007, on our consideration of Orange County Head Start, Inc.'s internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Orange County Head Start, Inc. taken as a whole. The supplementary data in schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


R.J. Ricciardi, Inc.

Certified Public Accountants

San Rafael, California
December 20, 2007

Orange County Head Start, Inc.
STATEMENTS OF FINANCIAL POSITION
 June 30, 2007
 (With Comparative Totals for June 30, 2006)

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Current assets:		
Cash	\$ 911,807	\$ 626,880
Grants receivable	1,707,879	1,626,208
Other receivables	65,397	64,523
Prepaid expenses	109,501	262,236
Deposits	<u>26,632</u>	<u>26,632</u>
 Total current assets	 <u>\$ 2,821,216</u>	 <u>\$ 2,606,479</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 1,965,763	\$ 1,356,580
Accrued expenses	260,365	885,907
Accrued vacation	279,674	237,186
Advances - other grants	2,716	48,979
Delegate advances	<u>112,619</u>	<u>-</u>
 Total current liabilities	 2,621,137	 2,528,652
 Unrestricted net assets	 <u>200,079</u>	 <u>77,827</u>
 Total liabilities and net assets	 <u>\$ 2,821,216</u>	 <u>\$ 2,606,479</u>

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

Orange County Head Start, Inc.
STATEMENTS OF ACTIVITIES

Exhibit A

For the Year Ended June 30, 2007

(With Comparative Totals for the Year Ended June 30, 2006)

	<u>2007</u>	<u>2006</u>
Revenues:		
Head Start grant	\$ 30,842,434	\$ 30,893,694
Other grant	167,962	42,947
Child care food program	1,316,937	1,366,766
Interest income	8,527	215
In-kind	3,373,479	4,159,168
	<u>35,709,339</u>	<u>36,462,790</u>
Total revenues		
Expenses:		
Personnel	17,282,078	17,367,259
Fringe benefits	6,622,833	7,054,814
Contractual	1,104,337	1,177,383
Travel and transportation	448,496	416,286
Space	5,510,491	6,364,671
Supplies	2,615,335	2,183,560
Equipment	243,376	372,402
Other	1,311,680	1,412,126
Program improvement	430,361	82,246
Prop 10 grants	18,100	28,503
	<u>35,587,087</u>	<u>36,459,250</u>
Total expenses		
Change in net assets	122,252	3,540
Net assets, beginning of period	<u>77,827</u>	<u>74,287</u>
Net assets, end of period	<u>\$ 200,079</u>	<u>\$ 77,827</u>

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

Orange County Head Start, Inc.
STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2007
(With Comparative Totals for the Year Ended June 30, 2006)

Exhibit B

	2007	2006
Cash flows from operating activities:		
Change in net assets	\$ 122,252	\$ 3,540
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Changes in certain assets and liabilities:		
Grants receivable	(81,671)	(460,599)
Other receivables	(874)	(4,390)
Prepaid expenses	152,735	(254,676)
Deposits	-	6,081
Accounts payable	609,183	374,169
Accrued expenses	(625,542)	87,908
Accrued vacation	42,488	(210,759)
Advances - CCFP	-	(245,312)
Advances - other grants	(46,263)	(365)
Delegate advances	112,619	(177,910)
Net cash provided by (used in) operating activities	284,927	(882,313)
Net increase (decrease) in cash	284,927	(882,313)
Cash and cash equivalents, beginning of period	626,880	1,509,193
Cash and cash equivalents, end of period	\$ 911,807	\$ 626,880

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

Orange County Head Start, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 - GENERAL

A. Organization

The Head Start Program, administered by Orange County Head Start, Inc. (the Organization), is a comprehensive early childhood development program for economically disadvantaged preschool children and their families in the Orange County area. The Head Start Program is divided into two program areas, each of which is accounted for separately in the books of account and are identified in the grant documents.

B. Program Services

Head Start and Early Head Start - The program promotes school readiness by enhancing the social and cognitive development of low-income children through the provision of comprehensive health, educational, nutritional, social and other services; to involve parents in their children's learning and to help parents make progress toward their educational, literacy and employment goals. Head Start also emphasizes the significant involvement of parents in the administration of their local Head Start programs.

Training and Technical Assistance Program - The program provides training and technical assistance to the Organization's program staff.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The financial statements and fiscal records of the Organization are prepared on the accrual basis of accounting and, therefore, include all support and revenues when earned and all expenses when incurred, regardless of whether these support and revenues or expenses were received or paid as of the end of a fiscal period. Grants are recognized as support when earned in accordance with the terms of each grant or agreement.

B. Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization 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.

C. Unrestricted Net Assets

The unrestricted net assets account for resources over which the governing board has discretionary control to use in carrying on the general operations of the Organization. Fundraising for general or specific purposes is accounted for in this fund.

Orange County Head Start, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Allocation of Expenses

Directly identifiable expenses are charged to program services. Expenses related to more than one function are charged to program services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid accounts available for current use with an initial maturity of three months or less to be cash.

F. Property and Equipment

Assets acquired through grant resources are considered to be owned by the grantor while such assets are in use under the funded program, or while they are being used for a similar program. Any disposition of restricted assets or any funds derived therefrom are subject to grant regulations. Total fixed assets acquired through grant resources were \$6,428,301. At June 30, 2007 and 2006, the property and equipment use allowance recognized for the year was \$428,553 and \$427,689, respectively.

The aggregate cost of assets over \$5,000 acquired through unrestricted grant resources is capitalized in the statement of financial position. Fixed assets are stated at cost and depreciation is computed on the straight-line basis of accounting over the estimated useful lives of the assets.

G. Use of Estimates

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

H. Commitments and Contingencies

The Organization participates in the federally assisted Head Start Grant Program. This Program is subject to compliance requirements established by the grantor. Failure to meet such compliance requirements could result in a liability for reimbursement of grant funds. Management believes there is no liability for such reimbursement.

I. Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Organization carries commercial insurance.

Orange County Head Start, Inc.
NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

J. Donated Services

Donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers also provided parent services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under SFAS No. 116 were not met.

NOTE 3 - INCOME TAXES

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is also exempt from California franchise taxes under Section 23701(d) of the Revenue and Taxation code and, therefore, has made no provision for Federal or California income taxes. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code.

NOTE 4 - RISK CONCENTRATION

Approximately 86% of the funding for the Organization comes from the U.S. Department of Health and Human Services. At June 30, 2007 and 2006, amounts due from this Department in accounts receivable were \$1,344,940 and \$1,281,259, respectively.

NOTE 5 - CASH AND DEPOSITS

At June 30, 2007 and 2006, cash on hand was \$911,807 and \$626,880 with corresponding bank balances of \$1,321,302 and \$1,274,144, respectively. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. The remaining balances are collateralized by the pledging financial institution, but not in the Organization's name. It is the opinion of management that the solvency of the financial institution is not of particular concern at this time. The Organization is required to maintain a separate bank account for the State Child Care Food Program.

NOTE 6 - GRANTS RECEIVABLE

The balance of grants receivable represents amounts due from the following funding sources:

	2007	2006
Head Start	\$ 1,344,940	\$ 1,281,259
Child Care Food Program	346,367	344,949
Total grants receivable	\$ 1,691,307	\$ 1,626,208

The Organization has not accrued a loss for allowances for uncollectible receivables since it is the opinion of management that it is highly probable that all receivables will be collected.

Orange County Head Start, Inc.
NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

NOTE 7 - LEASES

The Organization has entered into several leases for classrooms and office space. The terms of the leases for some centers are generally for one year or less, have renewal options, and are concurrent with the fiscal year. For the leases with remaining lease terms over one year as of June 30, 2007, the future minimum payments are as follows:

<u>For the Year Ended June 30</u>	<u>Main Office</u>	<u>Centers</u>	<u>Total</u>
2008	\$ 395,035	\$ 62,830	\$ 457,865
2009	395,035	29,716	424,751
2010	395,035	29,716	424,751
2011	395,035	29,716	424,751
2012	253,003	29,716	282,719
Thereafter	-	59,424	59,424
Total	<u>\$ 1,833,143</u>	<u>\$ 241,118</u>	<u>\$ 2,074,261</u>

NOTE 8 - EMPLOYEE RETIREMENT PLANS

Qualified administrative employees and employees of the sites operated by the Head Start Program are covered under a retirement plan whereby the Head Start Program contributes an amount equal to 7 percent of gross salaries of non-Union staff members into a tax sheltered annuity program. Under the terms of the current Union contract, the Head Start Program contributes an amount equal to 3.5 percent of gross salaries of Union members into the tax sheltered annuity. In addition, the Program matches Union members' voluntary contributions dollar-for-dollar up to an additional 3.5 percent of their gross salaries.

Union members are fully vested in their retirement balances that existed prior to the start of the current Contract. Current contributions to the plan on behalf of Union members follow a vesting schedule that reaches full vesting after four years. All eligible non-Union employees are fully vested in the plan. At June 30, 2007 and 2006, total retirement costs for the year totaled \$720,448 and \$847,400, respectively.

Qualified employees of those delegate agencies electing to provide for employee retirement are covered by various contributory retirement plans. The Head Start Program reimburses the delegate agencies for contributions made on behalf of qualifying employees.

NOTE 9 - FUNCTIONAL EXPENSES

Directly identifiable expenses are charged to program services. Expenses related to more than one function are charged to program services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization's program.

Functional expenses for the fiscal years ended June 30 are as follows:

	<u>2007</u>	<u>2006</u>
Program service	\$ 31,405,229	\$ 32,690,880
Management and general	4,181,858	3,768,370
Total expenses	<u>\$ 35,587,087</u>	<u>\$ 36,459,250</u>

Orange County Head Start, Inc.
NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

NOTE 10 - IN-KIND

Values assigned to in-kind contributions and the related expenses are based on federal guidelines. In accordance with those guidelines, values are based upon estimated area-wide averages for purchased services, facilities, or supplies of a similar type. In-kind contributions and expenses are recorded when used in the program and are not carried forward. In-kind contributions were \$3,373,479 and \$4,159,168 for the years ended June 30, 2007 and 2006 respectively.

In addition, donated parent and volunteer services with an estimated value of \$5,033,739 and \$4,370,613 for the years ended June 30, 2007 and 2006, respectively, were not recognized in the financial statements as they did not meet the criteria for recognition under SFAS No. 116.

A summary of in-kind received and reported for the years ended June 30 are as follows:

	<u>2007</u>	<u>2006</u>
In-kind meeting criteria of SFAS 116 and included in the Statement of Activities under various expense categories:		
Personnel	\$ 93,343	\$ 19,730
Contractual	68,120	227,491
Space	2,708,278	3,462,324
Supplies	75,185	21,934
Use allowance of Federally purchased equipment	<u>428,553</u>	<u>427,689</u>
Total reported on Statement of Activities - Exhibit A and Schedule of Activities by Grant - Schedule 1	3,373,479	4,159,168
Additional in-kind meeting Federal guidelines	<u>5,033,739</u>	<u>4,370,613</u>
	8,407,218	8,529,781
Less use allowance of Federally purchased equipment not allowed as in-kind match toward Federal award	<u>(428,553)</u>	<u>(427,689)</u>
Total in-kind reported on Head Start Schedule of Expenses Compared to Budget - Schedule 4	<u>\$ 7,978,665</u>	<u>\$ 8,102,092</u>

Orange County Head Start, Inc.
SCHEDULE OF ACTIVITIES BY GRANT
 For the Year Ended June 30, 2007

	Head Start					Total
	Head Start	In-kind	Total	CCFP	Prop 10	
Revenues:						
Head Start grant	\$ 30,842,434	\$ -	\$ 30,842,434	\$ -	\$ -	\$ 30,842,434
Other grant	-	-	-	-	17,820	150,142
Child care food program	-	-	-	1,316,937	-	1,316,937
Interest income	8,527	-	8,527	-	-	8,527
In-kind	-	3,373,479	3,373,479	-	-	3,373,479
Total revenues	30,850,961	3,373,479	34,224,440	1,316,937	17,820	35,709,339
Expenses:						
Personnel	17,188,735	93,343	17,282,078	-	15,506	17,297,584
Fringe benefits	6,622,833	-	6,622,833	-	2,283	6,625,116
Contractual	1,036,217	68,120	1,104,337	-	-	1,114,337
Travel and transportation	448,496	-	448,496	-	311	451,170
Space	2,802,213	2,708,278	5,510,491	-	-	5,510,491
Supplies	1,223,213	75,185	1,298,398	1,316,937	-	2,616,690
Equipment	243,376	-	243,376	-	-	243,376
Other	855,517	428,553	1,284,070	-	-	1,297,962
Program improvement	430,361	-	430,361	-	-	430,361
Total expenses	30,850,961	3,373,479	34,224,440	1,316,937	18,100	35,587,087
Change in net assets	-	-	-	-	(280)	122,532
Net assets, beginning of period	-	-	-	-	-	77,827
Net assets, end of period	\$ -	\$ -	\$ -	\$ -	\$ (280)	\$ 200,359

Note:

Volunteer in-kind in the amount of \$5,033,739 was not recorded in the financial statements because it did not meet the criteria for recognition under SFAS No. 116.

Orange County Head Start, Inc.
SCHEDULE OF EXPENSES BY CATEGORY
 For the Year Ended June 30, 2007

	Personnel	Fringe Benefits	Contractual	Travel & Transportation	Space	Supplies	Equipment	Other	Program Improvement	Total
Administration expenses:										
Executive	\$ 296,010	\$ 78,474	\$ 54,481	\$ 4,519	\$ 4,945	\$ 14,628	\$ 560	\$ 40,235	\$ -	\$ 493,852
Governance	143,538	39,498	2,115	3,925	1,405	6,199	-	71,147	-	267,825
Quality Systems	281,702	73,459	95,745	5,037	1,478	10,092	-	38,155	-	505,668
Human Resources	238,787	72,111	51,729	1,018	464	6,347	-	78,068	-	448,524
Accounting	356,109	91,984	129,360	1,802	2,323	11,013	-	1,792	-	594,383
Administrative - MIS	163,090	38,849	7,426	1,318	200,376	45,851	43,392	25,826	-	526,128
Administrative - Facilities	226,958	68,416	63,761	3,309	644,036	22,343	7,418	145,764	163,473	1,345,478
Total administration expenses	1,706,194	462,791	404,617	20,926	855,027	116,473	51,370	400,987	163,473	4,181,858
Program expenses:										
Education	371,033	98,135	18,906	2,674	153,107	14,177	-	1,983	-	660,015
Disabilities	200,771	58,000	-	2,276	32,516	5,788	-	2,754	-	302,105
Health	326,052	105,082	1,343	5,315	1,213	13,895	28	7,277	-	460,205
Mental Health	125,576	65,760	33,350	3,134	6,843	816	-	4,088	-	239,567
Social Services	1,137,512	449,625	-	18,885	36,927	37,304	2,938	15,752	-	1,698,943
Early Head Start	393,667	164,707	10,554	8,731	48,478	60,024	3,222	13,893	-	703,276
Food Services/Nutrition	623,985	297,757	25,975	34,995	101,508	6,641	4,438	(65,645)	-	1,029,654
Training and Technical Assistance	-	-	50,997	32,677	-	718	-	117,038	-	201,430
Total program expenses	3,178,596	1,239,066	141,125	108,687	380,592	139,363	10,626	97,140	-	5,295,195
Centers' expenses	7,147,402	3,224,399	383,570	281,234	3,188,416	371,935	84,008	50,033	-	14,730,997
Delegate Agency expenses:										
Council of Affiliated Negro Organization (CANO)	798,182	282,099	38,181	16,615	309,910	35,510	19,916	77,038	-	1,577,451
Orange Children & Parents Together (OCPT)	1,466,184	427,199	37,970	2,806	137,386	222,638	44,683	61,043	21,850	2,421,759
Anaheim City School District	884,354	276,208	5,783	1,168	-	58,971	1,845	72,211	163,485	1,464,025
City of La Habra	505,402	105,920	32,574	8,869	50,590	48,602	6,528	22,337	-	780,822
Sanza Ana Unified School District	1,227,857	497,443	24,500	6,052	24,527	216,419	15,892	23,432	81,553	2,117,675
Irvine Head Start	367,907	107,708	2,365	2,139	-	13,432	8,508	51,296	-	553,555
In-kind	-	-	33,652	-	564,043	75,055	-	428,553	-	1,101,303
Total Delegate Agency expenses	5,249,886	1,696,577	175,025	37,649	1,086,456	670,627	97,372	735,910	266,888	10,016,390
Total Head Start expenses	17,282,078	6,622,833	1,104,337	448,496	5,510,491	1,298,398	243,376	1,284,070	430,361	34,224,440
Total CCFP expenses	-	-	-	-	-	1,316,937	-	-	-	1,316,937
Prop 10 - UCI Project	15,506*	2,283	-	311	-	-	-	-	-	18,100
Moskowitz Foundation	-	-	-	2,363	-	1,056	-	6,571	-	9,990
Kaiser grant	-	-	-	-	-	299	-	7,321	-	7,620
CDA Migrate HS program	-	-	10,000	-	-	-	-	-	-	10,000
Miscellaneous donations	-	-	-	-	-	-	-	-	-	-
Total expenses	\$ 17,297,584	\$ 6,625,116	\$ 1,114,337	\$ 451,170	\$ 5,510,491	\$ 2,616,690	\$ 243,376	\$ 1,297,962	\$ 430,361	\$ 35,587,087

Note:
 Volunteer in-kind in the amount of \$5,033,739 was not recorded in the financial statements because it did not meet the criteria for recognition under SFAS No. 116.

Orange County Head Start, Inc.
SCHEDULE OF EXPENSES BY HEAD START CENTERS
 For the Year Ended June 30, 2007

	Personnel	Fringe Benefits	Contractual	Travel & Transportation	Space	Supplies	Equipment	Other	Total
Expenses by Center:									
Head Start Home Base	\$ 73,423	\$ 69,036	\$ -	\$ 4,071	\$ 3,812	\$ 4,047	\$ 1,116	\$ 217	\$ 155,722
Costa Mesa	310,902	144,623	4,276	78,909	37,260	14,248	4,640	3,005	597,863
Placentia	421,368	193,426	1,045	7,150	90,113	21,123	4,063	1,544	739,832
Capo	275,081	125,560	13,335	6,117	44,189	25,556	7,704	1,198	498,740
D.L. Wood	340,400	157,832	5,830	4,325	62,922	16,321	4,035	3,187	594,852
Fullerton	318,838	148,650	33,373	4,978	77,082	19,900	897	2,161	605,879
Ted Fisher	820,933	390,863	-	103,577	218,522	42,077	7,072	6,118	1,589,162
Brea	240,811	108,214	4,313	3,268	43,827	7,942	2,436	3,030	413,841
Hawaiian Gardens	307,193	135,568	8,756	16,256	50,772	14,304	4,071	2,050	538,970
Buena Park	299,193	141,247	47,801	3,510	32,541	15,603	4,238	1,677	545,810
Lord Baden Powell	404,626	169,566	40,862	3,552	36,377	22,646	3,713	2,481	683,823
Walter	281,207	125,983	698	4,062	35,526	13,795	4,082	2,038	467,391
Jean Hardy	429,431	200,855	-	8,643	33,721	25,366	4,343	3,932	706,291
Franklin	289,565	134,648	1,289	3,360	22,989	13,976	5,176	4,341	475,344
Evelyne Lobo Villegas	234,199	102,644	-	3,627	53,686	13,373	5,526	1,138	414,193
Centralia	284,341	126,654	17,795	4,832	52,514	11,225	4,378	2,599	504,338
Matt Kline	399,426	182,532	32,796	4,545	41,823	15,408	2,956	1,511	680,997
KIDS	366,607	153,601	48,550	4,621	43,466	10,360	2,288	1,600	631,093
Glenn L. Martin	323,797	144,656	27,633	3,297	22,252	31,220	3,867	3,035	559,757
Schwitzer	280,197	132,918	6,567	3,509	21,835	10,677	3,614	1,657	460,974
Topaz	352,521	135,323	54,183	5,025	18,952	22,638	3,793	1,514	593,949
In-kind	93,343	-	34,468	-	2,144,235	130	-	-	2,272,176
Total Centers' expenses	\$ 7,147,402	\$ 3,224,399	\$ 383,570	\$ 281,234	\$ 3,188,416	\$ 371,935	\$ 84,008	\$ 50,033	\$ 14,730,997

Note:
 Volunteer in-kind in the amount of \$5,033,739 was not recorded in the financial statements because it did not meet the criteria for recognition under SFAS No. 116.

Orange County Head Start, Inc.
HEAD START SCHEDULE OF EXPENSES COMPARED TO BUDGET
 For the Year Ended June 30, 2007

Schedule 4

	Budget	Actual	Actual Over (Under) Budget
Expenses:			
Personnel	\$ 18,106,887	\$ 17,188,735	\$ (918,152)
Fringe benefits	7,615,788	6,622,833	(992,955)
Contractual	682,758	985,220	302,462
Travel	352,846	415,819	62,973
Space	2,210,070	2,802,213	592,143
Supplies	622,184	1,222,495	600,311
Equipment	189,107	243,376	54,269
Other	629,667	738,479	108,812
Program improvement	433,550	430,361	(3,189)
Total	30,842,857	30,649,531	(193,326)
Training and technical assistance:			
Contractual	69,644	50,997	(18,647)
Travel	32,677	32,677	-
Supplies	718	718	-
Other	186,693	117,038	(69,655)
Total	289,732	201,430	(88,302)
Total federal funds	31,132,589	30,850,961	(281,628)
In-Kind Match-Head Start	7,783,147	7,978,665	195,518
Total expenses	\$ 38,915,736	\$ 38,829,626	\$ (86,110)

Schedule 5

Orange County Head Start, Inc.
SCHEDULE OF REPORTED AND ALLOWED MEALS

Agreement #1453-0J
 For the Year Ended June 30, 2007

	July '06		August '06		September '06		October '06		November '06		December '06		Total for 1st Half of Fiscal Year		
	Reported and Allowed	Earned Reimbursement	Reported and Allowed	Earned Reimbursement	Reported and Allowed	Earned Reimbursement	Reported and Allowed	Earned Reimbursement	Reported and Allowed	Earned Reimbursement	Reported and Allowed	Earned Reimbursement	Reported and Allowed	Earned Reimbursement	Food Service Rate
Breakfast															
Total	3,245		4,674		20,680		24,495		19,559		12,600		15,956 \$	107,961	1,310
Free	3,137	\$ 4,109	4,518	\$ 5,919	19,991	\$ 26,188	23,679	\$ 31,019	18,908	\$ 24,770	12,180	\$ 27,770	180	1,151	1,010
Reduced	39	39	56	57	246	248	345	348	276	279	178	279	58	408	0,240
Base	69	17	100	24	443	106	471	113	375	90	242	90	58	408	0,240
Lunch															
Total	3,325		4,851		34,534		41,680		33,704		20,783		48,218	322,207	2,400
Free	3,214	7,714	4,689	11,254	33,384	80,122	40,292	96,702	32,582	78,197	20,091	950	586	3,729	2,000
Reduced	40	79	58	116	411	823	588	1,175	475	950	293	149	92	634	0,230
Base	71	16	104	24	739	170	800	183	647	149	399	149	92	634	0,230
Supper															
Total	-		-		232		569		467		263		610	3,550	2,400
Free	-		-		224		550		451		254		1,082	8	44
Reduced	-		-		3		8		7		4		14	44	2,000
Base	-		-		5		11		9		5		2	7	0,230
Supplement															
Total	2,395		3,648		17,996		22,085		17,892		10,674		6,707	46,936	0,650
Free	2,315	1,505	3,527	2,295	17,397	11,308	21,352	13,879	17,298	11,244	10,319	81	48	320	0,320
Reduced	29	9	43	14	214	68	311	100	252	21	151	81	48	89	0,060
Base	51	3	78	5	385	23	422	25	342	21	204	21	12	89	0,060

Schedule 6

Orange County Head Start, Inc.
SCHEDULE OF REPORTED AND ALLOWED MEALS
 Agreement #1453-0J
 For the Year Ended June 30, 2007

	January '07		February '07		March '07		April '07		May '07		June '07		Total for 2nd Half of Fiscal Year		Total		
	Reported and Allowed	Earned Reimbursement	Reported and Allowed	Earned Reimbursement	Reported and Allowed	Earned Reimbursement	Reported and Allowed	Earned Reimbursement	Reported and Allowed	Earned Reimbursement	Reported and Allowed	Earned Reimbursement	Reported and Allowed	Earned Reimbursement	Earned Reimbursement	Earned Reimbursement	Food Service Rate
Breakfast																	
Total	21,440	\$ 19,553	23,739	\$ 22,948	17,227	\$ 16,653	23,623	10,073	29,915	\$ 28,836	12,757	\$ 12,738	146,463	\$ 254,424	1,310		
Free	20,726	\$ 18,902	22,948	\$ 22,948	16,653	\$ 16,653	22,836	9,738	29,915	\$ 29,915	12,757	\$ 12,738	146,463	\$ 254,424	1,310		
Reduced	302	276	335	279	243	243	333	142	336	143	143	1,646	2,797	1,010			
Base	412	99	456	90	331	331	454	193	109	109	46	532	940	0,240			
Lunch																	
Total	37,239	\$ 33,725	41,196	\$ 41,196	30,063	\$ 30,063	40,915	15,079	59,553	\$ 59,553	34,984	\$ 34,984	459,881	\$ 782,088	2,400		
Free	35,999	\$ 32,602	39,824	\$ 39,824	29,062	\$ 29,062	39,553	14,577	59,553	\$ 59,553	34,984	\$ 34,984	459,881	\$ 782,088	2,400		
Reduced	525	476	581	932	424	424	577	213	1,154	426	426	5,592	9,321	2,000			
Base	715	164	791	149	577	577	785	289	181	181	66	875	1,509	0,230			
Supper																	
Total	520	\$ 540	611	\$ 611	417	\$ 417	558	155	558	\$ 558	359	\$ 359	6,498	\$ 10,048	2,400		
Free	503	\$ 522	591	\$ 591	403	\$ 403	539	150	539	\$ 539	359	\$ 359	6,498	\$ 10,048	2,400		
Reduced	7	8	9	16	6	6	8	2	16	4	4	80	124	2,000			
Base	10	10	11	2	8	8	11	3	3	1	1	13	20	0,230			
Supplement																	
Total	20,073	\$ 18,212	22,358	\$ 22,358	16,470	\$ 16,470	22,266	8,954	22,266	\$ 22,266	5,627	\$ 5,627	68,080	\$ 115,016	0,650		
Free	19,407	\$ 17,607	21,616	\$ 21,616	15,923	\$ 15,923	21,527	8,657	21,527	\$ 21,527	5,627	\$ 5,627	68,080	\$ 115,016	0,650		
Reduced	283	257	315	82	232	232	314	126	100	100	40	40	488	808	0,320		
Base	383	23	427	21	315	315	425	171	26	26	10	10	125	214	0,060		
Federal reimbursement															1,177,309		
State reimbursement															82,451		
Cash in lieu															57,189		
Differences															(12)		
Total															\$ 1,316,937		

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

Board of Directors
Orange County Head Start, Inc.
Santa Ana, California

We have audited the financial statements of Orange County Head Start, Inc. as of and for the year ended June 30, 2007, and have issued our report thereon dated December 20, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the U.S. Comptroller General.

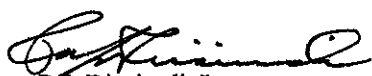
Internal Control Over Financial Reporting

In planning and performing our audit, we considered Orange County Head Start, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on Orange County Head Start, Inc.'s financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Orange County Head Start, Inc. in a separate letter dated December 20, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Orange County Head Start, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*, issued by the U.S. Comptroller General.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
December 20, 2007

INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Orange County Head Start, Inc.
Santa Ana, California

Compliance

We have audited the compliance of Orange County Head Start, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Orange County Head Start, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Expenditures of Federal and State Awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Orange County Head Start, Inc.'s management. Our responsibility is to express an opinion on Orange County Head Start, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 Orange County Head Start, Inc.'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. Our audit does not provide a legal determination on Orange County Head Start, Inc.'s compliance with those requirements.

In our opinion, Orange County Head Start, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

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


A *control deficiency* in Orange County Head Start, Inc.'s internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Orange County Head Start, Inc.'s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
December 20, 2007

Orange County Head Start, Inc.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Year Ended June 30, 2007

Federal Program	Federal CFDA Number	Grant Number	Grant Amount	Revenue Recognized	Expenditures
U.S. Department of Health and Human Services: Head Start	93.600	09CH0007/26	\$ 31,132,589	\$ 34,224,440	\$ 34,224,440
U.S. Department of Agriculture: Pass through State of California Department of Education: Child Care Food Program	10.558	30-14530J	N/A	1,234,486	1,234,486
Total federal awards				<u>\$ 35,458,926</u>	<u>\$ 35,458,926</u>
State Program State of California Department of Education: Child Care Food Program	N/A	30-14530J	N/A	82,451	82,451
Amount Provided to Sub-recipients U.S. Department of Health and Human Services: Council of Affiliated Negro Organization (CANO) Orange Children & Parents Together (OCPT) Anaheim City School District City of La Habra Santa Ana Unified School District Irvine Head Start	93.600 93.600 93.600 93.600 93.600 93.600	09CH0007/26 09CH0007/26 09CH0007/26 09CH0007/26 09CH0007/26 09CH0007/26	N/A N/A N/A N/A N/A N/A	1,577,451 2,421,759 1,464,025 780,822 2,117,675 553,355	1,577,451 2,421,759 1,464,025 780,822 2,117,675 553,355
Total sub-recipients expenses				<u>\$ 8,915,087</u>	<u>\$ 8,915,087</u>

Note A - Significant Accounting Policies:
 The Schedule of Expenditures of Federal and State Awards includes the federal grant activity of Orange County Head Start, 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, *Audit 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 financial statements.

Orange County Head Start, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2007

Section I - Summary of Auditors' Results

Financial Statements

1. The auditors' report is unqualified.
2. With respect to internal control over financial reporting:
 - A. There were no material weaknesses identified.
 - B. There were no significant deficiencies identified that were not considered to be material weaknesses.
 - C. There were no instances of noncompliance material to financial statements noted.

Federal Awards

3. With respect to internal control over major programs:
 - A. There were no material weaknesses identified.
 - B. There were no significant deficiencies identified that were not considered to be material weaknesses.
 - C. The auditors' report issued on compliance for major programs is unqualified.
 - D. There were no audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133.
4. Audited as Major Programs:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Expenditures</u>
93.600	Head Start	\$ 34,224,440
10.558	Child Care Food Program	\$ 1,234,486

5. Dollar threshold used to distinguish between type A and type B programs: \$1,066,241
6. The auditee is qualified as a low-risk auditee.

Section II - Financial Statement Findings

There are no financial statement findings.

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Recommendation

Status/Explanation

There were no prior year recommendations.