



 **Orange County Head Start, Inc.**
Empowering Children & Families

**AUDITED FINANCIAL STATEMENTS
AND REPORTS IN COMPLIANCE WITH OMB CIRCULAR A-133
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

ORANGE COUNTY HEAD START, INC.
FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT AUDITORS

To The 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. (a non-profit California corporation) ("OCHS" or the "Organization") as of June 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of OCHS' management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 OCHS as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2009 on our consideration of OCHS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of OCHS taken as a whole. The accompanying schedule of expenditures of federal and state awards on page 19 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. The accompanying schedule of activities by grants, schedule of expenses by category, schedule of expenses by Head Start Center, schedule of expenses compared to budget, schedule of reported meals and earned reimbursement on pages 10-14 are presented for additional analysis, and are not 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.

Rossi Doskocil & Finkelstein LLP

September 22, 2009

ORANGE COUNTY HEAD START, INC.
STATEMENT OF FINANCIAL POSITION

<i>As of June 30,</i>	2009
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 487,899
Grants receivable	1,364,803
Other receivables	51,026
Prepaid expenses	29,142
Deposits	94,797
Total assets	\$ 2,027,667
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable	\$ 871,651
Accrued expenses - other	685,037
Accrued vacation	250,940
Advances - other grants	9,510
Due to delegates	55,007
Total current liabilities	1,872,145
Commitments and contingencies	
Net assets:	
Unrestricted	155,522
Total net assets	155,522
Total liabilities and net assets	\$ 2,027,667

The accompanying notes are an integral part of these financial statements

ORANGE COUNTY HEAD START, INC.
STATEMENT OF ACTIVITIES

<i>For the year ended June 30,</i>	2009
Revenues:	
Head Start grant	\$ 31,761,824
In-kind contributions	3,732,606
Child care food program	1,404,465
Other grants	97,210
Total revenue	36,996,105
Expenses:	
Personnel	18,979,894
Fringe benefits	6,595,190
Space	5,470,450
Supplies	2,564,629
Contractual	1,363,924
Other	1,286,180
Training and technical assistance	309,165
Travel and transportation	237,066
Equipment	173,074
Proposition 10 grants	14,583
Total expenses	36,994,155
Change in net assets	1,950
Net assets, beginning of year	153,572
Net assets, end of year	\$ 155,522

The accompanying notes are an integral part of these financial statements

ORANGE COUNTY HEAD START, INC.
STATEMENT OF CASH FLOWS

<i>For the year ended June 30,</i>	2009
Cash flows from operating activities:	
Change in net assets	\$ 1,950
Adjustments to reconcile change in net assets to net cash used in operating activities:	
(Increase) decrease in assets:	
Grants receivable	(199,715)
Other receivables	(15,916)
Prepaid expenses	56,873
Deposits	(68,165)
Increase (decrease) in liabilities:	
Accounts payable	57,213
Accrued expenses - other	37,770
Accrued vacation	40,667
Advances - other grants	(4,924)
Due to delegates	53,675
Net cash used in operating activities	(40,572)
Cash and cash equivalents, beginning of year	528,471
Cash and cash equivalents, end of year	\$ 487,899

The accompanying notes are an integral part of these financial statements

For the year ended June 30, 2009

NOTE 1

ORGANIZATION AND PURPOSE

The Head Start Program, administered by Orange County Head Start, Inc. (“OCHS” or 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.

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 involving parents in their children’s learning; and helping 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

Basis of accounting:

The financial statements 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 the support, revenue 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.

Basis of presentation:

OCHS follows the provisions of Statement of Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958. Under these provisions, net asset and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met either by actions of OCHS and/or the passage of time. There were no temporarily restricted assets at June 30, 2009.

Permanently restricted net assets - Net assets subject to permanent donor-imposed stipulations. There were no permanently restricted assets at June 30, 2009.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their uses are restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the classes of net assets as applicable.

For the year ended June 30, 2009

Accounting for grant revenue:

A substantial portion of the Organization's revenue is derived from governmental grant awards that are restricted to specific program or project support. Current grant revenue is recognized as expenditures are made or liabilities are incurred in connection with fulfilling the specific restricted purposes of the award. Cash received in excess of grant expenditures is accounted for as restricted advances. Expenses incurred, which are not yet reimbursed, are accounted for as grants receivable.

Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to the change in net assets and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to grants, contracts, or accounts receivable.

Functional allocation of expenses:

Directly identifiable expenses 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.

Cash and cash equivalents:

For the 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 and cash equivalents.

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 funds derived therein are subject to grant regulations. The total cost of fixed assets acquired through grant resources and on hand at June 30, 2009 was \$5,969,297. For the year ended June 30, 2009, the property and equipment use allowance recognized was \$364,118.

During the year the Organization was engaged in various construction projects. As of June 30, 2009 construction in progress totaled \$683,908.

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.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 as of June 30, 2009.

For the year ended June 30, 2009

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.

Donated services:

Donated services are recognized as contributions in accordance with ASC 958, 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 services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under ASC 958 were not met.

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.

Risk concentration:

Approximately 86% of the funding for OCHS comes from the U.S. Department of Health and Human Services ("DHHS"). At June 30, 2009, amounts due from DHHS in grants receivable were \$995,710 which accounted for 73% of total grants receivable.

Financial Instruments and Credit Risk Concentration:

At various times during the year ended June 30, 2009, OCHS had cash in banks in excess of the Federal Deposit Insurance Corporation ("FDIC") limits of \$250,000. The remaining balances are collateralized by the pledging financial institution. It is the opinion of management that the solvency of the financial institution is not of particular concern at this time.

OCHS is required to maintain a separate bank account for the State Child Care Food Program.

NOTE 3

GRANTS RECEIVABLE

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

<i>As of June 30,</i>	2009
Head Start	\$ 995,710
Child Care Program	369,093
Total grants receivable	\$ 1,364,803

OCHS 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. Furthermore, OCHS did not experience any significant write-offs in past years, as all receivables are owed by governmental agencies.

NOTE 4

COMMITMENTS

Leases:

OCHS 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 year ended June 30, 2009 OCHS incurred \$1,070,953 in rent expense.

ORANGE COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2009

On June 9, 2009, OCHS entered into an agreement to lease main office space at a new location in Santa Ana, CA. The expected commencement date of the new lease is October 1, 2009. The lease term is for 65 months. The rent commitment under the new lease is approximately \$2,800,000.

Future minimum lease payments required under operating leases having initial or remaining non-cancelable lease terms in excess of one year at June 30, 2009 are as follows:

<i>For the year ending June 30,</i>	<i>Main Office</i>	<i>Centers</i>	<i>Total</i>
2010	\$ 306,690	\$ 514,541	\$ 821,231
2011	447,855	222,110	669,965
2012	528,552	177,089	705,641
2013	543,759	84,780	628,539
2014	558,972	38,948	597,920
Thereafter	574,179	16,664	590,843
Total	\$2,960,007	\$1,054,132	\$ 4,014,139

NOTE 5

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. All eligible non-Union employees are fully vested in the plan.

The Union Contract ended on May 31, 2009 and was not renewed during the year as the employees of the Organization decertified the Union (See **Note 8**).

Under the terms of the Union contract that was in effect through May 31, 2009, the Head Start Program contributed an amount equal to 3.5 percent of gross salaries of Union members into a tax sheltered annuity. In addition, the Program matched 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 most recent union contract. Current contributions to the plan on behalf of Union members follow a vesting schedule that reaches full vesting after four years. At June 30, 2009, total retirement costs for the year totaled \$749,331.

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 6

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 OCHS program.

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

<i>For the fiscal year ended June 30,</i>	2009
Program service	\$ 33,816,078
Management and general	3,178,077
Total expenses	\$ 36,994,155

NOTE 7

IN-KIND CONTRIBUTIONS

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 were \$3,732,606 for the year ended June 30, 2009.

ORANGE COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2009

In addition, donated parent and volunteer services with an estimated value of \$4,975,283 for the year ended June 30, 2009, were not recognized in the financial statements as they did not meet the criteria for recognition under ASC 958.

A summary of in-kind contributions received and reported for the years ended June 30, 2009 is as follows:

In-kind contributions meeting criteria of ASC 958 and included in the Statement of Activities under various expense categories:

<i>For the year ended June 30,</i>	2009
Personnel	\$ 250,497
Contractual	684,764
Space	2,338,986
Supplies	94,241
Use allowance of equipment purchased with federal funds	364,118
<hr/>	
Total reported on schedule of activities by grant (page 10)	3,732,606
Additional in-kind meeting federal guidelines	4,975,283
Less use allowance of equipment purchased with federal funds not allowed as in-kind match toward federal award purchased	(364,118)
<hr/>	
Total in-kind contributions reported on Head Start schedule of expenses compared to budget (page 13)	\$ 8,343,771

NOTE 8

SUBSEQUENT EVENTS

Collective bargaining arrangement:

Approximately 72% of the employees of OCHS were covered by a collective bargaining agreement. The agreement with Service Employees International Union Local 99 (the "Union") expired May 31, 2009. During the year, a decertification election was held and the employees voted to decertify the Union. Subsequent to year-end, the decertification election was not upheld by the Labor Board and there will be a new election currently scheduled for October 15 & 16, 2009.

ORANGE COUNTY HEAD START, INC.
SCHEDULE OF ACTIVITIES BY GRANT

<i>For the year ended June 30, 2009</i>	Head Start			CCFP	Proposition 10	Others	Total
	Head Start	In-Kind	Total				
Revenue:							
Head Start grant	\$ 31,761,824	\$ -	\$ 31,761,824	\$ -	\$ -	\$ -	\$ 31,761,824
In-kind contributions	-	3,732,606	3,732,606	-	-	-	3,732,606
Child care food program	-	-	-	1,404,465	-	-	1,404,465
Other grants	-	-	-	-	16,533	80,677	97,210
Total revenue	31,761,824	3,732,606	35,494,430	1,404,465	16,533	80,677	36,996,105
Expenses:							
Personnel	18,729,397	250,497	18,979,894	-	13,006	-	18,992,900
Fringe benefits	6,595,190	-	6,595,190	-	1,577	-	6,596,767
Space	3,083,229	2,338,986	5,422,215	-	-	48,235	5,470,450
Supplies	1,055,450	94,241	1,149,691	1,404,465	-	10,473	2,564,629
Contractual	679,160	684,764	1,363,924	-	-	-	1,363,924
Other	900,193	364,118	1,264,311	-	-	21,869	1,286,180
Training and technical assistance	309,165	-	309,165	-	-	-	309,165
Travel and transportation	236,966	-	236,966	-	-	100	237,066
Equipment	173,074	-	173,074	-	-	-	173,074
Total expenses	31,761,824	3,732,606	35,494,430	1,404,465	14,583	80,677	36,994,155
Change in net assets	-	-	-	-	1,950	-	1,950
Net assets, beginning of year	-	-	-	-	2,403	151,169	153,572
Net assets, end of year	\$ -	\$ -	\$ -	\$ -	\$ 4,353	\$ 151,169	\$ 155,522

The accompanying notes are an integral part of these financial statements

Note:

In-kind contributions of volunteer services in the amount of \$4,975,283 were not recorded in the financial statements because they did not meet the criteria for recognition under ASC 958.

ORANGE COUNTY HEAD START, INC.
SCHEDULE OF EXPENSES BY CATEGORY

<i>For the year ended June 30, 2009</i>	Personnel	Fringe benefits	Space	Supplies	Contractual	Other	Training and technical assistance	Travel and transportation	Equipment	Total
Administration expenses:										
Executive	\$ 206,612	\$ 62,015	\$ 96,993	\$ 24,216	\$ 62,993	\$ 45,972	\$ 38,684	\$ 7,740	\$ -	\$ 545,225
Quality systems	402,643	124,832	1,487	7,686	-	6,230	29,586	9,623	-	582,087
Human resources	277,682	97,008	1,109	6,655	38,954	64,247	27,366	1,635	-	514,656
Accounting/Procurement	461,765	130,597	68,932	14,692	105,446	183,702	304	995	634	967,067
Administrative - Miscellaneous	187,155	53,511	161,081	61,917	30,022	22,105	2,819	4,160	46,272	569,042
Total administration expenses	1,535,857	467,963	329,602	115,166	237,415	322,256	98,759	24,153	46,906	3,178,077
Program expenses:										
Executive- Program	167,155	40,766	-	-	-	-	-	-	-	207,921
Facilities	177,517	52,845	1,077,836	5,303	-	1,872	-	12,425	17,844	1,345,642
Governance	163,187	48,297	3,230	4,792	312	72,553	11,226	3,566	-	307,163
Education	318,262	86,737	2,294	11,174	109,236	52,284	72,112	3,260	-	655,359
Disabilities	224,110	66,052	518	10,702	-	6,247	1,286	4,013	-	312,928
Health	291,384	104,172	2,645	8,772	2,796	9,347	3,941	5,214	-	428,271
Mental health	145,262	47,201	694	459	8,635	2,976	14,914	3,305	-	223,446
Social services	1,055,015	414,939	1,467	6,675	-	6,334	1,815	15,022	1,531	1,502,798
Program services	453,578	133,388	176,268	15,409	-	12,109	1,565	10,851	-	803,168
Early Head Start	525,820	172,401	15,129	21,272	-	3,337	18,737	10,853	661	768,210
Food Services/Nutrition	681,400	231,509	102,669	57,711	4,270	23,857	1,882	38,126	3,314	1,144,738
Total program expenses	4,202,690	1,398,307	1,382,750	142,269	125,249	190,916	127,478	106,635	23,350	7,699,644
Total centers' expenses	7,504,487	2,890,637	1,311,754	470,300	-	36,420	-	91,701	97,559	12,402,858
Grantee in-kind contributions	250,497	-	1,800,298	66,804	475,176	364,118	-	-	-	2,956,893
Total grantee	13,493,531	4,756,907	4,824,404	794,539	837,840	913,710	226,237	222,489	167,815	26,237,472
Delegate agency expenses:										
Orange Children & Parents Together	1,656,956	516,060	32,669	66,239	52,866	141,411	24,536	1,056	4,607	2,496,400
Anaheim City School District	1,226,974	449,421	-	94,185	53,227	42,644	18,724	5,997	-	1,891,172
City of La Habra	764,814	189,726	21,184	35,942	72,823	62,224	11,537	6,961	-	1,165,211
Santa Ana Unified School District	1,443,376	570,236	5,270	117,245	133,680	32,571	22,163	463	652	2,325,656
Irvine Head Start	394,243	112,840	-	14,104	3,900	71,751	5,968	-	-	602,806
Delegate in-kind contributions	-	-	538,688	27,437	209,588	-	-	-	-	775,713
Total delegate agency expenses	5,486,363	1,838,283	597,811	355,152	526,084	350,601	82,928	14,477	5,259	9,256,958
Total Head Start expenses	18,979,894	6,595,190	5,422,215	1,149,691	1,363,924	1,264,311	309,165	236,966	173,074	35,494,430
Total CCFP expenses	-	-	-	1,404,465	-	-	-	-	-	1,404,465
Proposition 10 - UCI Project	13,006	1,577	-	-	-	-	-	-	-	14,583
Moskowitz Foundation	-	-	9,340	4,244	-	345	-	100	-	14,029
OC 55 Donations	-	-	-	466	-	3,860	-	-	-	4,326
RIF Grant	-	-	-	4,563	-	-	-	-	-	4,563
Program income	-	-	24,547	-	-	16,187	-	-	-	40,734
Miscellaneous donations	-	-	14,348	1,200	-	1,477	-	-	-	17,025
Total other grants	13,006	1,577	48,235	10,473	-	21,869	-	100	-	95,260
Total Expenses	\$ 18,992,900	\$ 6,596,767	\$ 5,470,450	\$ 2,564,629	\$ 1,363,924	\$ 1,286,180	\$ 309,165	\$ 237,066	\$ 173,074	\$ 36,994,155

The accompanying notes are an integral part of these financial statements

Note :

In-kind contributions of volunteer services in the amount of \$4,975,283 were not recorded in the financial statements because they did not meet the criteria for recognition under ASC 958.

ORANGE COUNTY HEAD START, INC.
SCHEDULE OF EXPENSES BY HEAD START CENTERS

<i>For the Year Ended June 30, 2009</i>	Personnel	Fringe benefits	Space	Supplies	Other	Travel and transportation	Equipment	Total
Expenses by Center:								
HS Home Base North	\$ 97,554	\$ 45,035	\$ 407	\$ 451	\$ 336	\$ 9,763	\$ -	\$ 153,546
HS Home Base South	191,335	69,221	2,299	9,094	950	11,908	780	285,587
Costa Mesa	288,597	111,309	47,895	20,169	1,285	3,560	3,298	476,113
Placentia	437,453	179,922	106,024	17,429	1,390	7,198	4,550	753,966
Capo	271,068	105,587	37,671	26,333	1,122	6,654	5,135	453,570
D.L. Wood	364,011	143,623	70,696	23,881	1,734	3,893	5,241	613,079
Fullerton	340,872	139,699	67,470	31,962	1,873	3,844	4,486	590,206
Delhi	252,699	91,984	77,966	21,750	1,248	1,777	3,769	451,193
Ted Fisher	453,370	190,357	230,690	27,846	2,683	3,997	9,395	918,338
Brea	209,592	81,465	49,411	13,215	1,621	2,356	4,296	361,956
Ruby Drive	204,423	64,651	2,500	11,264	658	2,367	-	285,863
Hawaiian Gardens	307,207	126,760	48,478	22,802	1,642	5,921	4,636	517,446
Buena Park	333,145	127,966	37,205	21,796	679	2,630	3,554	526,975
Baden Powell	415,808	151,616	36,177	24,217	2,967	1,896	5,636	638,317
Walter	254,172	99,680	42,376	19,292	1,692	2,203	4,739	424,154
Jean Hardy	371,943	143,803	34,769	16,813	1,153	2,145	4,100	574,726
Evelyne Lobo Villegas	243,436	85,055	70,446	15,920	1,034	3,493	4,063	423,447
Centralia	290,315	100,426	59,350	19,113	1,492	3,247	3,994	477,937
Matt Kline	417,734	166,046	42,378	20,924	899	2,123	4,253	654,357
KIDS	360,130	141,802	107,039	18,020	1,027	1,548	4,118	633,684
Glenn L. Martin	425,992	160,542	28,961	23,368	1,730	1,854	4,709	647,156
Schweitzer	287,125	118,796	24,862	16,732	1,389	1,471	4,968	455,343
Topaz	452,179	162,897	33,724	27,247	3,485	3,601	4,904	688,037
Midway	234,327	82,395	52,960	20,662	2,331	2,252	2,935	397,862
Total Centers' Expenses	\$ 7,504,487	\$ 2,890,637	\$ 1,311,754	\$ 470,300	\$ 36,420	\$ 91,701	\$ 97,559	\$ 12,402,858

The accompanying notes are an integral part of these financial statements

ORANGE COUNTY HEAD START, INC.
SCHEDULE OF EXPENSES COMPARED TO BUDGET

<i>For the year ended June 30, 2009</i>	Budget	Actual	Actual over (under) budget
Expenses:			
Personnel	\$ 19,000,817	\$ 18,729,397	\$ (271,420)
Fringe benefits	6,707,145	6,595,190	(111,955)
Space	2,802,497	3,083,229	280,732
Supplies	1,008,872	1,055,450	46,578
Contractual	598,952	679,160	80,208
Other	938,101	900,193	(37,908)
Travel and transportation	247,183	236,966	(10,217)
Equipment	149,092	173,074	23,982
Total	31,452,659	31,452,659	-
Training and technical assistance:	309,165	309,165	-
Total federal funds	31,761,824	31,761,824	-
In-kind match-Head Start	7,940,456	8,343,771	403,315
Total expenses	\$ 39,702,280	\$ 40,105,595	\$ 403,315

The accompanying notes are an integral part of these financial statements

ORANGE COUNTY HEAD START, INC.
SCHEDULE OF REPORTED MEALS AND EARNED REIMBURSEMENT

<i>For the Period July 1, 2008 through June 30, 2009</i>														
Month	Breakfast	Rate	Total	Lunch	Rate	Total	Supper	Rate	Total	Snacks	Rate	Total	Total Federal	Total Meals
July 2008	4,558	1.40	6,381	4,973	2.57	12,781	-	2.57	-	3,851	0.71	2,734	21,896	13,382
August 2008	2,607	1.40	3,650	2,851	2.57	7,327	-	2.57	-	2,263	0.71	1,607	12,584	7,721
September 2008	17,522	1.40	24,531	27,915	2.57	71,742	413	2.57	1,061	15,112	0.71	10,730	108,064	60,962
October 2008	23,717	1.40	33,204	39,820	2.57	102,337	1,706	2.57	4,384	22,719	0.71	16,130	156,055	87,962
November 2008	17,161	1.40	24,025	29,145	2.57	74,903	1,308	2.57	3,362	16,811	0.71	11,936	114,226	64,425
December 2009	15,393	1.40	21,550	25,793	2.57	66,288	1,193	2.57	3,066	15,098	0.71	10,720	101,624	57,477
January 2009	18,872	1.40	26,421	32,727	2.57	84,108	1,647	2.57	4,233	19,365	0.71	13,749	128,511	72,611
February 2009	18,904	1.40	26,466	32,636	2.57	83,875	1,612	2.57	4,143	19,200	0.71	13,632	128,116	72,352
March 2009	22,698	1.40	31,777	39,464	2.57	101,422	1,943	2.57	4,994	22,869	0.71	16,237	154,430	86,974
April 2009	18,090	1.40	25,326	30,709	2.57	78,922	1,485	2.57	3,816	18,404	0.71	13,067	121,131	68,688
May 2009	20,094	1.40	28,132	34,634	2.57	89,009	1,654	2.57	4,251	20,390	0.71	14,477	135,869	76,772
June 2009	11,606	1.40	16,248	18,292	2.57	47,010	715	2.57	1,838	11,194	0.71	7,947	73,043	41,807
Total Center meals	191,222			318,959			13,676			187,276				711,133
Total federal			267,711			819,724			35,148			132,966	1,255,549	

Federal Reimbursement **1,255,549**

Cash-in-lieu of Commodities (Lunch & Supper Meals) 0.2075 332,635 69,022

Total Federal Reimbursement: **1,324,571**

State Reimbursement (Breakfast & Lunch Meals) 0.1566 510,181 79,894

1,404,465

ORANGE COUNTY HEAD START, INC.

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

Board of Directors

Orange County Head Start, Inc.

Santa Ana, California

We have audited the financial statements of Orange County Head Start, Inc. (“OCHS” or the “Organization”) (a California nonprofit organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated September 22, 2009. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered OCHS’ internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCHS’ internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OCHS’ internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Organization’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization’s financial statements that is more than inconsequential will not be prevented or detected by the Organization’s internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization’s internal control.

Our consideration of internal control over financial reporting 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 financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether OCHS financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no

ORANGE COUNTY HEAD START, INC.

REPORT ON COMPLIANCE WITH AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management, Board of Directors, 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.

Rossi Doskoil & Finkelstein LLP

September 22, 2009

ORANGE COUNTY HEAD START, INC.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON 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. (“OCHS” or the “Organization”) (a California nonprofit organization) 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, 2009. OCHS’ major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of OCHS management. Our responsibility is to express an opinion on OCHS’ compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 OCHS’ 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 of OCHS’ compliance with those requirements.

In our opinion, OCHS 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, 2009.

INTERNAL CONTROL OVER COMPLIANCE

The management of OCHS is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered OCHS’ internal control over compliance with the 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 OCHS’ internal control over compliance.

A *control deficiency* in an entity’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 the entity’s internal control.

ORANGE COUNTY HEAD START, INC.

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

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 and use of management, Board of Directors, 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.

Rossi Droskovic & Finkelstein LLP

September 22, 2009

ORANGE COUNTY HEAD START, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

<i>For the year ended June 30, 2009</i>	Federal CFDA Number	Grant Number	Grant Amount	Revenue Recognized	Expenditures
<u>Federal Program</u>					
<u>U.S. Department of Health and Human Services:</u>					
Head Start	93.600	09CH0007/28	\$ 31,761,824	\$ 31,761,824	\$ 31,761,824
Universal Discount for Schools and Libraries (E-Rate)			72,035	72,035	72,035
<u>U.S. Department of Agriculture:</u>					
Pass through State of California					
<u>Department of Education:</u>					
Child Care Food Program	10.558	30-14530J	N/A	1,324,571	1,324,571
Total Federal Awards				\$ 33,158,430	\$ 33,158,430
<u>State Program</u>					
<u>State of California Department of Education:</u>					
Child Care Food Program	N/A	30-14530J	N/A	\$ 79,894	\$ 79,894
Amount Provided to Sub-recipients:					
<u>U.S. Department of Health and Human Services:</u>					
Orange Children & Parents Together (OCPT)	93.600	09CH0007/28	N/A	2,496,400	2,496,400
Anaheim City School District	93.600	09CH0007/28	N/A	1,891,172	1,891,172
City of La Habra	93.600	09CH0007/28	N/A	1,165,211	1,165,211
Santa Ana Unified School District	93.600	09CH0007/28	N/A	2,325,656	2,325,656
Irvine Head Start	93.600	09CH0007/28	N/A	602,806	602,806
Total				\$ 8,481,245	\$ 8,481,245

Note A - Significant Accounting Policies:

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activities of OCHS and it is prepared on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirement 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 financial statements.

ORANGE COUNTY HEAD START, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Audited as Major Programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
93.600	Head Start	\$ 31,761,824

Dollar threshold used to distinguish between Type A and Type B programs \$ 994,753

Auditee qualified as low-risk auditee? Yes No

FINANCIAL STATEMENT FINDINGS

There are no financial statement findings.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings and questioned costs

ORANGE COUNTY HEAD START, INC.
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

For the year ended June 30, 2009

There were no prior audit findings or recommendations.