

**ORANGE COUNTY HEAD START, INC.**

**SANTA ANA, CALIFORNIA**

**FINANCIAL STATEMENTS  
AND  
SINGLE AUDIT REPORT**

**JUNE 30, 2008**

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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, 2008, 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 2007 financial statements and, in our report dated December 20, 2007, 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, 2008, 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 October 6, 2008, 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 financial statements of Orange County Head Start, Inc. taken as a whole. The supplementary data in schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal and State 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



R.J. Ricciardi, Inc.  
Certified Public Accountants

San Rafael, California  
October 6, 2008

Orange County Head Start, Inc.  
STATEMENTS OF FINANCIAL POSITION  
 June 30, 2008  
 (With Comparative Totals for June 30, 2007)

<u>ASSETS</u>	2008	2007
Current assets:		
Cash	\$ 528,471	\$ 911,807
Grants receivable	1,165,088	1,707,879
Other receivables	35,110	65,397
Prepaid expenses	86,015	109,501
Deposits	26,632	26,632
Total current assets	\$ 1,841,316	\$ 2,821,216
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 814,438	\$ 1,965,763
Accrued expenses	647,267	260,365
Accrued vacation	210,273	279,674
Advances - other grants	14,434	2,716
Delegate advances	1,332	112,619
Total current liabilities	1,687,744	2,621,137
Unrestricted net assets	153,572	200,079
Total liabilities and net assets	\$ 1,841,316	\$ 2,821,216

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

Orange County Head Start, Inc.  
STATEMENTS OF ACTIVITIES  
 For the Year Ended June 30, 2008  
 (With Comparative Totals for the Year Ended June 30, 2007)

Exhibit A

	2008	2007
Revenues:		
Head Start grant	\$ 30,566,578	\$ 30,842,434
Other grant	79,754	167,962
Child care food program	1,325,604	1,316,937
Interest income	-	8,527
In-kind	4,316,022	3,373,479
Total revenues	36,287,958	35,709,339
Expenses:		
Personnel	18,164,972	17,282,078
Fringe benefits	6,255,297	6,622,833
Contractual	1,379,525	1,104,337
Travel and transportation	327,047	448,496
Space	5,738,960	5,510,491
Supplies	2,520,630	2,615,335
Equipment	213,244	243,376
Other	1,378,558	1,311,680
Training and technical assistance	284,735	430,361
Prop 10 grants	18,717	18,100
Total expenses	36,281,685	35,587,087
Change in net assets	6,273	122,252
Net assets, beginning of period	200,079	77,827
Prior period adjustment	(52,780)	-
Net assets, end of period	\$ 153,572	\$ 200,079

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

Orange County Head Start, Inc.  
STATEMENTS OF CASH FLOWS

Exhibit B

For the Year Ended June 30, 2008

(With Comparative Totals for the Year Ended June 30, 2007)

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ 6,273	\$ 122,252
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Changes in certain assets and liabilities:		
Grants receivable	542,791	(81,671)
Other receivables	30,287	(874)
Prepaid expenses	23,486	152,735
Accounts payable	(1,151,325)	609,183
Accrued expenses	386,902	(625,542)
Accrued vacation	(69,401)	42,488
Advances - other grants	(41,062)	(46,263)
Delegate advances	(111,287)	112,619
Net cash provided by (used in) operating activities	(383,336)	284,927
Net increase (decrease) in cash	(383,336)	284,927
Cash and cash equivalents, beginning of period	911,807	626,880
Cash and cash equivalents, end of period	\$ 528,471	\$ 911,807

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

Orange County Head Start, Inc.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

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, 2008

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 \$5,934,390. At June 30, 2008 and 2007, the property and equipment use allowance recognized for the year was \$397,461 and \$428,553, 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, 2008

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 84% of the funding for the Organization comes from the U.S. Department of Health and Human Services. At June 30, 2008 and 2007, amounts due from this Department in accounts receivable were \$757,024 and \$1,361,512, respectively.

NOTE 5 - CASH AND DEPOSITS

At June 30, 2008 and 2007, cash on hand was \$528,471 and \$911,807 with corresponding bank balances of \$1,192,925 and \$1,321,302, 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:

	2008	2007
Head Start	\$ 757,024	\$ 1,361,512
Child Care Food Program	408,064	346,367
Total grants receivable	\$ 1,165,088	\$ 1,707,879

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, 2008

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, 2008, 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>
2009	\$ 439,422	\$ 514,541	\$ 953,963
2010	73,237	436,541	509,778
2011	-	222,110	222,110
2012	-	177,089	177,089
2013	-	84,780	84,780
Thereafter	-	55,612	55,612
Total	<u>\$ 512,659</u>	<u>\$ 1,490,673</u>	<u>\$ 2,003,332</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, 2008 and 2007, total retirement costs for the year totaled \$715,627 and \$720,448, 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>2008</u>	<u>2007</u>
Program service	\$ 33,400,355	31,405,229
Management and general	2,881,330	4,181,858
Total expenses	<u>\$ 36,281,685</u>	<u>\$ 35,587,087</u>

Orange County Head Start, Inc.  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2008

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 \$4,316,022 and \$3,373,479 for the years ended June 30, 2008 and 2007 respectively.

In addition, donated parent and volunteer services with an estimated value of \$4,700,019 and \$5,033,739 for the years ended June 30, 2008 and 2007, 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:

	2008	2007
In-kind meeting criteria of SFAS 116 and included in the Statement of Activities under various expense categories:		
Personnel	\$ 264,687	\$ 93,343
Contractual	608,880	68,120
Space	2,982,120	2,708,278
Supplies	62,874	75,185
Use allowance of Federally purchased equipment	397,461	428,553
Total reported on Statement of Activities - Exhibit A and Schedule of Activities by Grant - Schedule 1	4,316,022	3,373,479
Additional in-kind meeting Federal guidelines	4,700,019	5,033,739
	9,016,041	8,407,218
Less use allowance of Federally purchased equipment not allowed as in-kind match toward Federal award	(397,461)	(428,553)
Total in-kind reported on Head Start Schedule of Expenses Compared to Budget - Schedule 4	\$ 8,618,580	\$ 7,978,665

NOTE 11 - PRIOR PERIOD ADJUSTMENT

At June 30, 2007, grant advances were understated by \$52,780. Grant advances have been increased by \$52,780, whereby decreasing the beginning net asset balance by the same amount.

Orange County Head Start, Inc.  
SCHEDULE OF ACTIVITIES BY GRANT  
 For the Year Ended June 30, 2008

	Head Start					Total
	Head Start	In-kind	Total	CCFP	Prop 10	
<b>Revenues:</b>						
Head Start grant	\$ 30,566,578	\$ -	\$ 30,566,578	\$ -	\$ -	\$ 30,566,578
Other grant	-	-	-	-	21,120	58,634
Child care food program	-	-	-	1,325,604	-	1,325,604
Interest income	-	-	-	-	-	-
In-kind	-	4,316,022	4,316,022	-	-	4,316,022
<b>Total revenues</b>	<b>30,566,578</b>	<b>4,316,022</b>	<b>34,882,600</b>	<b>1,325,604</b>	<b>21,120</b>	<b>58,634</b>
<b>Expenses:</b>						
Personnel	17,859,812	264,687	18,124,499	40,473	16,490	18,181,462
Fringe benefits	6,255,297	-	6,255,297	-	1,971	6,257,268
Contractual	838,483	608,880	1,447,363	-	-	1,459,463
Travel and transportation	388,038	-	388,038	-	256	389,016
Space	2,757,486	2,982,121	5,739,607	-	-	5,739,910
Supplies	1,148,704	62,873	1,211,577	1,285,131	-	2,522,950
Equipment	213,244	-	213,244	-	-	213,244
Other	1,044,944	397,461	1,442,405	-	-	1,457,802
Training and technical assistance	60,570	-	60,570	-	-	60,570
<b>Total expenses</b>	<b>30,566,578</b>	<b>4,316,022</b>	<b>34,882,600</b>	<b>1,325,604</b>	<b>18,717</b>	<b>54,764</b>
Change in net assets	-	-	-	-	2,403	3,870
Net assets, beginning of period	-	-	-	-	-	200,079
Prior period adjustment	-	-	-	-	-	(52,780)
<b>Net assets, end of period</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,403</b>	<b>\$ 151,169</b>

Note:

Volunteer in-kind in the amount of \$4,700,019 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, 2008

	Personnel	Fringe Benefits	Contractual	Travel & Transportation	Space	Supplies	Equipment	Other	T & TA	Total
<b>Administration expenses:</b>										
Executive	\$ 296,999	\$ 85,665	\$ 57,055	\$ 5,712	\$ 7,346	\$ 25,878	\$ 386	\$ 69,972	\$ -	\$ 549,013
Quality Systems	414,540	112,134	6,596	7,023	2,812	4,642	108	9,668	-	557,523
Human Resources	289,589	89,381	29,414	166	1,415	9,874	-	117,598	-	537,437
Accounting/Procurement	511,042	125,617	61,287	1,027	3,476	12,338	-	19,439	-	734,226
Administrative - MIS	214,832	59,405	33,001	2,163	134,597	16,816	32,664	9,653	-	503,131
<b>Total administration expenses</b>	<b>1,727,002</b>	<b>472,202</b>	<b>187,353</b>	<b>16,091</b>	<b>149,646</b>	<b>69,548</b>	<b>33,158</b>	<b>226,330</b>	<b>-</b>	<b>2,881,330</b>
<b>Program expenses:</b>										
Facilities	171,725	62,182	35,750	10,801	706,690	34,022	6,713	146,188	-	1,174,071
Governance	169,497	47,941	6,085	5,810	2,403	2,661	-	59,816	-	294,213
Education	329,055	77,237	-	8,504	3,675	9,598	-	30,322	-	458,391
Disabilities	212,150	63,892	825	1,686	656	2,218	-	2,493	-	283,920
Health	433,902	137,340	1,553	6,702	3,581	12,700	1,012	6,019	-	602,809
Mental Health	141,351	42,490	33,041	13,285	1,088	788	-	5,218	-	237,261
Social Services	1,346,259	475,404	-	14,414	221,837	16,977	2,783	20,477	-	2,098,151
Early Head Start	450,589	147,699	50,698	6,911	43,159	42,685	1,898	5,833	-	749,472
Food Services/Nutrition	619,755	218,798	3,611	34,384	109,691	5,286	44,665	20,859	-	1,057,049
Training and Technical Assistance	-	-	79,938	61,713	950	2,320	-	79,244	-	224,165
<b>Total program expenses</b>	<b>3,874,283</b>	<b>1,272,983</b>	<b>211,501</b>	<b>164,210</b>	<b>1,093,730</b>	<b>129,255</b>	<b>57,071</b>	<b>376,469</b>	<b>-</b>	<b>7,179,502</b>
<b>Centers' expenses</b>	<b>7,464,613</b>	<b>2,915,705</b>	<b>828,986</b>	<b>168,611</b>	<b>3,029,243</b>	<b>551,011</b>	<b>81,676</b>	<b>45,590</b>	<b>-</b>	<b>15,085,435</b>
<b>Delegate Agency expenses:</b>										
Orange Children & Parents Together (OCPT)	1,530,034	401,574	108,745	5,525	153,627	164,238	21,219	68,628	19,286	2,472,876
Anaheim City School District	1,166,815	407,697	-	4,156	-	134,910	-	136,852	13,789	1,864,219
City of La Habra	635,782	133,508	28,346	24,453	47,097	65,563	7,555	145,065	6,055	1,093,424
Santa Ana Unified School District	1,285,384	531,464	24,290	1,705	22,301	80,099	12,565	10,024	17,203	1,985,035
Irvine Head Start	440,586	120,164	4,187	3,287	-	3,268	-	35,986	4,237	611,715
In-kind	-	-	53,955	-	1,243,963	13,685	-	397,461	-	1,709,064
<b>Total Delegate Agency expenses</b>	<b>5,058,601</b>	<b>1,594,407</b>	<b>219,523</b>	<b>39,126</b>	<b>1,466,988</b>	<b>461,763</b>	<b>41,339</b>	<b>794,016</b>	<b>60,570</b>	<b>9,736,333</b>
<b>Total Head Start expenses</b>	<b>18,124,499</b>	<b>6,255,297</b>	<b>1,447,363</b>	<b>388,038</b>	<b>5,739,607</b>	<b>1,211,577</b>	<b>213,244</b>	<b>1,442,405</b>	<b>60,570</b>	<b>34,882,600</b>
<b>Total CCFP expenses</b>	<b>40,473</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,283,131</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,323,604</b>
<b>Prop 10 - UCI Project</b>	<b>16,490</b>	<b>1,971</b>	<b>-</b>	<b>256</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,472</b>	<b>-</b>	<b>18,717</b>
Moskowitz Foundation	-	-	2,100	722	-	983	-	9,629	-	4,177
OC 55 donations	-	-	-	-	-	638	-	3,277	-	12,367
Kaiser grant	-	-	-	-	-	-	-	-	-	3,277
CDA Migrate HS program	-	-	10,000	-	-	-	-	-	-	10,000
RIF grant	-	-	-	-	-	24,621	-	-	-	24,621
Miscellaneous donations	-	-	-	-	303	-	-	19	-	322
<b>Total expenses</b>	<b>\$ 18,181,462</b>	<b>\$ 6,257,268</b>	<b>\$ 1,459,463</b>	<b>\$ 389,016</b>	<b>\$ 5,739,910</b>	<b>\$ 2,522,950</b>	<b>\$ 213,244</b>	<b>\$ 1,457,802</b>	<b>\$ 60,570</b>	<b>\$ 36,281,685</b>

Note: Volunteer in-kind in the amount of \$4,700,019 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, 2008

	Personnel	Fringe		Travel &		Space	Supplies	Equipment	Other	Total
		Benefits	Contractual	Transportation						
Expenses by Center:										
Head Start Home Base	\$ 155,483	\$ 60,391	\$ -	\$ 6,651	\$ 2,721	\$ 11,170	\$ -	\$ 798	\$ 237,214	
Costa Mesa	268,870	105,447	15,879	2,774	53,986	15,065	3,118	2,293	467,432	
Placentia	416,724	176,345	12,155	3,739	70,406	26,368	4,201	1,186	711,124	
Capo	260,692	99,750	7,796	5,285	44,764	22,064	6,150	1,589	448,090	
D.L. Wood	363,697	151,723	-	3,263	74,149	25,442	4,669	3,197	626,140	
Fullerton	337,411	142,458	16,753	3,306	76,043	30,080	4,263	2,548	612,862	
Delhi	73,174	28,127	-	4,686	31,410	21,361	-	923	159,681	
Ted Fisher	853,883	371,920	12,223	99,545	240,712	40,316	8,537	5,441	1,632,577	
Brea	193,936	77,197	10,082	2,843	54,004	26,856	3,863	1,927	370,708	
Hawaiian Gardens	320,807	138,781	5,175	14,903	64,487	22,083	3,032	1,226	570,494	
Buena Park	322,139	130,453	25,311	2,118	38,824	19,720	2,948	1,096	542,609	
Lord Baden Powell	419,285	154,450	24,018	398	32,528	21,641	4,616	1,821	658,757	
Walter	270,752	120,263	1,961	726	48,702	22,407	4,046	4,091	472,948	
Jean Hardy	374,005	168,274	-	1,471	43,649	27,106	3,373	3,027	620,905	
Evelyn Lobo Villegas	235,943	91,227	10,481	2,708	74,538	15,999	4,057	1,207	436,160	
Centralia	293,903	99,724	9,480	2,917	65,979	26,673	3,118	2,365	504,159	
Matt Kline	391,039	152,533	15,602	1,695	50,800	22,543	4,311	1,202	639,725	
KIDS	366,965	141,313	36,556	1,451	75,477	7,852	3,075	298	632,967	
Glenn L. Martin	366,844	139,961	33,801	1,512	30,615	32,427	4,468	2,370	611,998	
Schweitzer	286,688	124,703	15,855	2,077	29,045	19,398	5,410	1,413	484,589	
Topaz	396,919	153,377	20,149	3,376	23,335	22,028	1,899	4,673	625,756	
Midway	230,767	87,288	784	1,167	64,911	23,244	2,522	899	411,582	
In-kind	264,687	-	554,925	-	1,738,158	49,188	-	-	2,606,958	
Total Centers' expenses	\$ 7,464,613	\$ 2,915,705	\$ 828,986	\$ 168,611	\$ 3,029,243	\$ 551,011	\$ 81,676	\$ 45,590	\$ 15,085,435	

Note:

Volunteer in-kind in the amount of \$4,700,019 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, 2008

Schedule 4

	Budget	Actual	Actual Over (Under) Budget
Expenses:			
Personnel	\$ 18,247,009	\$ 17,859,812	\$ (387,197)
Fringe benefits	7,002,752	6,255,297	(747,455)
Contractual	691,463	758,545	67,082
Travel	148,811	326,325	177,514
Space	2,826,471	2,756,536	(69,935)
Supplies	959,688	1,146,384	186,696
Equipment	272,870	213,244	(59,626)
Other	716,379	965,700	249,321
	30,865,443	30,281,843	(583,600)
 Total			
Training and technical assistance:			
Contractual	60,567	79,938	19,371
Travel	79,087	61,713	(17,374)
Space	-	950	950
Supplies	6,150	2,320	(3,830)
Other	138,931	139,814	883
	284,735	284,735	-
 Total			
Total federal funds	31,150,178	30,566,578	(583,600)
 In-Kind Match-Head Start	7,787,545	8,618,580	831,035
 Total expenses	\$ 38,937,723	\$ 39,185,158	\$ 247,435

\* The Grantee received permission from ACF to carryover \$583,600 to subsequent year (2008-09) in order to complete two renovation projects.

Orange County Head Start, Inc.

Schedule 5

SCHEDULE OF REPORTED, ADJUSTED AND  
ALLOWED MEALS AND EARNED REIMBURSEMENT

Child Care Food Program 30-1453-OJ

For the Period July 1, 2007 through December 31, 2007

	July 2007			August 2007			September 2007		
	Reported	Adjusted	Allowed	Reported	Adjusted	Allowed	Reported	Adjusted	Allowed
<u>Breakfast</u>									
Total	3,438	-	3,438	4,075	-	4,075	18,023	-	18,023
Free	3,323	-	3,323	3,939	-	3,939	17,423	-	17,423
Reduced	49	-	49	58	-	58	255	-	255
Base	66	-	66	78	-	78	345	-	345
<u>Lunch</u>									
Total	3,619	-	3,619	4,245	-	4,245	29,014	-	29,014
Free	3,499	-	3,499	4,104	-	4,104	28,049	-	28,049
Reduced	51	-	51	60	-	60	410	-	410
Base	69	-	69	81	-	81	555	-	555
<u>Supper</u>									
Total	-	-	-	-	-	-	187	-	187
Free	-	-	-	-	-	-	180	-	180
Reduced	-	-	-	-	-	-	3	-	3
Base	-	-	-	-	-	-	4	-	4
<u>Supplements</u>									
Total	2,574	-	2,574	3,301	-	3,301	14,716	-	14,716
Free	2,489	-	2,489	3,191	-	3,191	14,227	-	14,227
Reduced	36	-	36	47	-	47	208	-	208
Base	49	-	49	63	-	63	281	-	281
	October 2007			November 2007			December 2007		
	Reported	Adjusted	Allowed	Reported	Adjusted	Allowed	Reported	Adjusted	Allowed
<u>Breakfast</u>									
Total	21,947	-	21,947	19,923	-	19,923	14,969	-	14,969
Free	21,000	-	21,000	19,064	-	19,064	14,323	-	14,323
Reduced	338	-	338	307	-	307	231	-	231
Base	609	-	609	552	-	552	415	-	415
<u>Lunch</u>									
Total	35,863	-	35,863	32,914	-	32,914	25,614	-	25,614
Free	34,317	-	34,317	31,494	-	31,494	24,509	-	24,509
Reduced	552	-	552	507	-	507	395	-	395
Base	994	-	994	913	-	913	710	-	710
<u>Supper</u>									
Total	440	-	440	453	-	453	400	-	400
Free	421	-	421	433	-	433	383	-	383
Reduced	7	-	7	7	-	7	6	-	6
Base	12	-	12	13	-	13	11	-	11
<u>Supplements</u>									
Total	18,811	-	18,811	17,443	-	17,443	14,310	-	14,310
Free	17,999	-	17,999	16,690	-	16,690	13,693	-	13,693
Reduced	290	-	290	269	-	269	220	-	220
Base	522	-	522	484	-	484	397	-	397



Orange County Head Start, Inc.

Schedule 6

SCHEDULE OF REPORTED, ADJUSTED AND  
ALLOWED MEALS AND EARNED REIMBURSEMENT

Child Care Food Program 30-1453-OJ

For the Period January 1, 2008 through June 30, 2008

	January 2008			February 2008			March 2008		
	Reported	Adjusted	Allowed	Reported	Adjusted	Allowed	Reported	Adjusted	Allowed
<u>Breakfast</u>									
Total	18,357	-	18,357	19,981	-	19,981	17,317	-	17,317
Free	17,565	792	18,357	19,119	862	19,981	16,570	747	17,317
Reduced	283	(283)	-	308	(308)	-	267	(267)	-
Base	509	(509)	-	554	(554)	-	480	(480)	-
<u>Lunch</u>									
Total	31,425	-	31,425	34,508	-	34,508	29,641	-	29,641
Free	30,070	1,355	31,425	33,019	1,489	34,508	28,362	1,279	29,641
Reduced	484	(484)	-	532	(532)	-	457	(457)	-
Base	871	(871)	-	957	(957)	-	822	(822)	-
<u>Supper</u>									
Total	502	-	502	566	-	566	443	-	443
Free	480	22	502	541	25	566	424	19	443
Reduced	8	(8)	-	9	(9)	-	7	(7)	-
Base	14	(14)	-	16	(16)	-	12	(12)	-
<u>Supplements</u>									
Total	17,486	-	17,486	19,160	-	19,160	16,661	-	16,661
Free	16,732	754	17,486	18,334	826	19,160	15,942	719	16,661
Reduced	269	(269)	-	295	(295)	-	257	(257)	-
Base	485	(485)	-	531	(531)	-	462	(462)	-
	April 2008			May 2008			June 2008		
	Reported	Adjusted	Allowed	Reported	Adjusted	Allowed	Reported	Adjusted	Allowed
<u>Breakfast</u>									
Total	22,942	-	22,942	21,708	-	21,708	11,659	-	11,659
Free	22,942	-	22,942	21,708	-	21,708	11,659	-	11,659
Reduced	-	-	-	-	-	-	-	-	-
Base	-	-	-	-	-	-	-	-	-
<u>Lunch</u>									
Total	40,178	-	40,178	37,763	-	37,763	18,340	-	18,340
Free	40,178	-	40,178	37,763	-	37,763	18,340	-	18,340
Reduced	-	-	-	-	-	-	-	-	-
Base	-	-	-	-	-	-	-	-	-
<u>Supper</u>									
Total	643	-	643	569	-	569	241	-	241
Free	643	-	643	569	-	569	241	-	241
Reduced	-	-	-	-	-	-	-	-	-
Base	-	-	-	-	-	-	-	-	-
<u>Supplements</u>									
Total	22,465	-	22,465	20,983	-	20,983	10,825	-	10,825
Free	22,465	-	22,465	20,983	-	20,983	10,825	-	10,825
Reduced	-	-	-	-	-	-	-	-	-
Base	-	-	-	-	-	-	-	-	-

Orange County Head Start, Inc.

Schedule 7

SCHEDULE OF REPORTED, ADJUSTED AND  
ALLOWED MEALS AND EARNED REIMBURSEMENT

Child Care Food Program 30-1453-OJ

For the Period July 1, 2007 through June 30, 2008

	Jul. 1, 2007 through Dec. 31, 2007			Reimbursement Rates	Revenue Recognized	Adjustments	Earned Reimbursement
	Reported	Adjusted	Allowed				
<b>Breakfast</b>							
Total	82,375	-	82,375				
Free	79,072	-	79,072	\$ 1.35	\$ 106,747	\$ -	\$ 106,747
Reduced	1,238	-	1,238	1.05	1,300	-	1,300
Base	2,065	-	2,065	0.24	496	-	496
<b>Lunch</b>							
Total	131,269	-	131,269				
Free	125,972	-	125,972	2.47	311,151	-	311,151
Reduced	1,975	-	1,975	2.07	4,088	-	4,088
Base	3,322	-	3,322	0.23	764	-	764
<b>Supper</b>							
Total	1,480	-	1,480				
Free	1,417	-	1,417	2.47	3,500	-	3,500
Reduced	23	-	23	2.07	48	-	48
Base	40	-	40	0.23	9	-	9
<b>Supplements</b>							
Total	71,155	-	71,155				
Free	68,289	-	68,289	0.68	46,437	-	46,437
Reduced	1,070	-	1,070	0.34	364	-	364
Base	1,796	-	1,796	0.06	108	-	108
<b>Jan. 1, 2008 through Jun. 30, 2008</b>							
	Jan. 1, 2008 through Jun. 30, 2008			Reimbursement Rates	Revenue Recognized	Adjustments	Earned Reimbursement
	Reported	Adjusted	Allowed				
<b>Breakfast</b>							
Total	111,964	-	111,964				
Free	109,563	2,401	111,964	\$ 1.35	\$ 147,910	\$ 3,241	\$ 151,151
Reduced	858	(858)	-	1.05	901	(901)	-
Base	1,543	(1,543)	-	0.24	370	(370)	-
<b>Lunch</b>							
Total	191,855	-	191,855				
Free	187,732	4,123	191,855	2.47	463,698	10,184	473,882
Reduced	1,473	(1,473)	-	2.07	3,049	(3,049)	-
Base	2,650	(2,650)	-	0.23	610	(610)	-
<b>Supper</b>							
Total	2,964	-	2,964				
Free	2,898	66	2,964	2.47	7,158	163	7,321
Reduced	24	(24)	-	2.07	50	(50)	-
Base	42	(42)	-	0.23	10	(10)	-
<b>Supplements</b>							
Total	107,580	-	107,580				
Free	105,281	2,299	107,580	0.68	71,591	1,563	73,154
Reduced	821	(821)	-	0.34	279	(279)	-
Base	1,478	(1,478)	-	0.06	89	(89)	-
Center Meals					1,170,725	9,795	1,180,519
Cash-in-lieu					61,419	-	61,419
Total Federal Reimbursement					1,232,144	9,795	1,241,938
Total State Meal Reimbursement					82,988	685	83,673
Difference					(8)	-	(8)
Total					\$ 1,315,124	\$ 10,480	\$ 1,325,604

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, 2008, and have issued our report thereon dated October 6, 2008. 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 as a basis for designing our auditing procedures, for the purpose of expressing our opinion on Orange County Head Start, Inc.'s financial statements, but not for the purpose of expressing an opinion on the effectiveness of Orange County Head Start, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Orange County Head Start, Inc.'s 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 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 Orange County Head Start, Inc.'s financial statements that is more than inconsequential will not be prevented or detected by the 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 internal control.

Our consideration of the 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 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*.

This report is intended for the information of the Board of Directors and management of Orange County Head Start, Inc., federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.



R.J. Ricciardi, Inc.  
Certified Public Accountants

San Rafael, California  
October 6, 2008

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, 2008. 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, 2008.

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  
October 6, 2008

Orange County Head Start, Inc.  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 For the Year Ended June 30, 2008

<u>Federal Program</u>	Federal CFDA Number	Grant Number	Grant Amount	Revenue Recognized	Expenditures
<u>U.S. Department of Health and Human Services:</u> Head Start	93.600	09CH0007/27	\$ 35,466,201	\$ 34,882,600	\$ 34,882,600
<u>U.S. Department of Agriculture:</u> Pass through State of California Department of Education: Child Care Food Program	10.558	30-14530J	N/A	1,241,930	1,241,930
Total federal awards				\$ 36,124,530	\$ 36,124,530
<u>State Program</u> State of California Department of Education: Child Care Food Program	N/A	30-14530J	N/A	\$ 83,673	\$ 83,673
<u>Amount Provided to Sub-recipients</u> <u>U.S. Department of Health and Human Services:</u> 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	09CH0007/27 09CH0007/27 09CH0007/27 09CH0007/27 09CH0007/27	N/A N/A N/A N/A N/A	2,472,876 1,864,219 1,093,424 1,985,035 611,715	2,472,876 1,864,219 1,093,424 1,985,035 611,715
Total				\$ 8,027,269	\$ 8,027,269

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, *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 financial statements.

Orange County Head Start, Inc.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2008

**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	\$ 34,882,600

5. Dollar threshold used to distinguish between type A and type B programs: \$1,046,478
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.