



 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 YEARS ENDED JUNE 30, 2010 AND 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, 2010 and 2009, and the related statements of activities and cash flows for the years 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years 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 October 8, 2010 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 18 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

October 8, 2010

ORANGE COUNTY HEAD START, INC.
STATEMENT OF FINANCIAL POSITION

<i>As of June 30,</i>	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 713,758	\$ 487,899
Grants receivable	2,091,761	1,364,803
Other receivables	8,644	51,026
Prepaid expenses	134,875	29,142
Deposits	48,166	94,797
Total assets	\$ 2,997,204	\$ 2,027,667
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 1,177,614	\$ 871,651
Accrued expenses - other	1,316,976	685,037
Accrued vacation	318,608	250,940
Advances - other grants	19,591	9,510
Due to delegates	8,893	55,007
Total current liabilities	2,841,682	1,872,145
Commitments and contingencies		
Net assets:		
Unrestricted	155,522	155,522
Total net assets	155,522	155,522
Total liabilities and net assets	\$ 2,997,204	\$ 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>	2010	2009
Revenues:		
Head Start grants	\$ 34,248,805	\$ 31,761,824
In-kind contributions	3,434,833	3,732,606
Child care food program	1,430,937	1,404,465
Other grants	165,656	97,210
Total revenue	39,280,231	36,996,105
Expenses:		
Personnel	20,080,485	18,979,894
Fringe benefits	6,993,806	6,595,190
Space	5,510,119	5,485,033
Supplies	2,915,287	2,564,629
Contractual	1,684,552	1,363,924
Other	1,383,408	1,286,180
Training and technical assistance	288,043	309,165
Travel and transportation	176,462	237,066
Equipment	248,069	173,074
Total expenses	39,280,231	36,994,155
Change in net assets	-	1,950
Net assets, beginning of year	155,522	153,572
Net assets, end of year	\$ 155,522	\$ 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>	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ -	\$ 1,950
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
(Increase) decrease in assets:		
Grants receivable	(726,958)	(199,715)
Other receivables	42,382	(15,916)
Prepaid expenses	(105,733)	56,873
Deposits	46,631	(68,165)
Increase (decrease) in liabilities:		
Accounts payable	305,963	57,213
Accrued expenses - other	631,939	37,770
Accrued vacation	67,668	40,667
Advances - other grants	10,081	(4,924)
Due to delegates	(46,114)	53,675
Net cash provided by (used in) operating activities	225,859	(40,572)
Cash and cash equivalents, beginning of year	487,899	528,471
Cash and cash equivalents, end of year	\$ 713,758	\$ 487,899

The accompanying notes are an integral part of these financial statements

For the years ended June 30, 2010 and 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.

American Recovery and Reinvestment Act Funding (ARRA) – The program provides additional funding for cost-of-living and quality improvement which enhance the Head Start and Early Head Start programs

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.

In preparing these financial statements, the Organization evaluated the period from June 30, 2010 through the date the financial statements were available for issuance for subsequent events requiring recognition and or disclosure in the accompanying financial statements.

Basis of presentation:

OCHS follows the provisions of the 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. There was \$155,522 of unrestricted net assets as of June 30, 2010 and 2009.

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 net assets at June 30, 2010 and 2009.

For the years ended June 30, 2010 and 2009

Permanently restricted net assets - Net assets subject to permanent donor-imposed stipulations. There were no permanently restricted net assets at June 30, 2010 and 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.

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. Expenses related to more than one

function are charged to program services on the basis of periodic time and expense studies based on application plan. 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 is subject to grant regulations. The total cost of fixed assets acquired through grant resources and on hand at June 30, 2010 and 2009 was \$5,969,347 and \$5,969,297, respectively. For the years ended June 30, 2010 and 2009, the property and equipment use allowance recognized was \$294,913 and \$364,118, 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.

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 as of the date of the financial statements and the reported amounts of revenues and expenses during

For the years ended June 30, 2010 and 2009

the respective 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, 2010 and 2009, respectively.

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 87% and 86% of the funding for OCHS comes from the U.S. Department of Health and Human Services ("DHHS") for the years ended June 30, 2010 and 2009, respectively. At June 30, 2010 and 2009, amounts due from DHHS in grants receivable were \$1,710,684 and \$995,710 which accounted for 82% and 73%, respectively, of total grants receivable.

Financial instruments and credit risk concentration:

At various times during the years ended June 30, 2010 and 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.

Reclassifications:

Certain reclassifications have been made so that the June 30, 2009 financial statement amounts conform to the June 30, 2010 financial statement classifications. These reclassifications had no effect on the reported change in net assets for the year ended June 30, 2009.

NOTE 3

GRANTS RECEIVABLE

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

<i>As of June 30,</i>	2010	2009
Head Start	\$ 1,710,684	\$ 995,710
Child Care Program	381,077	369,093
Total grants receivable	\$2,091,761	\$1,364,803

For the years ended June 30, 2010 and 2009

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 has not experienced any significant write-offs in past years, as all grant 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 vary and are concurrent with the fiscal year. For the years ended June 30, 2010 and 2009, OCHS incurred \$907,869 and 995,710, respectively, in rent expense.

Future minimum lease payments required under operating leases having initial or remaining non-cancelable lease terms in excess of one year at June 30, 2010 are as follows:

<i>For the year ending June 30,</i>	<i>Main Office</i>	<i>Centers</i>	<i>Total</i>
2011	\$ 447,855	\$ 599,604	\$1,047,459
2012	528,548	394,770	923,318
2013	543,758	273,680	817,438
2014	558,968	143,521	702,489
2015	381,518	16,664	398,182
Thereafter	-	216,632	216,632
Total	\$2,460,647	\$1,644,871	\$4,105,518

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 the Organization staff members into a tax-sheltered annuity program.

The previously existing Union Contract has expired on May 31, 2009. A decertification election was held and employees voted to decertify the Union. The decertification was not upheld by the Labor Board. During the year, a new election for the decertification of the Union was held. The employees voted to decertify the Union which was upheld by the Labor Board.

Although the terms of the Union contract expired, the Head Start Program has continued to contribute an amount equal to 3.5% of gross salaries of former Union members into the tax sheltered annuity. In addition, the Program matches the former Union members' voluntary contributions dollar for dollar up to an additional 3.5% of their gross salaries.

For the years ending June 30, 2010 and 2009, total retirement costs totaled \$780,417 and \$749,331, 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 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' programs.

ORANGE COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS

For the years ended June 30, 2010 and 2009

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

<i>For the years ended June 30,</i>	2010	2009
Program service	\$34,652,573	\$32,228,217
Management and general	4,627,658	4,765,938
Total expenses	\$39,280,231	\$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 \$3,434,833 and \$3,732,606 for the years ended June 30, 2010 and 2009, respectively.

In addition, donated parent and volunteer services with an estimated value of \$5,434,450 and \$4,975,283 for the years ended June 30, 2010 and 2009, respectively, 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, 2010 and 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 years ended June 30,</i>	2010	2009
Personnel	\$ 158,240	\$ 250,497
Contractual	410,661	684,764
Space	2,417,282	2,338,986
Supplies	153,737	94,241
Use allowance of equipment purchased with federal funds	294,913	364,118
Total reported on schedule of activities by grant (page 10)	3,434,833	3,732,606
Additional in-kind meeting federal guidelines	5,434,450	4,975,283
Less use allowance of equipment purchased with federal funds not allowed as in-kind match toward federal award purchased	(294,913)	(364,118)
Total in-kind contributions reported on Head Start schedule of expenses compared to budget (page 13)	\$ 8,574,370	\$ 8,343,771

NOTE 8

SUBSEQUENT EVENT

Subsequent to June 30, 2010, OCHS received federal approval for an ARRA EHS Expansion grant for the second year in the amount of \$2,051,341.

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

	Head Start							Total	CCFP	E-Rate	Others	Total
	Head Start	ARRA Cola	ARRA EHS	ARRA EHS	Expansion	In-Kind	Total					
Revenue:												
Head Start grant	\$32,447,783	\$1,574,555	\$	226,467	\$	-	\$ 34,248,805	\$	-	\$	-	\$ 34,248,805
In-kind contributions	-	-	-	-	-	3,434,833	3,434,833	-	-	-	-	3,434,833
Child care food program	-	-	-	-	-	-	-	1,430,937	-	-	-	1,430,937
Other grants	-	-	-	-	-	-	-	-	80,428	-	85,228	165,656
Total revenue	32,447,783	1,574,555	226,467	226,467	3,434,833	37,683,638	37,683,638	1,430,937	80,428	85,228	85,228	39,280,231
Expenses:												
Personnel	19,183,745	569,969	80,000	80,000	158,240	19,991,954	19,991,954	88,531	-	-	-	20,080,485
Fringe benefits	6,864,669	106,300	22,837	22,837	-	6,993,806	6,993,806	-	-	-	-	6,993,806
Space	2,722,275	248,822	11,755	11,755	2,417,282	5,400,134	5,400,134	-	80,428	-	29,557	5,510,119
Supplies	1,391,722	13,951	9,564	9,564	153,737	1,568,974	1,568,974	1,342,406	-	-	3,907	2,915,287
Contractual	556,255	635,108	79,970	79,970	410,661	1,681,994	1,681,994	-	-	-	2,558	1,684,552
Other	1,040,967	405	1,354	1,354	294,913	1,337,639	1,337,639	-	-	-	45,769	1,383,408
Training and technical assistance	288,043	-	-	-	-	288,043	288,043	-	-	-	-	288,043
Travel and transportation	172,624	-	401	401	-	173,025	173,025	-	-	-	3,437	176,462
Equipment	227,483	-	20,586	20,586	-	248,069	248,069	-	-	-	-	248,069
Total expenses	32,447,783	1,574,555	226,467	226,467	3,434,833	37,683,638	37,683,638	1,430,937	80,428	85,228	85,228	39,280,231
Change in net assets	-	-	-	-	-	-	-	-	-	-	-	-
Net assets, beginning of year	-	-	-	-	-	-	-	-	4,353	151,169	151,169	155,522
Net assets, end of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,353	\$ 151,169	\$ 151,169	\$ 155,522

See the report of independent auditors

Note:
 In-kind contributions of volunteer services in the amount of \$5,434,450 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

For the year ended June 30, 2010	Fringe			Training and					Total	
	Personnel	benefits	Space	Supplies	Contractual	Other	technical assistance	Travel and trans- portation		Equipment
Administration expenses:										
Executive	\$ 234,845	\$ 59,461	\$ 41,656	\$ 6,050	\$ 21,172	\$ 43,830	\$ 43,327	\$ 1,442	\$ -	\$ 451,783
Quality systems	460,419	124,675	-	14,267	-	5,530	5,061	5,264	-	615,216
Human resources	295,885	105,497	-	4,801	67,489	43,105	9,870	1,651	-	528,298
Accounting/Procurement	533,488	147,839	45,553	64,135	68,727	199,573	3,894	1,869	332	1,065,410
Administrative - Miscellaneous	244,406	74,477	319,912	4,420	57,762	12,767	233	4,841	57,725	776,543
Total administration expenses	1,769,043	511,949	407,121	93,673	215,150	304,805	62,385	15,067	58,057	3,437,250
Program expenses:										
Executive-Program	104,035	22,096	17,852	2,593	9,074	18,784	18,569	618	-	193,621
Facilities	133,820	43,068	541,098	5,887	-	3,219	-	13,446	-	740,538
Governance	170,769	54,207	-	10,058	575	52,687	3,236	263	-	291,795
Education	479,242	138,167	3,750	211,957	62,395	37,405	96,650	3,634	44,988	1,078,188
Disabilities	247,071	78,413	-	6,738	106	3,078	225	4,673	-	340,304
Health	303,811	98,064	-	12,791	2,115	5,095	902	5,912	-	428,690
Social services	1,059,916	380,618	-	1,603	-	8,237	8	10,676	-	1,461,058
Program services	479,983	149,541	115,377	8,123	-	6,916	645	4,335	-	764,920
Early Head Start	482,603	212,077	34,577	28,097	-	11,213	18,737	1,786	2,052	791,142
ARRA/COLA Quality *	569,969	106,300	248,822	13,951	635,108	405	-	-	-	1,574,555
EHS Expansion Program	80,000	22,836	11,755	9,565	79,970	1,354	-	401	20,586	226,467
Program Improvement	-	-	332,487	-	17,323	-	-	-	-	349,810
Food Services/Nutrition	536,835	249,903	91,483	97,956	899	31,792	1,748	43,221	32,745	1,086,582
Total program expenses	4,648,054	1,555,290	1,397,201	409,319	807,565	180,185	140,720	88,965	100,371	9,327,670
Total centers' expenses	7,765,171	2,965,605	1,118,537	468,715	-	67,427	-	58,716	89,641	12,533,812
Grantee in-kind contributions	158,240	-	2,156,685	111,394	405,661	294,913	-	-	-	3,126,893
Total grantee	14,340,508	5,032,844	5,079,544	1,083,101	1,428,376	847,330	203,105	162,748	248,069	28,425,625
Delegate agency expenses:										
Orange Children & Parents Together	1,621,910	538,440	15,845	108,864	27,773	215,841	24,863	-	-	2,553,536
Anaheim City School District	1,294,444	496,243	-	51,892	42,530	42,301	18,724	2,378	-	1,948,512
City of La Habra	766,417	203,001	-	84,655	52,628	72,621	13,220	7,890	-	1,200,432
Santa Ana Unified School District	1,533,456	601,491	-	176,192	125,687	167,523	22,163	10	-	2,626,522
Irvine Head Start	435,219	121,789	-	21,924	-	36,171	5,968	-	-	621,071
Delegate in-kind contributions	-	-	260,597	42,343	5,000	-	-	-	-	307,940
Total delegate agency expenses	5,651,446	1,960,964	276,442	485,870	253,618	534,457	84,938	10,278	-	9,258,013
Total Head Start expenses	19,991,954	6,993,808	5,355,986	1,568,971	1,681,994	1,381,787	288,043	173,026	248,069	37,683,638
Total CCFP expenses	88,531	-	-	1,342,406	-	-	-	-	-	1,430,937
Moskowitz Foundation	-	-	-	-	-	1,196	-	3,437	-	4,633
E-Rate Program	-	-	80,428	3,807	-	-	-	-	-	84,235
Program income - Federal	-	-	44,148	-	-	-	-	-	-	44,148
Program income - Non-Federal	-	-	29,557	-	-	-	-	-	-	29,557
Miscellaneous donations	-	-	-	325	2,558	200	-	-	-	3,083
Total other grants	-	-	154,133	4,132	2,558	1,396	-	3,437	-	165,650
Total expenses	\$ 20,080,485	\$ 6,993,808	\$ 5,510,119	\$ 2,915,509	\$ 1,684,552	\$ 1,383,183	\$ 288,043	\$ 176,463	\$ 248,069	\$ 39,280,231

See the report of independent auditors

Note:

In-kind contributions of volunteer services in the amount of \$5,434,450 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, 2010</i>		Fringe				Travel and			Total
	Personnel	benefits	Space	Supplies	Other	transportation	Equipment	Total	
Expenses by Center:									
HS Home Base North	\$ 149,742	\$ 65,513	\$ -	\$ 5,234	\$ -	\$ 10,408	\$ -	\$ 230,897	
HS Home Base South	155,482	73,037	-	6,208	24,140	7,791	336	266,994	
Costa Mesa	11,671	10,718	2,779	40	114	-	1,261	26,583	
Placentia	505,254	191,552	105,824	26,708	1,820	2,566	4,541	838,265	
Capo	283,049	115,564	27,419	22,755	657	3,555	3,972	456,971	
D.L. Wood	384,866	155,726	60,347	22,373	1,777	2,973	4,216	632,278	
Fullerton	368,865	146,184	65,837	32,473	2,058	2,249	4,709	622,375	
Delhi	249,003	95,315	78,679	27,296	2,082	961	3,596	456,932	
Ted Fisher	645,799	233,797	232,473	34,972	1,800	4,564	6,680	1,160,085	
Brea	218,304	87,669	42,125	12,809	1,122	973	3,595	366,597	
Ruby Drive	242,076	91,213	6,508	15,900	1,550	3,209	2,643	363,099	
Hawaiian Gardens	306,174	120,566	47,617	19,790	1,682	2,205	3,186	501,220	
Buena Park	329,865	125,871	29,889	16,510	920	981	3,185	507,221	
Baden Powell	387,969	132,993	29,757	19,641	885	641	5,769	577,655	
Walter	250,444	105,041	25,645	17,815	2,462	832	4,196	406,435	
Jean Hardy	379,103	143,128	25,682	13,995	1,124	1,826	3,246	568,104	
Evelynne Lobo Villegas	253,455	88,714	62,741	18,456	1,152	2,143	3,164	429,825	
Centralia	288,920	105,058	54,343	22,589	1,595	1,235	3,297	477,037	
Matt Kline	521,130	203,010	39,181	21,005	2,178	1,320	4,582	792,406	
KIDS	375,973	138,584	71,704	20,229	620	905	3,886	611,901	
Glenn L. Martin	436,865	166,216	22,686	21,218	1,021	2,233	5,304	655,543	
Schweitzer	291,750	117,365	13,007	13,412	2,065	1,320	4,425	443,344	
Topaz	408,498	146,454	21,678	25,330	12,498	1,038	4,778	620,274	
Midway	222,049	69,619	52,558	10,933	1,767	2,248	3,341	362,515	
Tustin	98,865	36,698	58	21,024	338	540	1,733	159,256	
Total Centers' expenses	\$ 7,765,171	\$ 2,965,605	\$ 1,118,537	\$ 468,715	\$ 67,427	\$ 58,716	\$ 89,641	\$ 12,533,812	

See the report of independent auditors

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

<i>For the year ended June 30, 2010</i>	Budget	Actual	Actual over (under) budget
Expenses:			
Personnel	\$ 19,756,085	\$ 19,833,714	\$ 77,629
Fringe benefits	7,107,214	6,993,806	(113,408)
Space	2,976,422	2,982,852	6,430
Supplies	1,337,214	1,415,237	78,023
Contractual	1,274,836	1,271,333	(3,503)
Other	1,115,866	1,042,726	(73,140)
Travel and transportation	163,339	173,025	9,686
Equipment	229,786	248,069	18,283
Total	33,960,762	33,960,762	-
Training and technical assistance:	288,043	288,043	-
Total federal funds	34,248,805	34,248,805	-
In-kind match-Head Start	8,565,699	8,574,370	8,671
Total expenses	\$ 42,814,504	\$ 42,823,175	\$ 8,671

See the report of independent auditors

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

Month	Breakfast	Rate	Total	Lunch	Rate	Total	Supper	Rate	Total	Snacks	Rate	Total	Total Federal	Total Meals
July 2009	4,227	1.46	6,171	4,585	2.68	12,288	-	2.68	-	3,545	0.74	2,623	21,082	12,357
August 2009	2,410	1.46	3,519	2,610	2.68	6,995	-	2.68	-	2,012	0.74	1,489	12,003	7,032
September 2009	15,971	1.46	23,318	26,067	2.68	69,860	923	2.68	2,474	14,778	0.74	10,936	106,588	57,739
October 2009	21,297	1.46	31,094	36,034	2.68	96,571	1,598	2.68	4,283	21,196	0.74	15,685	147,633	80,125
November 2009	18,029	1.46	26,322	30,398	2.68	81,467	1,379	2.68	3,696	18,009	0.74	13,327	124,812	67,815
December 2009	14,972	1.46	21,859	24,743	2.68	66,311	1,056	2.68	2,830	15,041	0.74	11,130	102,130	55,812
January 2010	18,802	1.46	27,451	31,472	2.68	84,345	1,389	2.68	3,723	18,439	0.74	13,645	129,164	70,102
February 2010	18,874	1.46	27,556	32,232	2.68	86,382	1,498	2.68	4,015	19,311	0.74	14,290	132,243	71,915
March 2010	24,100	1.46	35,186	41,347	2.68	110,810	2,039	2.68	5,465	24,885	0.74	18,415	169,876	92,371
April 2010	18,038	1.46	26,335	30,367	2.68	81,384	1,415	2.68	3,792	18,421	0.74	13,632	125,143	68,241
May 2010	20,807	1.46	30,378	35,590	2.68	95,381	1,697	2.68	4,548	21,300	0.74	15,762	146,069	79,394
June 2010	11,337	1.46	16,549	17,066	2.68	45,737	655	2.68	1,755	10,861	0.74	8,037	72,078	39,919
Total Center meals	188,864		275,738	312,511		837,531	13,649		36,581	187,798		138,971	1,288,821	702,822
Total federal														

Federal Reimbursement			
Cash-in-lieu of Commodities (Lunch & Supper Meals)	0.1950	326,160	63,601
Total Federal Reimbursement:		501,375	78,515
State Reimbursement (Breakfast & Lunch Meals)	0.1566	1,430,937	1,288,821

See the report of independent auditors

ORANGE COUNTY HEAD START, INC.

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. ("OCHS" or the "Organization") (a California nonprofit organization) as of and for the years ended June 30, 2010, and have issued our report thereon dated October 8, 2010. 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

This report is intended solely 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.

Rosie Bookaril & Finkelstein LLP

October 8, 2010

ORANGE COUNTY HEAD START, INC.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Orange County Head Start, Inc.'s ("OCHS" or the "Organization") (a California nonprofit organization) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of OCHS' major federal programs for the year ended June 30, 2010. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of OCHS' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a

ORANGE COUNTY HEAD START, INC.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis.

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 over compliance that might be deficiencies, 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 solely 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 Droskavil & Finkelstein LLP

October 8, 2010

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

<i>For the year ended June 30, 2010</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	09CH0007/29	\$ 32,447,783	\$ 32,447,783	\$ 32,447,783
ARRA-Cola & Quality Improvement Grant	93.708	09SE0007/01	2,085,981	1,574,555	1,574,555
ARRA-Early Head Start Expansion Grant	93.709	09SA0007/01	2,002,499	226,467	226,467
Universal Discount for Schools and Libraries (E-Rate)			80,428	80,428	80,428
<u>U.S. Department of Agriculture:</u>					
Pass through State of California					
<u>Department of Education:</u>					
Child Care Food Program	10.558	30-1453-OJ	N/A	1,352,422	1,352,422
Total Federal Awards				\$ 35,681,655	\$ 35,681,655
<u>State Program</u>					
<u>State of California Department of Education:</u>					
Child Care Food Program	N/A	30-14530J	N/A	\$ 78,515	\$ 78,515
<u>Amount Provided to Sub-recipients:</u>					
<u>U.S. Department of Health and Human Services:</u>					
Orange Children & Parents Together (OCPT)	93.600	09CH0007/29	N/A	\$ 2,553,536	\$ 2,553,536
Orange Children & Parents Together (OCPT)	93.708	09SE0007/01	N/A	117,953	117,953
Orange Children & Parents Together (OCPT)	93.709	09SA0007/01	N/A	50,170	50,170
Anaheim City School District	93.600	09CH0007/29	N/A	1,948,512	1,948,512
Anaheim City School District	93.708	09SE0007/01	N/A	134,183	134,183
City of La Habra	93.600	09CH0007/29	N/A	1,200,432	1,200,432
City of La Habra	93.708	09SE0007/01	N/A	55,426	55,426
City of La Habra	93.709	09SA0007/01	N/A	29,800	29,800
Santa Ana Unified School District	93.600	09CH0007/29	N/A	2,626,522	2,626,522
Santa Ana Unified School District	93.708	09SE0007/01	N/A	177,645	177,645
Irvine Head Start	93.600	09CH0007/29	N/A	621,069	621,069
Irvine Head Start	93.708	09SE0007/01	N/A	32,737	32,737
Total				\$ 9,547,985	\$ 9,547,985

See the report of independent auditors

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	\$ 32,447,783
93.708	ARRA - Head Start	\$ 1,574,555
10.558	Child and Adult Care Food Program	\$ 1,352,422

Dollar threshold used to distinguish between Type A and Type B programs \$ 1,076,643

Auditee qualified as low-risk auditee? Yes No

FINANCIAL STATEMENT FINDINGS

There are no financial statement findings.

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

For the year ended June 30, 2010

There are no federal award findings and questioned costs

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

There were no prior audit findings or recommendations.