



AUDITED FINANCIAL STATEMENTS
AND REPORTS IN COMPLIANCE WITH OMB CIRCULAR A-133
AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

ORANGE COUNTY HEAD START, INC.
FINANCIAL STATEMENTS

CONTENTS

<i>As of and for the years ended June 30, 2011 and 2010</i>	Page
Independent Auditor's Report	1 - 2
Financial statements:	
Statement of financial position as of June 30, 2011 and 2010	3
Statement of activities for the years ended June 30, 2011 and 2010	4
Statement of cash flows for the years ended June 30, 2011 and 2010	5
Notes to financial statements for the years ended June 30, 2011 and 2010	6 - 11
Supplementary Information:	
Supplemental schedule of activities by grant	12
Supplemental schedule of expenses by category	13
Supplemental schedule of expenses by Head Start centers	14
Supplemental schedule of expenses compared to budget	15
Supplemental schedule of reported meals and earned reimbursement	16
Schedule of expenditures of federal and state awards	17
Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	18 - 19
Independent auditor's 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	20 - 21
Schedule of findings and questioned costs	22 - 23
Status of prior year findings and recommendations	24

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INDEPENDENT AUDITOR'S REPORT

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, 2011 and 2010, 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 audits.

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 audits provide 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, 2011 and 2010, 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 November 18, 2011 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.

**INDEPENDENT AUDITOR'S REPORT
(CONTINUED)**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying schedule of expenditures of federal and state awards on page 17 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 grant, schedule of expenses by category, schedule of expenses by Head Start centers, schedule of expenses compared to budget, schedule of reported meals and earned reimbursement on pages 12-16 are also not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Rossi Doskocil & Finkelstein LLP

November 18, 2011

ORANGE COUNTY HEAD START, INC.
STATEMENT OF FINANCIAL POSITION

<i>As of June 30,</i>	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 559,673	\$ 713,758
Grants receivable	1,986,460	2,091,761
Other receivables	8,929	8,644
Prepaid expenses	206,065	134,875
Deposits	48,166	48,166
Total assets	\$ 2,809,293	\$ 2,997,204
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 811,444	\$ 1,177,614
Accrued expenses - other	945,771	1,316,976
Accrued vacation	418,044	318,608
Advances - other grants	6,804	19,591
Due to delegates	172,616	8,893
Total current liabilities	2,354,679	2,841,682
Commitments and contingencies		
Net assets:		
Unrestricted	454,614	155,522
Total net assets	454,614	155,522
Total liabilities and net assets	\$ 2,809,293	\$ 2,997,204

The accompanying notes are an integral part of these financial statements

ORANGE COUNTY HEAD START, INC.
STATEMENT OF ACTIVITIES

<i>For the years ended June 30,</i>	2011	2010
Revenues:		
Head Start grants	\$ 36,023,318	\$ 34,248,805
In-kind contributions	2,427,924	3,434,833
Child care food program	1,547,511	1,430,937
Other grants	335,402	165,656
Total revenue	40,334,155	39,280,231
Expenses:		
Personnel	20,661,142	20,080,485
Fringe benefits	7,363,843	6,993,806
Space	5,467,133	5,510,119
Supplies	2,943,736	2,915,287
Other	1,361,595	1,383,408
Contractual	1,364,444	1,684,552
Training and technical assistance	438,039	288,043
Equipment	253,609	248,069
Travel and transportation	181,522	176,462
Total expenses	40,035,063	39,280,231
Change in net assets	299,092	-
Net assets, beginning of year	155,522	155,522
Net assets, end of year	\$ 454,614	\$ 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 years ended June 30,</i>	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 299,092	\$ -
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
(Increase) decrease in assets:		
Grants receivable	105,301	(726,958)
Other receivables	(285)	42,382
Prepaid expenses	(71,190)	(105,733)
Deposits	-	46,631
Increase (decrease) in liabilities:		
Accounts payable	(366,170)	305,963
Accrued expenses - other	(371,205)	631,939
Accrued vacation	99,436	67,668
Advances - other grants	(12,787)	10,081
Due to delegates	163,723	(46,114)
Net cash (used in) provided by operating activities	(154,085)	225,859
Cash and cash equivalents, beginning of year	713,758	487,899
Cash and cash equivalents, end of year	\$ 559,673	\$ 713,758

The accompanying notes are an integral part of these financial statements

For the years ended June 30, 2011 and 2010

NOTE 1

ORGANIZATION AND PURPOSE

The Head Start Program, administered by Orange County Head Start, Inc. (“OCHS” or the “Organization”) in the Orange County area, is a comprehensive child development program designed to meet the educational, emotional, social, health, and nutritional needs of children and families. The program encompasses much more than what is generally thought of as a preschool program. The overall goal of Head Start is to bring about a greater degree of "social competence" to children and their families. Social competence refers to the everyday effectiveness in dealing with both present environment and later responsibilities in school and life. Children and families leave Head Start more confident in their own abilities and ready to succeed.

Nationally, Head Start began providing services in 1965 and is now available to children and families in counties throughout the country. Locally, OCHS has been in existence since 1979 and currently services over 4,100 children. Head Start services are available to preschool children from low-income families at no cost. OCHS has centers located throughout the county.

Program services:

Early Childhood Development and Health Services—The program promotes school readiness by enhancing the social and cognitive development of low-income children including children with disabilities through the provision of comprehensive health, educational, nutritional, social and other services necessary for children’s learning.

Family and Community Partnership – The program encourages and promotes parents involvement 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.

Program Design and Management – The program also provides training and technical assistance to the Organization’s program staff such as human resources and administration of the program.

American Recovery and Reinvestment Act Funding (“ARRA”) – During the year ended June 30, 2011 and 2010, OCHS received additional ARRA funding namely: (1) ARRA COLA and Quality Improvement program which provides additional funding for cost-of-living and quality improvement which enhances the Head Start program; and (2) ARRA Early Head Start Expansion program which provides for the expansion of the Early Head Start program services.

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 July 1, 2011 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 (“FASB”) in its Accounting Standards Codification (“ASC”) 958, *Not-for-Profit Entities*. Under these provisions, net asset and revenues, expenses, gains and losses are

For the years ended June 30, 2011 and 2010

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 net assets at June 30, 2011 and 2010.

Permanently restricted net assets - Net assets subject to permanent donor-imposed stipulations that the Organization maintains them permanently. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. There were no permanently restricted net assets at June 30, 2011 and 2010.

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 statement of activities 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.

Fair value of financial instruments:

The Organization's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and other liabilities are carried at cost, which approximates their fair values because of the short-term maturity of these instruments.

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 the respective reporting period. Actual results could differ from those estimates.

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.

For the years ended June 30, 2011 and 2010

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, 2011 and 2010 was \$6,004,628 and \$5,969,347, respectively. For the years ended June 30, 2011 and 2010, the property and equipment use allowance recognized was \$291,539 and \$294,913, respectively.

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, 2011 and 2010, 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 FASB ASC 958, *Not-for-Profit Entities*, 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 FASB 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.

The Organization follows the provisions of FASB ASC 740-10, *Income Taxes* and subsections thereof. Accordingly, OCHS accounts for uncertain tax positions by recording a liability for unrecognized tax benefits resulting from uncertain tax positions taken, or expected to be taken, in its tax returns. The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained by the appropriate taxing authorities. The Organization does not believe that its financial statements include any uncertain tax positions and accordingly, has not recognized any liability for unrecognized tax benefits in the accompanying financial statements.

Risk concentration:

Approximately 89% and 87% of the funding for OCHS comes from the U.S. Department of Health and Human Services ("DHHS") for the years ended June 30, 2011 and 2010, respectively. At June 30, 2011 and 2010, amounts due from DHHS in grants receivable were \$1,727,121 and \$1,710,684 which accounted for 87% and 82%, respectively, of total grants receivable.

In addition, amounts due from the State of California for the child care food program were \$259,339 and \$381,077 which accounted for 13% and 18%, respectively, of total grants receivable.

For the years ended June 30, 2011 and 2010

Financial instruments and credit risk concentration:

OCHS cash funds are exposed to credit loss for the amount of funds held in financial institutions in excess of the Federal Deposit Insurance Corporation (“FDIC”) insured limits of \$250,000. At various times, OCHS had cash in banks in excess of the FDIC limits during the years ended June 30, 2011 and 2010. 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 has not experienced and does not anticipate nonperformance by such institutions.

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>	2011	2010
Head Start	\$1,727,121	\$1,710,684
Child Care Program	259,339	381,077
Total grants receivable	\$1,986,460	\$2,091,761

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, 2011 and 2010, OCHS incurred \$1,197,760 and \$907,869, 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, 2011 are as follows:

<i>For the year ending June 30,</i>	<i>Main Office</i>	<i>Centers</i>	<i>Total</i>
2012	\$ 528,548	\$ 587,741	\$1,116,289
2013	543,758	342,507	886,265
2014	558,968	201,777	760,745
2015	381,518	92,992	474,510
2016	-	67,492	67,492
Thereafter to 2028	-	579,074	579,074
Total	\$2,012,792	\$1,871,583	\$3,884,375

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. An election for the decertification of the Union was held during the year ended June 30, 2010. The employees voted to decertify the Union which was upheld by the Labor Board.

For the years ended June 30, 2011 and 2010

After the decertification of the union contract, 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. This was in effect up until December 31, 2010.

As of January 1, 2011, OCHS now contributes an amount equal to 5 percent of gross salaries of all employees into the tax sheltered annuity. In addition, the Head Start Program matches all employees' voluntary contributions dollar for dollar up to an additional 2 percent of their gross salaries.

For the years ending June 30, 2011 and 2010, the Organization's retirement contributions totaled \$912,178 and \$780,417, 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.

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

<i>For the years ended June 30,</i>	2011	2010
Program service	\$35,092,791	\$ 34,652,573
Management and general	4,942,272	4,627,658
Total expenses	\$40,035,063	\$ 39,280,231

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 recognized under generally accepted accounting principles ("GAAP") were \$2,427,924 and \$3,434,833 for the years ended June 30, 2011 and 2010, respectively.

In addition, donated parent and volunteer services with an estimated value of \$4,881,259 and \$5,434,450 for the years ended June 30, 2011 and 2010, respectively, were not recognized in the financial statements as they did not meet the criteria for recognition under FASB ASC 958.

During the year ended June 30, 2011, the Organization requested the Department of Health and Human Services through the Administration for Children and Families Financial Assistance Office ("ACF") to reduce the required matching of the federal grants through recognized in-kind contributions. ACF agreed to reduce the in-kind match from 20% to 16%.

ORANGE COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS

For the years ended June 30, 2011 and 2010

A summary of in-kind contributions received and reported and in-kind contributions meeting criteria of FASB ASC 958 and included in the Statement of Activities under various expense categories for the years ended June 30, 2011 and 2010 is as follows:

<i>For the years ended June 30,</i>	2011	2010
Personnel	\$ 40,093	\$ 158,240
Contractual	283,184	410,661
Space	1,793,080	2,417,282
Supplies	20,028	153,737
Use allowance of equipment purchased with federal funds	291,539	294,913
Total reported on schedule of activities by grant (page 12)	2,427,924	3,434,833
Additional in-kind meeting federal guidelines	4,881,259	5,434,450
Less use allowance of equipment purchased with federal funds not allowed as in-kind match toward federal award purchased	(291,539)	(294,913)
Total in-kind contributions reported on Head Start schedule of expenses compared to budget (page 15)	\$ 7,017,644	\$ 8,574,370

NOTE 8

SUBSEQUENT EVENT

Subsequent to June 30, 2011, OCHS received additional funding of \$1,001,250 for the twelve month period ending September 29, 2012. The additional funds represents 50% of the projected funding for the twelve month period and were provided to sustain expansion enrollment for 148 Early Head Start participants for this twelve month.

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

<i>For the year ended June 30, 2011</i>	Head Start								
	Head Start	ARRA Cola & Quality	ARRA EHS Expansion 2009-2010	ARRA EHS Expansion 2010-2011	In-Kind	Total	CACFP	Others	Total
Revenue:									
Head Start grant	\$32,298,295	\$ 511,425	\$1,776,039	\$1,437,559	\$ -	\$36,023,318	\$ -	\$ -	\$36,023,318
In-kind contributions	-	-	-	-	2,427,924	2,427,924	-	-	2,427,924
Child care food program	-	-	-	-	-	-	1,547,511	-	1,547,511
Other grants	-	-	-	-	-	-	-	335,402	335,402
Total revenue	32,298,295	511,425	1,776,039	1,437,559	2,427,924	38,451,242	1,547,511	335,402	40,334,155
Expenses:									
Personnel	19,578,178	1,917	304,167	694,933	40,093	20,619,288	41,854	-	20,661,142
Fringe benefits	6,973,339	28,941	93,682	267,881	-	7,363,843	-	-	7,363,843
Space	3,199,658	269,469	157,764	47,162	1,793,080	5,467,133	-	-	5,467,133
Supplies	860,612	32,690	472,252	25,153	20,028	1,410,735	1,505,644	27,357	2,943,736
Other	988,398	56,615	4,478	15,904	291,539	1,356,934	13	4,649	1,361,595
Contractual	44,750	114,473	622,675	298,162	283,184	1,363,244	-	1,200	1,364,444
Training and technical assistance	303,441	-	47,475	87,123	-	438,039	-	-	438,039
Equipment	193,368	-	60,121	120	-	253,609	-	-	253,609
Travel and transportation	156,551	7,320	13,425	1,121	-	178,417	-	3,104	181,522
Total expenses	32,298,295	511,425	1,776,039	1,437,559	2,427,924	38,451,242	1,547,511	36,310	40,035,063
Change in net assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 299,092	\$ 299,092

See the independent auditor's report

Note:

In-kind contributions of volunteer services in the amount of \$4,881,259 were not recorded in the financial statements because they did not meet the criteria for recognition under FASB ASC 958.

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

<i>For the year ended June 30, 2011</i>	Personnel	Fringe benefits	Space	Supplies	Other	Contractual	Training and technical assistance	Equipment	Travel and transportation	Total
Administration expenses:										
Executive	\$ 202,649	\$ 48,972	\$ 65,990	7,097	31,587	\$ 5,040	\$ -	\$ -	\$ 836	\$ 362,171
Quality systems	467,787	130,970	-	1,771	3,427	-	-	-	5,871	609,826
Human resources	314,843	79,885	413	4,698	20,074	10,853	-	-	577	431,343
Accounting/Procurement	543,902	142,703	69,785	7,638	185,509	63,327	-	865	283	1,014,012
Administrative - Miscellaneous	277,214	77,519	392,439	42,472	3,258	46,734	-	38,519	3,281	881,436
Total administration expenses	1,806,395	480,049	528,627	63,676	243,855	125,954	-	39,384	10,848	3,298,788
Program expenses:										
Executive - program	86,849	20,988	28,282	3,041	13,538	2,160	-	-	-	154,858
Facilities	162,346	50,550	653,931	7,879	463	-	-	1,185	13,981	890,335
Governance	176,515	53,164	359	2,682	49,471	-	-	-	1,051	283,242
Education	417,593	112,665	600	2,822	8,330	101,087	-	-	3,443	646,540
Disabilities	275,199	83,752	-	1,597	1,048	-	-	-	2,770	364,366
Health	370,299	123,319	-	6,628	5,169	3,332	-	-	6,478	515,225
Social services	992,782	372,512	-	687	3,442	1,028	-	-	10,685	1,381,136
Program services	485,550	167,451	170,541	3,503	10,546	-	-	-	3,591	841,182
Food Services/Nutrition	574,628	240,504	74,958	18,313	18,354	-	-	1,119	32,030	959,906
Grantee Head Start T&TA	-	-	-	-	1,625	-	201,245	-	-	202,870
Early Head Start	537,316	165,196	14,198	7,672	8,156	40,177	19,310	-	13,481	805,506
ARRA/COLA Quality	1,917	28,941	269,468	32,690	56,615	114,473	-	-	7,321	511,425
EHS Expansion Program 2009-10	304,167	91,896	426,809	472,252	4,478	355,416	47,475	60,121	13,425	1,776,039
EHS Expansion Program 2010-11	694,933	267,881	324,764	25,153	15,904	20,560	87,123	120	1,121	1,437,559
Total program expenses	5,080,094	1,778,819	1,963,910	584,919	197,139	638,233	355,153	62,545	109,377	10,770,189
Total centers' expenses	7,987,319	3,062,751	1,094,620	373,693	26,235	-	-	107,398	55,048	12,707,064
Grantee in-kind contributions	40,093	-	1,793,041	9,933	291,539	278,617	-	-	-	2,413,223
Total grantee	14,913,901	5,321,619	5,380,198	1,032,221	758,768	1,042,804	355,153	209,327	175,273	29,189,264
Delegate agency expenses:										
Orange Children & Parents Together	1,612,446	527,343	23,586	119,401	247,385	39,431	24,526	41,625	-	2,635,743
Anaheim City School District	1,263,258	511,216	-	41,822	141,395	38,643	18,724	-	463	2,015,521
City of La Habra	837,664	195,245	-	63,070	74,292	54,734	11,505	2,657	2,682	1,241,849
Santa Ana Unified School District	1,567,528	664,883	63,310	115,887	95,077	183,065	22,163	-	-	2,711,913
Irvine Head Start	424,491	143,537	-	28,239	40,016	-	5,968	-	-	642,251
Delegate in-kind contributions	-	-	39	10,095	-	4,567	-	-	-	14,701
Total delegate agency expenses	5,705,387	2,042,224	86,935	378,514	598,165	320,440	82,886	44,282	3,145	9,261,978
Total Head Start expenses	20,619,288	7,363,843	5,467,133	1,410,735	1,356,933	1,363,244	438,039	253,609	178,418	38,451,242
Total CCFP expenses	41,854	-	-	1,505,644	13	-	-	-	-	1,547,511
Moskowitz Foundation	-	-	-	1,198	224	-	-	-	2,844	4,266
RIF Grant	-	-	-	4,811	2,538	-	-	-	-	7,349
Program income - Non-Federal	-	-	-	20,123	-	-	-	-	-	20,123
Fatherhood program	-	-	-	-	1,769	1,200	-	-	-	2,969
Miscellaneous donations	-	-	-	1,225	118	-	-	-	260	1,603
Total other grants	-	-	-	27,357	4,649	1,200	-	-	3,104	36,310
Total expenses	\$ 20,661,142	\$ 7,363,843	\$ 5,467,133	\$ 2,943,736	\$ 1,361,595	\$ 1,364,444	\$ 438,039	\$ 253,609	\$ 181,522	\$ 40,035,063

See the independent auditor's report

Note:

In-kind contributions of volunteer services in the amount of \$4,881,259 were not recorded in the financial statements because they did not meet the criteria for recognition under FASB ASC 958.

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

<i>For the year ended June 30, 2011</i>	Personnel	Fringe benefits	Space	Supplies	Equipment	Travel and transportation	Other	Total
Expenses by Center:								
HS Home Base North	\$ 86,818	\$ 36,951	\$ -	\$ 9,162	\$ 145	\$ 4,439	\$ 147	\$ 137,662
HS Home Base South	77,200	41,318	-	5,080	158	4,022	2,124	129,902
Placentia	493,740	198,240	87,054	20,145	5,505	2,274	842	807,800
Capo	298,678	126,750	26,798	20,646	3,684	1,379	821	478,756
D.L. Wood	393,766	162,049	58,560	18,200	5,400	3,348	1,311	642,634
Fullerton	368,820	148,220	66,315	21,070	3,349	1,609	1,065	610,448
Delhi	283,600	114,487	70,133	13,327	5,034	730	843	488,154
Ted Fisher	691,547	259,089	227,762	31,590	10,039	4,792	2,532	1,227,351
Brea	223,500	89,212	40,369	11,492	4,935	1,249	824	371,581
Ruby Drive	265,943	105,845	8,186	14,744	3,715	3,167	1,206	402,806
Hawaiian Gardens	293,348	114,912	39,847	16,764	3,420	3,311	937	472,539
Buena Park	312,478	113,701	25,113	9,577	2,991	2,930	370	467,160
Baden Powell	439,093	150,698	23,917	14,993	3,978	982	1,152	634,813
Walter	289,257	118,851	26,623	11,164	5,453	1,047	1,119	453,514
Jean Hardy	365,097	127,454	23,899	12,734	4,766	1,986	751	536,687
Evelyne Lobo Villegas	264,267	93,888	57,676	12,790	3,264	2,216	732	434,833
Centralia	315,365	111,431	45,445	19,106	3,780	4,188	1,361	500,676
Matt Kline	529,891	219,759	30,666	15,373	3,696	2,771	976	803,132
KIDS	367,082	134,390	103,385	17,217	5,421	1,186	814	629,495
Glenn L. Martin	307,918	119,620	14,920	16,475	6,262	1,289	936	467,420
Schweitzer	286,355	115,770	9,527	13,975	5,828	2,346	1,350	435,151
Topaz	410,288	141,528	9,543	13,647	6,517	1,833	1,834	585,190
Midway	225,356	79,295	52,706	7,612	4,229	1,317	627	371,142
Tustin	126,614	53,063	988	7,175	3,312	221	242	191,615
Stanton	271,298	86,230	45,188	19,635	2,517	416	1,319	426,603
Total Centers' expenses	\$ 7,987,319	\$ 3,062,751	\$ 1,094,620	\$ 373,693	\$ 107,398	\$ 55,048	\$ 26,235	\$ 12,707,064

See the independent auditor's report

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

<i>For the year ended June 30, 2011</i>	Budget	Actual	Actual over (under) budget
Expenses:			
Personnel	\$ 20,639,765	\$ 20,579,195	\$ (60,570)
Fringe benefits	7,484,146	7,363,843	(120,303)
Space	3,637,492	3,674,053	36,561
Supplies	1,276,166	1,390,707	114,541
Other	922,249	1,065,394	143,145
Contractual	1,187,398	1,080,060	(107,338)
Travel and transportation	222,896	178,418	(44,478)
Equipment	215,077	253,609	38,532
Total	35,585,189	35,585,279	90
Training and technical assistance:	438,039	438,039	-
Total federal funds	36,023,228	36,023,318	90
In-kind match-Head Start	6,573,661	7,017,644	443,983
Total expenses	\$ 42,596,889	\$ 43,040,962	\$ 444,073

See the independent auditor's report

Note:

In-kind contributions include contributions in the amount of \$4,881,259 that were not recorded in the financial statements because they did not meet the criteria for recognition under FASB ASC 958 but met federal guidelines of in-kinds contributions.

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 2010	4,331	1.48	6,410	4,702	2.72	12,789	-	2.72	-	3,894	0.74	2,882	22,081	12,927
August 2010	2,760	1.48	4,085	2,975	2.72	8,092	-	2.72	-	2,484	0.74	1,838	14,015	8,219
September 2010	17,742	1.48	26,258	30,030	2.72	81,682	622	2.72	1,692	16,667	0.74	12,334	121,966	65,061
October 2010	22,667	1.48	33,547	37,775	2.72	102,748	1,048	2.72	2,851	21,591	0.74	15,977	155,123	83,081
November 2010	20,707	1.48	30,646	35,245	2.72	95,866	965	2.72	2,625	20,477	0.74	15,153	144,290	77,394
December 2010	14,900	1.48	22,052	24,814	2.72	67,494	635	2.72	1,727	14,302	0.74	10,583	101,856	54,651
January 2011	21,570	1.48	31,924	36,939	2.72	100,474	1,049	2.72	2,853	21,537	0.74	15,937	151,188	81,095
February 2011	20,641	1.48	30,549	35,233	2.72	95,834	959	2.72	2,608	20,554	0.74	15,210	144,201	77,387
March 2011	25,629	1.48	37,931	43,937	2.72	119,509	1,202	2.72	3,269	25,582	0.74	18,931	179,640	96,350
April 2011	18,049	1.48	26,713	30,261	2.72	82,310	864	2.72	2,350	18,154	0.74	13,434	124,807	67,328
May 2011	23,158	1.48	34,274	39,664	2.72	107,886	1,149	2.72	3,125	23,206	0.74	17,172	162,457	87,177
June 2011	11,308	1.48	16,736	16,679	2.72	45,367	353	2.72	960	10,703	0.74	7,920	70,983	39,043
Total Center meals	203,462			338,254			8,846			199,151				749,713
Total federal			\$ 301,125			\$ 920,051			\$ 24,060			\$ 147,371	\$ 1,392,607	

Federal Reimbursement

\$ 1,392,607

Cash-in-lieu of Commodities (Lunch & Supper Meals)

\$ 0.2025

347,100

70,288

Total Federal Reimbursement:

1,462,895

State Reimbursement (Breakfast & Lunch Meals)

\$ 0.1562

541,716

84,616

\$ 1,547,511

See the independent auditor's report

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

<i>For the year ended June 30, 2011</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	09CH0007/30	\$ 32,681,295	\$ 32,298,295	\$ 32,298,295
ARRA-Cola & Quality Improvement Grant	93.708	09SE0007/01	511,425	511,425	511,425
ARRA-Early Head Start Expansion Grant	93.709	09SA0007/01	1,776,039	1,776,039	1,776,039
ARRA-Early Head Start Expansion Grant	93.709	09SA0007/02	2,051,341	1,437,559	1,437,559
Universal Discount for Schools and Libraries (E-Rate)				261,845	-
<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	1,462,895	1,462,895
Total Federal Awards				\$ 37,748,058	\$ 37,486,213
<u>State Program</u>					
<u>State of California Department of Education:</u>					
Child Care Food Program	N/A	30-14530J	N/A	\$ 84,616	\$ 84,616
Amount Provided to Sub-recipients:					
<u>U.S. Department of Health and Human Services:</u>					
Orange Children & Parents Together (OCPT)	93.600	09CH0007/30	N/A	\$ 2,635,743	\$ 2,635,743
Orange Children & Parents Together (OCPT)	93.708	09SE0007/01	N/A	41,608	41,608
Orange Children & Parents Together (OCPT)	93.709	09SA0007/01	N/A	93,389	93,389
Orange Children & Parents Together (OCPT)	93.709	09SA0007/02	N/A	112,355	112,355
Anaheim City School District	93.600	09CH0007/30	N/A	2,015,521	2,015,521
City of La Habra	93.600	09CH0007/30	N/A	1,241,849	1,241,849
City of La Habra	93.708	09SE0007/01	N/A	26,588	26,588
City of La Habra	93.709	09SA0007/01	N/A	175,655	175,655
City of La Habra	93.709	09SA0007/02	N/A	165,247	165,247
Santa Ana Unified School District	93.600	09CH0007/30	N/A	2,711,913	2,711,913
Irvine Head Start	93.600	09CH0007/30	N/A	642,251	642,251
Irvine Head Start	93.708	09SE0007/01	N/A	9,457	9,457
Total				\$ 9,871,576	\$ 9,871,576

See the independent auditor's report

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.

INDEPENDENT AUDITOR'S 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*

INDEPENDENT AUDITOR'S REPORT

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, 2011, and have issued our report thereon dated November 18, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting 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.

ORANGE COUNTY HEAD START, INC.

INDEPENDENT AUDITOR'S 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*

**INDEPENDENT AUDITOR'S REPORT
(CONTINUED)**

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.

Rossi Droskovic & Finkelstein LLP

November 18, 2011

ORANGE COUNTY HEAD START, INC.

INDEPENDENT AUDITOR'S 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

INDEPENDENT AUDITOR'S REPORT

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, 2011. 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, 2011.

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.

ORANGE COUNTY HEAD START, INC.

INDEPENDENT AUDITOR'S 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

**INDEPENDENT AUDITOR'S REPORT
(CONTINUED)**

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be 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 Doskovic & Finkelstein LLP

November 18, 2011

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>
Head Start Cluster		
93.600	Head Start	\$ 32,298,295
93.708	ARRA - Head Start	\$ 511,425
93.709	ARRA – Early Head Start	\$ 3,213,598

Dollar threshold used to distinguish between Type A and Type B programs \$ 1,124,586

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, 2011

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.