

FINANCIAL STATEMENTS

SULLIVAN COUNTY HEAD START, INC.

MARCH 31, 2011

SULLIVAN COUNTY HEAD START, INC.

MARCH 31, 2011

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KNACK, PAVLOFF & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Sullivan County Head Start, Inc.
Woodbourne, New York

We have audited the accompanying statement of financial position of Sullivan County Head Start, Inc. (a nonprofit organization) as of March 31, 2011 and 2010, and the related statements of support, revenue, expenses and changes in net assets; functional expenses; and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sullivan County Head Start, Inc., as of March 31, 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 July 1, 2011, on our consideration of Sullivan County Head Start, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Sullivan County Head Start, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 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 financial statements as a whole.

Knack, Pawloff & Company, LLP.

Monticello, New York

July 1, 2011

SULLIVAN COUNTY HEAD START, INC.
STATEMENTS OF FINANCIAL POSITION
March 31,

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash in Bank	\$ 115,461	\$ 83,945
Petty Cash	100	100
Prepaid Insurance	3,467	1,941
Due From U.S. Department of Health & Human Services	38,664	326,547
Due From County of Sullivan	26,798	28,914
Due From N.Y.S. Department of Health	44,698	36,324
Due from Fallsburg Central School District	11,323	11,587
Accounts Receivable - Other	<u>8,332</u>	<u>-</u>
TOTAL CURRENT ASSETS	248,843	489,358
NET FIXED ASSETS	<u>2,851,091</u>	<u>2,120,295</u>
TOTAL ASSETS	<u><u>\$3,099,934</u></u>	<u><u>\$2,609,653</u></u>
LIABILITIES & NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 41,659	\$ 41,286
Accrued Expenses	<u>147,910</u>	<u>153,436</u>
TOTAL LIABILITIES	<u>189,569</u>	<u>194,722</u>
NET ASSETS		
Unrestricted		
Undesignated	240,223	284,798
Restricted		
Temporarily	<u>2,670,142</u>	<u>2,130,133</u>
TOTAL NET ASSETS	<u>2,910,365</u>	<u>2,414,931</u>
TOTAL LIABILITIES & NET ASSETS	<u><u>\$3,099,934</u></u>	<u><u>\$2,609,653</u></u>

SEE ACCOMPANYING NOTES AND AUDITORS' REPORT

SULLIVAN COUNTY HEAD START, INC.
STATEMENTS OF SUPPORT, REVENUE, EXPENSES AND
CHANGES IN NET ASSETS
For The Years Ended March 31,

	<u>2011</u>	<u>2010</u>
UNRESTRICTED NET ASSETS		
SUPPORT		
Contributions	\$ 10,427	\$ 5,805
Donated Services & Materials	528,943	348,210
REVENUE		
Program Service Revenue	59,179	56,313
Interest Income	204	246
Miscellaneous	828	376
NET ASSETS RELEASED FROM RESTRICTIONS		
Restrictions Satisfied by Payments & Time	<u>3,349,579</u>	<u>3,048,222</u>
TOTAL SUPPORT & REVENUE	<u>3,949,160</u>	<u>3,459,172</u>
EXPENSES		
Program Services:		
Head Start Program	2,431,678	2,330,105
Early Head Start Program	930,463	559,344
Nutrition	<u>232,738</u>	<u>216,006</u>
Total Program Services	<u>3,594,879</u>	<u>3,105,455</u>
Supporting Services:		
Management & General	<u>398,856</u>	<u>336,525</u>
TOTAL EXPENSES	<u>3,993,735</u>	<u>3,441,980</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>(44,575)</u>	<u>17,192</u>
TEMPORARILY RESTRICTED ASSETS		
U.S. Department of Health & Human Services	3,593,524	3,046,569
N.Y.S. Department of Health	227,011	201,431
County of Sullivan	50,018	51,300
N.Y.S. Member Item	-	2,500
United Way	2,746	3,864
Fallsburg Central School District	16,289	17,988
NET ASSETS RELEASED FROM RESTRICTIONS		
Restrictions Satisfied by Payments & Time	<u>(3,349,579)</u>	<u>(3,048,222)</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>540,009</u>	<u>275,430</u>
INCREASE (DECREASE) IN NET ASSETS	495,434	292,622
NET ASSETS AT BEGINNING OF YEAR	<u>2,414,931</u>	<u>2,122,309</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,910,365</u>	<u>\$ 2,414,931</u>

SEE ACCOMPANYING NOTES AND AUDITORS' REPORT

SULLIVAN COUNTY HEAD START, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended March 31, 2011

	HEAD START	EARLY HEAD START	NUTRITION	TOTAL PROGRAM	MANAGEMENT AND GENERAL	TOTAL
EXPENSES						
Personnel	\$1,194,098	\$ 527,102	\$ 65,909	\$1,787,109	\$ 275,026	\$2,062,135
Fringe Benefits	339,086	152,209	18,716	510,011	78,666	588,677
Supplies:						
Food	-	-	148,113	148,113	-	148,113
Other	9,040	48,885	-	57,925	14,130	72,055
Professional Fees	-	-	-	-	9,200	9,200
Travel	6,605	2,856	-	9,461	-	9,461
Contractual	24,179	-	-	24,179	8,466	32,645
Pupil Transportation	72,533	18,446	-	90,979	-	90,979
Training	17,200	2,942	-	20,142	-	20,142
Utilities	94,410	594	-	95,004	-	95,004
Maintenance & Repairs	112,122	55,527	-	167,649	-	167,649
Telephone	4,550	2,194	-	6,744	-	6,744
Insurance	25,077	6,341	-	31,418	1,640	33,058
Other	4,057	232	-	4,289	3,481	7,770
TOTAL CASH EXPENSES	1,902,957	817,328	232,738	2,953,023	390,609	3,343,632
DEPRECIATION	76,486	36,427	-	112,913	8,247	121,160
DONATED SERVICES & MATERIALS	452,235	76,708	-	528,943	-	528,943
TOTAL EXPENSES	\$2,431,678	\$ 930,463	\$ 232,738	\$3,594,879	\$ 398,856	\$3,993,735

SEE ACCOMPANYING NOTES AND AUDITORS' REPORT

SULLIVAN COUNTY HEAD START, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended March 31, 2010

	HEAD START	EARLY HEAD START	NUTRITION	TOTAL PROGRAM	MANAGEMENT AND GENERAL	TOTAL
EXPENSES						
Personnel	\$1,215,111	\$ 337,703	\$ 70,684	\$1,623,498	\$ 235,090	\$1,858,588
Fringe Benefits	344,759	72,076	20,055	436,890	61,947	498,837
Supplies:						
Food	-	-	125,267	125,267	-	125,267
Other	18,624	6,254	-	24,878	12,990	37,868
Professional Fees	-	-	-	-	9,200	9,200
Travel	5,544	597	-	6,141	-	6,141
Contractual	79,226	-	-	79,226	7,488	86,714
Pupil Transportation	75,422	5,973	-	81,395	-	81,395
Training	14,908	2,616	-	17,524	-	17,524
Utilities	86,445	-	-	86,445	-	86,445
Maintenance & Repairs	116,639	51,693	-	168,332	-	168,332
Telephone	6,774	202	-	6,976	-	6,976
Insurance	23,851	4,283	-	28,134	2,065	30,199
Other	2,069	345	-	2,414	-	2,414
TOTAL CASH EXPENSES	1,989,372	481,742	216,006	2,687,120	328,780	3,015,900
DEPRECIATION	62,378	7,747	-	70,125	7,745	77,870
DONATED SERVICES & MATERIALS	278,355	69,855	-	348,210	-	348,210
TOTAL EXPENSES	\$2,330,105	\$ 559,344	\$ 216,006	\$3,105,455	\$ 336,525	\$3,441,980

SEE ACCOMPANYING NOTES AND AUDITORS' REPORT

SULLIVAN COUNTY HEAD START, INC.
STATEMENTS OF CASH FLOWS
For The Years Ended March 31,

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 495,434	\$ 292,622
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	121,160	77,870
Decrease (Increase) In:		
Prepaid Expenses	(1,526)	354
Grants & Contracts Receivable	281,889	(178,176)
Other Receivables	(8,332)	-
Increase (Decrease) In:		
Accounts Payable	373	(1,321)
Accrued Expenses	(5,526)	(44,956)
	<u>883,472</u>	<u>146,393</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
INVESTMENT ACTIVITIES		
Purchase of Fixed Assets	<u>(851,956)</u>	<u>(155,095)</u>
NET CASH (USED) BY INVESTMENT ACTIVITIES	<u>(851,956)</u>	<u>(155,095)</u>
NET INCREASE (DECREASE) IN CASH	31,516	(8,702)
CASH AT BEGINNING OF YEAR	<u>83,945</u>	<u>92,647</u>
CASH AT END OF YEAR	<u><u>\$ 115,461</u></u>	<u><u>\$ 83,945</u></u>

SEE ACCOMPANYING NOTES AND AUDITORS' REPORT

SULLIVAN COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Sullivan County Head Start, Inc. ("Head Start") is a not-for-profit corporation exempt from income tax under section 501(c)(3) of the Internal Revenue Code. Head Start was formed May 22, 1989, and began operations on August 1, 1990. The Agency's purpose is to establish, maintain and operate day care centers in the County of Sullivan, New York and to provide herein an educational, care and developmental program on a racially non-discriminatory basis for children of low-income families.

FINANCIAL STATEMENT PRESENTATION

Under SFAS No. 117, the Organization is required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

CAPITAL EXPENDITURES

It is Head Start's policy to capitalize property and equipment over \$500.

Property and plant are stated at cost or fair market value at time of receipt. Depreciation is calculated on the straight line basis over the estimated useful lives of the assets. Buildings and improvements are depreciated over forty years. Equipment is depreciated over five to seven years. Vehicles are depreciated over five years.

For grant reports for the Head Start Program Grant, purchases of equipment, furniture, leasehold improvements and other capital items are charged as expenditures as incurred and not capitalized and depreciated over the useful life of the asset. However, upon termination of the agreements, all property purchased with funds under the agreement shall be returned to the Grantor, at the discretion of the Grantor. These assets are reported as temporarily restricted, subject to federal interest in the financial statement.

DONATED MATERIALS AND SERVICES (In-kind)

Donated materials are shown at their estimated value at date of receipt. Donated space (rent) values are established by an independent real estate appraiser. Personal services are valued in accordance with the cost of similar services within Sullivan County.

SULLIVAN COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CONTRIBUTIONS

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

INTEREST INCOME

Interest income earned is allocated to restricted and/or unrestricted net assets per designation of donor or grantor.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

All highly liquid debt instruments purchased with maturity of three months or less are considered to be cash equivalents for purposes of the statement of cash flows.

NOTE 2 - FIXED ASSETS

Fixed assets owned by Sullivan County Head Start, Inc., not subject to federal interest are as follows:

	<u>2011</u>	<u>2010</u>
Land	\$ 15,000	\$ 15,000
Building	223,878	223,878
Equipment	<u>20,011</u>	<u>17,537</u>
	258,889	256,415
Less: Accumulated Depreciation	<u>77,940</u>	<u>69,693</u>
Subtotal	<u>180,949</u>	<u>186,722</u>

SULLIVAN COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2011

NOTE 2 - FIXED ASSETS (Continued)

Fixed assets subject to federal interest in accordance with Head Start Grant are as follows:

	<u>2011</u>	<u>2010</u>
Building	2,933,441	2,350,952
Equipment	262,088	194,756
Vehicles	<u>633,859</u>	<u>437,348</u>
	3,829,388	2,983,056
Less: Accumulated Depreciation	<u>1,159,246</u>	<u>1,049,483</u>
Subtotal	<u>2,670,142</u>	<u>1,933,573</u>
Total Net Fixed Assets	<u><u>\$2,851,091</u></u>	<u><u>\$2,120,295</u></u>

NOTE 3 - CONTINGENCIES

Head Start receives most of its revenue from government grants and contracts. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by the government. Until such audits have been completed and final settlements reached, there exists a contingency to refund any amount received in excess of allowable costs.

NOTE 4 - INTEREST EARNED

Head Start deposits federal funds into a separate interest bearing bank account. During the years ended March 31, 2011 and 2010, the grantee earned \$21 and \$59 in interest on Head Start program funds. The Department of Health and Human Services allows up to \$250 of interest to be retained for administration. Therefore, the full amount was retained in both years.

SULLIVAN COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2011

NOTE 5 - DONATED MATERIAL AND SERVICES

Included in donated materials and services is the estimated value of:

	<u>2011</u>	<u>2010</u>
Miscellaneous classroom materials & supplies	\$ 35,276	\$ 27,347
Donated personal services requiring specialized skills	453,468	283,437
Transportation	<u>40,199</u>	<u>37,426</u>
Total	<u>\$ 528,943</u>	<u>\$ 348,210</u>

Not recognized in the financial statements is \$241,203 in 2011 and \$192,588 in 2010 of personal services not requiring specialized skills. These services include bus aides, classroom aides and other volunteer services. Services are valued in accordance with costs of similar services or salaries.

NOTE 6 - CONCENTRATION OF RISK

The Organization received approximately 80% in 2011 and 82% in 2010 of its total support and revenue from the United States Department of Health and Human Services.

NOTE 7 - RESTRICTIONS ON NET ASSETS

At March 31, 2011 and 2010, temporarily restricted net assets were available for the following purposes:

	<u>2011</u>	<u>2010</u>
Funds obligated for the purchase of buses under Head Start and Early Head Start grants	\$ -	\$ 196,560
Net fixed assets subject to federal interest net of related debt	<u>2,670,142</u>	<u>1,933,573</u>
Total	<u>\$ 2,670,142</u>	<u>\$ 2,130,133</u>

NOTE 8 - EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through July 1, 2011, the date which the financial statements were available to be issued.

SULLIVAN COUNTY HEAD START, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended March 31,

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	
			2011	2010
U.S. Department of Health & Human Services:				
Direct Programs:				
Head Start	93.600	N/A	\$ 2,531,288	\$ 2,616,032
ARRA - Head Start	93.708	N/A	1,062,236	430,537
Total U.S. Department of Health & Human Services			3,593,524	3,046,569
U.S. Department of Homeland Security:				
Pass-Through from United Way of Sullivan County				
Emergency Food & Shelter National Board Program	97.024	N/A	2,746	3,864
U.S. Department of Agriculture:				
Pass-Through from New York State Department of Health:				
Child & Adult Care Food Program	10.558	2094	227,011	201,431
Total			\$ 3,823,281	\$ 3,251,864

**SULLIVAN COUNTY HEAD START, INC.
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
March 31, 2011**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Sullivan County Head Start, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - SUBRECIPIENTS

There are no amounts paid to subrecipients under any of the federal awards.

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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

To The Board of Directors
Sullivan County Head Start, Inc.
Woodbourne, New York

We have audited the financial statements of Sullivan County Head Start, Inc. (a nonprofit organization) as of and for the years ended March 31, 2011 and 2010 and have issued our report thereon dated July 1, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sullivan County Head Start, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sullivan County Head Start, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's 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 that 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sullivan County Head Start, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 of the Board of Directors, management, the Department of Health and Human Services and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Knack, Pauloff & Company, LLP.

Monticello, New York

July 1, 2011

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

To The Board of Directors
Sullivan County Head Start, Inc.
Woodbourne, New York

Compliance

We have audited the compliance of Sullivan County Head Start, Inc. (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the years ended March 31, 2011 and 2010. Sullivan County Head Start Inc.'s major federal programs are identified in the summary of the 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 Sullivan County Head Start, Inc.'s management. Our responsibility is to express an opinion on Sullivan County Head Start, Inc.'s compliance based on our audits.

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 Sullivan County Head Start, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Sullivan County Head Start, Inc.'s compliance with those requirements. In our opinion, Sullivan County Head Start, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended March 31, 2011 and 2010.

Internal Control Over Compliance

The management of Sullivan County Head Start, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Sullivan County Head Start, Inc.'s 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 Sullivan County Head Start, Inc.'s 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 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 that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, the Department of Health and Human Services and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Knack, Pauloff & Company, LLP

Monticello, New York

July 1, 2011

SULLIVAN COUNTY HEAD START, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
March 31, 2011

Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of Sullivan County Head Start, Inc. as of March 31, 2011 and 2010.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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.
3. No instances of noncompliance material to the financial statements of Sullivan County Head Start, Inc. which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Sullivan County Head Start, Inc. expresses an unqualified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include the Head Start program (CFDA 93.600) and the ARRA - Head Start program (CFDA 93.708) for both years and the Child and Adult Food Program (CFDA 10.554) in 2011.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Sullivan County Head Start, Inc. qualified as a low-risk auditee.

Findings - Financial Statements Audit

None

Findings and Questioned Costs - Major Federal Award Programs Audit

None