JEFFERSON-CLARION HEAD START, INC.

Brookville, Pennsylvania

DUNS 155408743

FINANCIAL STATEMENTS

July 31, 2010

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INDEPENDENT AUDITOR'S REPORT

Jefferson-Clarion Head Start, Inc.
Brookville, PA 15825

Members of the Board:

We have audited the accompanying statement of financial position of Jefferson-Clarion Head Start, Inc. (a nonprofit organization) as of July 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Jefferson-Clarion Head Start, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Jefferson-Clarion Head Start, Inc. as of July 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2011, on our consideration of Jefferson-Clarion Head Start, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Jefferson-Clarion Head Start, Inc., Brookville, PA taken as a whole. The financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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 also not a required part of the basic financial statements of Jefferson-Clarion Head Start, Inc., Brookville, PA. The supplemental information and the schedule of expenditures of federal awards 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 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.

Mauthe, Yutzey & Gabler, LLC
Certified Public Accountants
March 2, 2011

JEFFERSON-CLARION HEAD START, INC.

STATEMENT OF FINANCIAL POSITION

July 31, 2010

ASSETS		
Current Assets:		
Cash in bank		$ 74,864.48
Grants receivable		211,135.69
Total Current Assets		286,000.17
Property and Equipment (at cost)	664,805.66	
Less: Accumulated depreciation	(283,874.08)	
		380,931.58
Total Assets		$ 666,931.75
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable		$ 106,642.06
Accrued wages and fringes payable		97,827.94
Unearned grants		45,659.59
Note payable - line of credit		35,870.58
Total Liabilities		286,000.17
Net Assets:		
Unrestricted		380,931.58
Total Liabilities and Net Assets		$ 666,931.75

The accompanying notes are an integral part of the financial statements

JEFFERSON-CLARION HEAD START, INC.

STATEMENT OF ACTIVITIES

For The Year Ended July 31, 2010

Support and Revenue:	
Grants	$ 4,320,842.49
In-kind contributions	578,461.72
Total Support and Revenue	4,899,304.21
Expenses:	
Program Services:	
Head Start	2,594,412.55
PA Pre-K Counts Program	758,506.68
Early Head Start ARRA Expansion	534,097.35
Family Literacy Program	506,753.95
Child and Adult Care Food Program	114,541.85
Head Start 2009 ARRA COLA Quality Imp. Funding	106,101.95
Classroom Support Aides IU6 Grant	37,488.74
Verizon Grant/Local Funds	3,741.50
Total Program Services	4,655,644.57
Change in Net Assets	243,659.64
Net Assets, beginning of year	137,271.94
Net Assets, end of year	$ 380,931.58

The accompanying notes are an integral part of the financial statements

JEFFERSON-CLARION HEAD START, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended July 31, 2010

	Head Start	PA Pre-K Counts Program	Early Head Start ARRA Expansion	Family Literacy Program	Child and Adult Care Food Program	Head Start 2009 ARRA COLA Quality Imp. Funding	Classroom Support Aides IU6 Grant	Verizon Grant/ Local Funds	Total
Salaries and wages	$ 1,038,176.72	$ 230,760.29	$ 191,180.10	$ 270,326.86	$	$ 46,713.08	$ 31,294.66	$	$ 1,808,451.71
Fringe benefits	420,999.78	107,108.69	78,124.85	123,751.52		49,820.58	6,194.08		785,999.50
Total Salaries and Related Expenses	1,459,176.50	337,868.98	269,304.95	394,078.38		96,533.66	37,488.74		2,594,451.21
Consultant and professional fees	10,413.30	11,070.43	3,127.85	1,921.75					26,533.33
Supplies	118,392.04	29,143.00	137,686.22	17,977.38		6,193.29		272.37	309,664.30
Equipment and vehicles	4,024.82		4,180.00	9,007.92					17,212.74
In-Kind	561,618.87		16,842.85						578,461.72
Occupancy	131,679.99	21,113.17	23,357.23	28,882.06				286.82	205,319.27
Insurance	15,560.92	2,330.04	2,322.60	4,119.74					24,333.30
Training and technical assistance	29,959.24	3,503.49	38,724.89	2,692.43				67.63	74,947.68
Maintenance and vehicle operation	36,606.87			915.29		3,375.00			40,897.16
Local travel	12,827.83	4,926.62	4,922.21	14,666.55					37,343.21
Out-of-district travel	225.67								225.67
Postage	5,260.86	1,510.44	577.92	968.55					8,317.77
Telephone	21,253.31	5,265.38	5,582.43	8,625.45					40,726.57
Repairs and maintenance	6,057.69	1,163.74	1,927.65	1,575.97					10,725.05
Advertising, printing and publications	9,279.90	4,531.17	5,390.23	1,392.80					20,594.10
Payroll processing	4,911.46	812.27	382.37	938.59					7,044.69
Food and related expenses	21,369.75	2,263.42	146.88	504.51	114,541.85			255.11	139,081.52
Parent activities	6,480.85	500.00	6,043.43					1,667.59	14,691.87
Literacy and parent resources				16,739.03					16,739.03
Field trips	465.28	338.30							803.58
Contracted services	97,329.72		385.00	650.17					98,364.89
Memberships	2,111.00		784.00						2,895.00
Depreciation	39,406.68	63.70	12,408.64	678.00					52,557.02
Interest		1,200.53		419.38				1,191.98	2,811.89
Sub-contract services		330,902.00							330,902.00
Total Expenses	$ 2,594,412.55	$ 758,506.68	$ 534,097.35	$ 506,753.95	$ 114,541.85	$ 106,101.95	$ 37,488.74	$ 3,741.50	$ 4,655,644.57

The accompanying notes are an integral part of the financial statements

JEFFERSON-CLARION HEAD START, INC.

STATEMENT OF CASH FLOWS

For The Year Ended July 31, 2010

Cash Flows from Operating Activities:		
Change in net assets		$ 243,659.64
Adjustments to reconcile change in net assets to net cash provided (used) for operating activities		
Depreciation		52,557.02
(Increase) Decrease in Operating Assets		
Grants receivable		14,843.50
Increase (Decrease) in Operating Liabilities		
Accounts payable		59,742.99
Payroll taxes and fringes payable		12,164.88
Unearned grants		39,492.02
Net Cash Provided (Used) by Operating Activities		422,460.05
Cash Flows from Investing Activities:		- 0 -
Cash Flows from Financing Activities:		
Proceeds from line of credit	181,008.79	
Principal payments on line of credit	(244,007.33)	
Acquisition of fixed assets	(296,216.66)	
Net Cash Provided (Used) by Financing Activities		(359,215.20)
Net Increase (Decrease) in Cash and Cash Equivalents		63,244.85
Cash and Cash Equivalents - July 31, 2009		11,619.63
Cash and Cash Equivalents - July 31, 2010		$ 74,864.48
Supplemental Disclosure:		
Cash paid during the year for interest		$ 2,811.89

The accompanying notes are an integral part of the financial statements

Note 1 - Summary of Significant Accounting Policies

The summary of significant accounting policies of Jefferson-Clarion Head Start, Inc. (Corporation) is presented to assist in understanding the Corporation's financial statements. The financial statements and notes are representations of the Corporation's management, who is responsible for their integrity and objectivity. These accounting policies have been consistently applied in the preparation of the Corporation's financial statements.

Programs and Activities

Jefferson-Clarion Head Start, Inc., a nonprofit organization, was incorporated July 19, 1982, to provide educational, social and related health services to children and their families with the authority to contract with appropriate governmental or private agencies to provide these services in Pennsylvania's Jefferson and Clarion counties.

The Corporation operates a Head Start Program, the objectives of which, are to provide comprehensive health, educational, nutritional, social and other services primarily to economically disadvantaged preschool children so that the children will attain overall social competence. Parents also participate in various decision making processes related to the operation of the program. The Head Start Program is funded by the U.S. Department of Health and Human Services.

Effective July 1, 2008, the Corporation entered into a contract with the PA Department of Education to operate a Family Literacy Program. The primary objective of the Family Literacy Program is to stop the intergenerational cycle of under education and poverty by increasing the basic academic and literacy skills of eligible parents and their children. The Family Literacy Program contract year ends June 30 of each year.

Effective July 30, 2007, the Corporation entered into a contract with the PA Department of Education to operate the PA Pre-K Counts Program. PA Pre-K Counts is an initiative created by the Commonwealth of Pennsylvania and private foundations to build and strengthen pre-kindergarten partnerships in communities so that each community can create a self-sustaining system for providing high quality early learning experiences to children in all settings. The PA Pre-K Counts Program contract year ends June 30 of each year.

Effective November 1, 2009, the Corporation entered into a contract with the U.S. Department of Health and Human Services to operate an Early Head Start Program. The funds are part of the American Recovery and Reinvestment Act of 2009. The objectives of the program are to promote healthy prenatal outcomes for pregnant women, to enhance the development of very young children and promote healthy family functioning.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, “Financial Statements of Not-for-Profit Organizations.” Under SFAS No. 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Corporation is required to present a statement of cash flows. As permitted by the standard, the Corporation has discontinued its use of fund accounting.

Fair Value of Financial Instruments

The Corporation’s financial instruments are cash and cash equivalents, accounts receivable and accounts payable. The recorded values of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values based on their short-term nature.

Revenue Recognition

The Corporation has also adopted SFAS No. 116, “Accounting for Contributions Received and Contributions Made.” Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Corporation reports gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents are considered to be all unrestricted highly liquid investments with maturities of three months or less at the time of acquisition.

Income Tax Basis

The Corporation is a nonprofit organization exempt from federal income tax under Section 501 (c)(3) of the Internal Revenue Code.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Compensated Absences

Corporation employees are entitled to annual leave and paid sick days, depending on job classification and length of service. No liability has been recorded in the accompanying financial statements for accrued days off. The Corporation's policy is to recognize the cost of compensated absences when actually paid to employees. Annual leave is accrued semi-annually (August 1st and February 1st). Employees are encouraged to take annual leave on a regular basis to reduce the risk of losing annual leave in event of resignation or lay off. Sick leave is accrued at 3.75 hours per pay to a maximum of 300 hours for full-time employees. Part-time employees accrue sick leave based on scheduled hours to work. Upon resignation or lay off, a full-time employee may be reimbursed for up to five (5) days of accrued annual leave, however, no reimbursement is made to employees for unused sick leave.

Property and Equipment

Property and equipment are stated at cost, and consist of assets with estimated useful lives greater than one year, and costing $5,000 or more.

The cost of property and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line method for financial reporting purposes. The estimated useful lives by major category are as follows:

	Range of Lives
Buses and vehicles	10 years
Program and office equipment	7 years

The cost of assets sold or otherwise disposed of and the accumulated depreciation thereon are eliminated from the accounts and the resulting gain or loss is reflected in income, except for assets traded. Expenditures for maintenance and repairs are charged to income as incurred; replacements are capitalized.

Subsequent Events

Management has evaluated subsequent events through March 2, 2011, the date the financial statements were available.

Total Columns

Total columns are presented to facilitate financial analysis. Data in these columns do not present assets, liabilities and net assets, results of operations and changes in fund balances in conformity with generally accepted accounting principles; nor is such data comparable to a consolidation.

Note 2 - Deposits

The following is a summary of cash deposits which are insured by the Federal Deposit Insurance Corporation, collateralized with securities held by the financial institution's trust department in the Corporation's name, or were neither insured nor collateralized, or were collateralized in accordance with Act 72 which permits the financial institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name.

The Corporation's funds were deposited in checking and interest bearing accounts with First Commonwealth Bank, DuBois, PA. Separate accounts are maintained if contract provisions require that certain funds be segregated by funding source. Deposits are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC).

Analysis of depository balances at July 31, 2010 follows.

Account Title	Balance Per Depository
Headstart Checking	$ 19,452.20
Payroll Account	17,326.94
Non Federal Account	3,579.31
Even Start/PA Pre-K Counts Checking	53,715.78
	$ 94,074.23

Note 3 - Grants Receivable

The Corporation, under agreement with regulatory agencies at the federal and state levels of government, is receiving grants to aid in the operation of its programs.

Operating assistance grants receivable at July 31, 2010, consist of:

Program	Contract #	Amount
Federal Amounts		
U.S. Department of Health and Human Services		
Head Start	O3CH2141/44	$ 106,890.34
Early Head Start ARRA Expansion	03SA2141/01	45,176.89
U.S. Department of Agriculture		
Child and Adult Care Food Program	300-33-151-0	7.40
Non Federal Amounts		
PA Family Literacy	054-10-0018	59,000.65
Other Non Federal Amounts Due	N/A	60.41
Total Grants Receivable		$ 211,135.69

Note 4 - Property and Equipment

A summary of Property and equipment at July 31, 2010, by major classifications follows.

Buses and vehicles	$ 639,780.00
Program and office equipment	25,025.66
Total	664,805.66
Less: Accumulated depreciation	283,874.08
Net Book Value	$ 380,931.58

Depreciation expense for the year ended July 31, 2010, totaled $52,557.02.

Note 5 - Unearned Grants

Unearned grants at July 31, 2010, consist of:

Program	Contract #	Amount
Federal Amounts		
Head Start 2009 ARRA COLA Quality Improvement Funding	03SE2141/01	$ 2,805.99
Nonfederal Amounts		
PA Pre-K Counts Program	130-09-0063A	32,015.79
Local Funds	N/A	10,837.81
Total Unearned Grants		$ 45,659.59

Note 6 - Operating Lease

The Corporation has a lease agreement for office space with the Borough of Brookville effective August 1, 2008, for a five (5) year term, ending July 31, 2013. The terms of the lease are contingent upon continuation of current levels of total grant funding. Lease payments for office space with the Borough of Brookville for the fiscal year ended July 31, 2010, totaled $71,255.92. The Corporation shall have the option to renew this lease for three (3) consecutive five (5) year lease renewal periods on the same terms and conditions. Prior to each five (5) year renewal period, negotiations shall occur to determine any rental rate increases or adjustments. If an agreement is not reached, either party can terminate the lease upon ninety (90) days notice to the other party. If the Corporation wishes to voluntarily terminate the lease agreement prior to the end of a lease term, they are required to give notice and payment of six (6) months rent at the rental rate in effect at the time of the present lease.

Effective September 1, 2008, the Corporation entered into a three-year lease agreement for Family Literacy office space with Applewood Center in Clarion, PA. Lease payments for office space with Applewood Center for the fiscal year ended July 31, 2010, totaled $10,800.00. Effective January 6, 2010, the Corporation entered into an agreement to lease office space for the Family Literacy program in the Oil City Civic Center, Inc., in Oil City, PA. This is an annual agreement which ends December 31st following the effective date. Lease payments for the office space at the Oil City Civic Center, Inc. for the fiscal year ended July 31, 2010, totaled $2,414.40, which also included a $250.00 security deposit.

During the year ended July 31, 2010, the Corporation entered into several lease agreements for the PA Pre-K Counts Program. These lease agreements were effective through August 31, 2010, and are renewable annually if the Corporation provides sufficient written notice to the providers prior to the start of the next school year. Rental/utility agreement payments for PA Pre-K Counts Program facility usage for the fiscal year ended July 31, 2010, totaled $15,712.50.

As disclosed in Note 7 below, the Corporation has entered into rental/utility agreements with landlords to aid in the operation of various head start and early head start centers. The agreements expire at various times throughout the Corporation's fiscal year, and are renewed annually. Rental/utility agreement payments for the fiscal year ended July 31, 2010, totaled $62,847.96 for Head Start and $12,820.70 for Early Head Start.

Note 7 - Donated Use of Space and Services – Head Start/Early Head Start In-Kind

The Corporation has available for its use, head start centers, meeting rooms and office space located throughout Jefferson and Clarion Counties. The Corporation has entered into rental/utility agreements with the landlords for the use and operation of the facilities.

The Corporation's policy for recording Head Start and Early Head Start In-Kind contributions follows.

> In-Kind Services are based on the actual number of hours of donated time received using a rate of $7.77 per hour, plus applicable fringe of 43.00%.
>
> In-Kind Space Costs are based on $2.00 per home visit and on square footage rental value costs for classroom space, excluding utilities.
>
> In-Kind Consultants and Supplies are based on the actual costs that would have been charged had the service or supplies been purchased.

Note 8 - Thrift Plan

The Corporation sponsors a thrift plan that covers substantially all full-time salaried and hourly paid employees. The Corporation contributes to the plan, 7% of each employee's gross wage and matches an additional 25% of the first 1% of the employee's gross wage, if the employee makes a voluntary contribution to the plan. The Corporation's contributions to the plan for the fiscal year ended July 31, 2010, totaled $93,127.04.

Note 9 - Line of Credit

At July 31, 2010, the Corporation had an unsecured line of credit from First Commonwealth Bank, DuBois, PA for short-term borrowings in the amount of $500,000. The interest rate on this agreement is subject to change from time to time, based on changes in an independent index, which is the highest prime rate quoted in the Wall Street Journal. The effective interest rate at July 31, 2010, was 5.25%.

For the year ended July 31, 2010, the Corporation had borrowed $181,008.79 on its line of credit, and repaid principal amounts totaling $244,007.33. The Corporation incurred $2,811.89 of interest expense associated with the borrowings on the line of credit. Outstanding principal balances on the line of credit at July 31, 2010, totaled $35,870.58.

Note 10 - Lease Commitments

The Corporation leases office equipment (a copier) under a noncancelable fair-market value operating lease with an unrelated party, which called for sixty monthly payments of $422.00 beginning June 30, 2009. The Corporation also entered into a sixty-month comprehensive service plan applicable to the above operating lease for a monthly fee of $270.00. Copier lease and service plan payments for the fiscal year ended July 31, 2010, totaled $8,304.00.

Automobile Leases

Effective December 18, 2008, the Corporation's State (Act 143) Family Literacy Program, Contract No. 054-09-9009, assumed responsibility for two auto leases with Murray's Honda and began making required monthly lease payments applicable to the vehicles. The thirty-six month lease agreements will expire December 18, 2011. The monthly payments are $375.33 each, and for the year ended July 31, 2010, were funded through the State (Act 143) Family Literacy Program. Vehicle lease payments made for the fiscal year ended July 31, 2010, totaled $9,007.92.

Note 11 - Support from Governmental Units

The Organization receives its support from the State of Pennsylvania and the Federal government. A significant reduction in the level of this support, if this were to occur, would have a significant effect on the Organization's programs and activities.

Note 12 - Contingencies

The Corporation participates in both state and federal assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Corporation is potentially liable for expenditures, which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

SUPPLEMENTAL INFORMATION

JEFFERSON-CLARION HEAD START, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended July 31, 2010

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program Award Amount	Total Received for Year	Cash/Accrued or (Deferred) Revenue at July 31, 2009	Receipts or Revenue Recognized	Disbursements/ Expenditures	Transfers	Cash/Accrued or (Deferred) Revenue at July 31, 2010
Department of Health and Human Services (DHHS)									
Direct Program									
Head Start	93.600	O3CH2141/43	1,933,487.00	$ 41,014.34	$ 41,014.34	$ - 0 -	$ - 0 -	$ - 0 -	$ - 0 -
Head Start	93.600	O3CH2141/44	2,054,276.00	1,934,285.66	- 0 -	2,041,176.00	2,041,176.00	- 0 -	106,890.34
Head Start 2009 ARRA COLA Quality Improvement Funding	93.708	O3SE2141/01	134,536.00	125,954.65	17,046.71	106,101.95	106,101.95	- 0 -	(2,805.99)
Early Head Start ARRA Expansion	93.709	03SA2141/01	1,151,347.00	700,170.07	- 0 -	745,346.96	745,346.96	- 0 -	45,176.89
Total Department of Health and Human Services				2,801,424.72	58,061.05	2,892,624.91	2,892,624.91	- 0 -	149,261.24
Department of Agriculture									
PA Department of Education									
Child and Adult Care Food Program	10.558	300-33-151-0	N/A	114,534.45	- 0 -	114,541.85	114,541.85	- 0 -	7.40
Total Department of Agriculture				114,534.45	- 0 -	114,541.85	114,541.85	- 0 -	7.40
Total				$ 2,915,959.17	$ 58,061.05	$ 3,007,166.76	$ 3,007,166.76	$ - 0 -	$ 149,268.64

The accompanying notes are an integral part of the financial statements

JEFFERSON-CLARION HEAD START, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

July 31, 2010

Note 1 The financial information presented on the Schedule of Expenditures of Federal Awards was prepared in accordance with guidance provided by grant awarding agencies. The agencies provide guidance on the billing and reporting of contract and grant claimed costs; however, such guidance is not considered a regulatory basis of accounting, nor is it in accordance with generally accepted accounting principals. Purchases of fixed assets are reported as allowable period contract costs, versus capitalizing and depreciating the cost of those fixed assets over their estimated useful lives in accordance with generally accepted accounting principles.

Note 2 Reconciliation - Expenses per Statement of Activities to Schedule of Expenditures of Federal Awards.

Total Expenses Per Statement of Activities	$ 4,655,644.57
Less: Nonfederal Programs:	
Family Literacy Program	(506,753.95)
IU6 Grant	(37,488.74)
PA Pre-K Counts Program	(758,506.68)
Verizon Grant/Local Funding	(3,741.50)
Costs charged to federal programs	3,349,153.70
Less: In-kind - Head Start	(561,618.87)
- Early Head Start	(16,842.85)
Less: Depreciation Expense - Head Start	(39,406.68)
- Early Head Start	(12,408.64)
	2,718,876.66
Add: Fixed Asset Purchases - Head Start	47,789.00
- Early Head Start	240,501.10
Total Expenditures Per Schedule of Expenditures of Federal Awards	$ 3,007,166.76

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*

Jefferson-Clarion Head Start, Inc.
Brookville, PA 15825

Members of the Board:

We have audited the financial statements of Jefferson-Clarion Head Start, Inc. (a nonprofit organization) as of and for the year ended July 31, 2010, and have issued our report thereon dated March 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Jefferson-Clarion 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 Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity'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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Jefferson-Clarion 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 and use of Jefferson-Clarion Head Start, Inc.'s Board of Directors, the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mauthe, Yutzey & Gabler, LLC
Certified Public Accountants
March 2, 2011

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE

TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER

COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Jefferson-Clarion Head Start, Inc.
Brookville, PA 15825

Members of the Board:

Compliance

We have audited the compliance of Jefferson-Clarion 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 year ended July 31, 2010. Jefferson-Clarion Head Start, Inc.'s major federal programs are identified in the summary of auditor's 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 Jefferson-Clarion Head Start, Inc.'s management. Our responsibility is to express an opinion on Jefferson-Clarion Head Start, Inc.'s 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 Jefferson-Clarion 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 Jefferson-Clarion Head Start, Inc.'s compliance with those requirements.

In our opinion, Jefferson-Clarion Head Start, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended July 31, 2010.

Internal Control Over Compliance

The management of Jefferson-Clarion Head Start, Inc. 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 Jefferson-Clarion Head Start, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Jefferson-Clarion 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses, as defined above.

This report is intended solely for the information and use of Jefferson-Clarion Head Start, Inc.'s Board of Directors, the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mauthe, Yutzey & Gabler, LLC
Certified Public Accountants
March 2, 2011

JEFFERSON-CLARION HEAD START, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended July 31, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Significant deficiency(ies) in internal control disclosed by audit? __Yes _X_None reported

Noncompliance material to financial statements noted? __Yes _X_No

Federal Awards

Internal control over major programs:

- Significant deficiency(ies) in internal control over major programs disclosed by audit? __Yes _X_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 _X_No

CFDA Number(s)	Name of Federal Program or Cluster
93.600	Head Start
93.708	Head Start 2009 ARRA COLA Quality Improvement Funding
93.709	Early Head Start ARRA Expansion

Dollar threshold used to distinguish Between type A and type B programs: $ 300,000

Auditee qualified as low-risk auditee? _X_Yes __No

JEFFERSON-CLARION HEAD START, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended July 31, 2010
(Continued)

Section II - Financial Statement Findings

No financial statement findings - schedule does not apply

Section III - Federal Award Findings and Questioned Costs

No federal award findings and questioned costs - schedule does not apply

REPORT ON PRIOR YEAR'S AUDIT FINDINGS

Jefferson-Clarion Head Start, Inc.
Brookville, PA 15825

Members of the Board:

We have completed our audit of the financial statements of Jefferson-Clarion Head Start, Inc. for the year ended July 31, 2010. As reported in our opinion dated March 2, 2011, we performed our audit in accordance with auditing standards generally accepted in the United States of America, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As part of our audit, we are to review the schedule of findings and questioned costs as disclosed in the prior year's auditor's report to determine the disposition of each finding. The prior year's auditor's report disclosed no material findings.

Mauthe, Yutzey & Gabler, LLC
Certified Public Accountants
March 2, 2011