

RAVALLI HEAD START, INC.

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

June 30, 2010 and 2009



Loren W. Randall, P.C.  
Certified Public Accountant

RAVALLI HEAD START, INC.

AUDITED FINANCIAL STATEMENTS

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Loren W. Randall, P.C.  
Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Ravalli Head Start, Inc.  
81 Kurtz Lane  
Hamilton, Montana 59840

We have audited the accompanying statements of financial position of Ravalli Head Start, Inc., (Agency) as of and for the years ended June 30, 2010 and 2009, and the related statements of activity, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Agency's 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 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 the Agency as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 6, 2011, on our consideration of the Agency'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 audits.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Agency taken as a whole. The accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the supplemental schedule as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Loren W. Randall, P.C.*

Loren W. Randall, PC  
Certified Public Accountants

January 6, 2011  
Missoula, Montana

Ravalli Head Start, Inc.  
Hamilton, Montana

STATEMENTS OF FINANCIAL POSITION

As of June 30,

	2010	2009
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 125,444	\$ 115,246
Receivables:		
Grants	111,826	238,223
Other	3,369	4,074
Investments	55,458	78,006
Prepays	1,078	1,078
Deposits	500	500
Equipment	142,851	70,134
Vehicles	191,990	136,280
Land, Building, and Improvements	2,309,861	1,854,735
Accumulated Depreciation	(661,400)	(560,235)
Other Asset -Construction in Progress	0	245,100
<b>TOTAL ASSETS</b>	<b>\$ 2,280,977</b>	<b>\$ 2,183,141</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 58,709	\$ 192,971
Salaries Payable	40,597	27,538
Payroll Taxes and Fringe Benefits Payable	34,654	10,818
Accrued Compensated Absences	67,918	57,568
Due to Grantor	253	6,752
Long-Term Debt	954,260	994,415
<b>TOTAL LIABILITIES</b>	<b>\$ 1,156,391</b>	<b>\$ 1,290,062</b>
<b>NET ASSETS</b>		
Unrestricted	\$ 1,115,851	\$ 836,238
Temporarily Restricted	8,735	56,841
<b>TOTAL NET ASSETS</b>	<b>\$ 1,124,586</b>	<b>\$ 893,079</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,280,977</b>	<b>\$ 2,183,141</b>

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

Ravalli Head Start, Inc.  
Hamilton, Montana

STATEMENTS OF ACTIVITY

For the Years Ended June 30,

	<u>2010</u>	<u>2009</u>
UNRESTRICTED NET ASSETS		
REVENUES AND SUPPORT:		
Grant Revenue	\$ 2,328,914	\$ 1,895,760
Child and Adult Care Food Program	65,521	65,335
Child Care	12,855	14,343
Contributed Services and Space	71,686	60,342
Interest Income	1,986	3,114
Contributions/ Miscellaneous Income	5,537	9,552
Net Assets Released from Restrictions	61,775	9,185
	<u>2,548,274</u>	<u>2,057,631</u>
TOTAL REVENUES AND SUPPORT	\$ 2,548,274	\$ 2,057,631
EXPENSES		
Program Services		
Administrative	\$ 302,201	\$ 214,155
Program Support - Head Start	1,055,036	952,829
Program Support - Early Head Start	693,807	655,712
Program Support - Ravalli Early Head Start	217,617	0
	<u>2,268,661</u>	<u>1,822,696</u>
TOTAL EXPENSES	\$ 2,268,661	\$ 1,822,696
INCREASE/(DECREASE) IN UNRESTRICTED NET ASSETS	\$ 279,613	\$ 234,935
TEMPORARILY RESTRICTED NET ASSETS		
Donations	\$ 13,669	\$ 51,104
Net Assets Released from Restriction	(61,775)	(9,185)
	<u>(48,106)</u>	<u>41,919</u>
INCREASE/(DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	\$ (48,106)	\$ 41,919
TOTAL INCREASE/(DECREASE) IN NET ASSETS	\$ 231,507	\$ 276,854
NET ASSETS, Beginning of Fiscal Year		
Unrestricted	\$ 836,238	\$ 601,303
Temporarily Restricted	56,841	14,922
TOTAL NET ASSETS, Beginning of Fiscal Year	\$ 893,079	\$ 616,225
NET ASSETS, End of Fiscal Year		
Unrestricted	\$ 1,115,851	\$ 836,238
Temporarily Restricted	8,735	56,841
TOTAL NET ASSETS, End of Fiscal Year	<u>\$ 1,124,586</u>	<u>\$ 893,079</u>

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

Ravalli Head Start, Inc.  
Hamilton, Montana

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2010

	ADMIN- ISTRATION	RAVALLI HEAD START	MISSOULA EARLY HEAD START	RAVALLI EARLY HEAD START	TOTAL	
Salaries	\$ 171,358	\$ 465,424	\$ 385,363	\$ 86,787	1,108,932	48.88%
Fringe Benefits	44,649	199,480	128,138	22,826	395,093	17.42%
Depreciation	0	66,815	29,496	4,854	101,165	4.46%
Supplies	15,856	36,822	14,177	50,653	117,508	5.18%
Contractual	28,530	30,576	20,233	2,373	81,712	3.60%
Food	1,102	39,632	18,339	5,254	64,327	2.84%
Telephone/Utilities	3,042	36,489	16,556	3,390	59,477	2.62%
Interest	4,489	30,700	15,026	0	50,215	2.21%
Training	2,062	7,364	15,943	9,349	34,718	1.53%
Contributed Services and Space	0	55,068	5,495	11,123	71,686	3.16%
Repairs and Maintenance	1,784	38,243	16,013	3,181	59,221	2.61%
Insurance	743	13,097	6,781	937	21,558	0.95%
Travel	8,844	12,751	14,412	7,395	43,402	1.91%
Minor Equipment	14,054	6,720	6,255	3,663	30,692	1.35%
Space	309	886	190	5,038	6,423	0.28%
Other	5,379	14,969	1,390	794	22,532	0.99%
<b>TOTAL</b>	<b>\$ 302,201</b>	<b>\$ 1,055,036</b>	<b>\$ 693,807</b>	<b>\$ 217,617</b>	<b>\$ 2,268,661</b>	<b>100.00%</b>
	13.32%	46.50%	30.58%	9.59%	100.00%	

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

Ravalli Head Start, Inc.  
Hamilton, Montana

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2009

	ADMIN- ISTRATION	RAVALLI HEAD START	MISSOULA EARLY HEAD START	TOTAL	
Salaries	\$ 120,258	\$ 424,789	\$ 353,915	\$ 898,962	49.32%
Fringe Benefits	29,144	190,634	119,885	339,663	18.64%
Depreciation	4,191	49,873	29,764	83,828	4.60%
Supplies	20,783	39,362	20,998	81,143	4.45%
Contractual	17,237	21,222	21,942	60,401	3.31%
Food	1,398	37,122	16,697	55,217	3.03%
Telephone/Utilities	3,452	30,206	17,856	51,514	2.83%
Interest	3,895	31,939	15,656	51,490	2.82%
Training	4,355	21,516	19,832	45,703	2.51%
Contributed Services and Space	0	53,372	6,970	60,342	3.31%
Repairs and Maintenance	813	16,904	16,563	34,280	1.88%
Insurance	2,661	11,060	6,154	19,875	1.09%
Travel	3,113	6,425	8,032	17,570	0.96%
Minor Equipment	217	4,111	230	4,558	0.25%
Space	26	1,874	0	1,900	0.10%
Other	2,612	12,420	1,218	16,250	0.89%
<b>TOTAL</b>	<b>\$ 214,155</b>	<b>\$ 952,829</b>	<b>\$ 655,712</b>	<b>\$ 1,822,696</b>	<b>100.00%</b>
	11.75%	52.28%	35.97%		100.00%

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

Ravalli Head Start, Inc.  
Hamilton, Montana

STATEMENTS OF CASH FLOWS

For the Years Ended June 30,

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received From:		
Grants	\$ 2,304,759	\$ 1,654,831
Child Care	12,855	14,343
Contributions	19,206	60,656
Interest Income	1,986	3,114
Cash Paid For:		
Salaries	(1,061,687)	(892,579)
Fringe Benefits	(395,093)	(339,663)
Food and Supplies	(315,844)	(59,950)
Space	(6,423)	(1,900)
Travel and Training	(78,120)	(63,273)
Contractual Services	(81,712)	(60,401)
Other Vendors	(193,480)	(127,555)
Interest	(50,215)	(51,490)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 156,232</u>	<u>\$ 136,133</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash(Paid)/Received For:		
Equipment	\$ (128,427)	\$ (40,416)
Investments	22,548	(22,548)
Support for Construction	210,026	174,173
Construction in Progress	(210,026)	(174,173)
<b>NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES</b>	<u>\$ (105,879)</u>	<u>\$ (62,964)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash(Paid)/Received For:		
Principal Payments on Debt	\$ (40,155)	\$ (29,439)
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	<u>\$ (40,155)</u>	<u>\$ (29,439)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	\$ 10,198	\$ 43,730
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>115,246</u>	<u>71,516</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 125,444</u>	<u>\$ 115,246</u>

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

Ravalli Head Start, Inc.  
Hamilton, Montana

STATEMENTS OF CASH FLOWS, continued

For the Years Ended June 30,

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES

	<u>2010</u>	<u>2009</u>
Increase/(Decrease) in Net Assets	\$ 231,507	\$ 276,854
<i>Adjustments to reconcile increase/(decrease) in net assets to net cash provided by operating activities:</i>		
Items not affecting Cash:		
Depreciation	101,165	83,828
Changes in Balance Sheet Accounts:		
(Increase)/Decrease in:		
Grants Receivable	126,397	(129,159)
Other Receivables	705	(2,192)
Prepaid Expenses	0	(1,078)
Construction in Progress	(210,026)	(174,173)
(Decrease)/Increase in:		
Accounts Payable	(134,009)	76,410
Deferred Revenue	0	(7,492)
Due to Grantor	(6,752)	6,752
Salaries Payable	13,059	7,791
Payroll Taxes and Fringe Benefits Payable	23,836	(8,547)
Accrued Compensated Absences Payable	10,350	7,139
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ <u>156,232</u></b>	<b>\$ <u>136,133</u></b>

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

Ravalli Head Start, Inc.  
Hamilton, Montana

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010 and 2009

NOTE 1. NATURE OF AGENCY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Ravalli Head Start, Inc. (Agency) is a not-for-profit corporation under Internal Revenue Code Section 501(c) (3). The Agency administers the following programs: the Ravalli Head Start Program and the Ravalli Early Head Start (opened in May of 2010) which are located in Hamilton, Montana, and the Missoula Early Head Start Program in Missoula. The purpose of the Agency is to develop, administer, and implement programs for the educational, social, health, nutritional, and psychological needs of low-income children and their families.

B. Basis of Accounting

The Agency's financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. The Agency measures financial instruments at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amounts of cash and cash equivalents, current receivables, and current liabilities approximate their fair values because of their short-term nature. Investments are recorded at quoted active market prices at the reporting date for identical assets (Level 1).

C. Program Services and Expense Classification

Expenses of the individual programs are accounted for by function. Functions utilized by the Agency are:

*Administrative Expenses* — Expenses which allow the Agency to operate and provide services to clients but are not directly attributable to client services.

*Program Support Expenses* — Expenses that are directly associated with providing client services. Examples include instruction, training expenses, family services, health services, and other related costs.

D. Basis of Financial Statement Presentation

The net assets of the Agency are reported in the following categories:

*Unrestricted net assets* generally have no donor-imposed restrictions. This category includes those revenues and expenses associated with providing children's programs and generally unrestricted activities.

Ravalli Head Start, Inc.  
Hamilton, Montana

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010 and 2009

NOTE 1. NATURE OF AGENCY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,  
continued

D. Basis of Financial Statement Presentation, continued

*Temporarily restricted net assets* include gifts for which donor-imposed restrictions have not been met and funds for which the ultimate purpose of the proceeds is not permanently restricted. Temporarily restricted revenues whose restrictions are met in the same year as received are classified as unrestricted. As of June 30, 2010 and 2009, the Agency had \$8,735 and \$56,841 in temporarily restricted net assets, respectively.

*Permanently restricted net assets* result from contributions and other inflows of assets whose use by the Agency is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Agency. As of June 30, 2010 and 2009, the Agency had no permanently restricted net assets.

E. Revenue Recognition

*Grant Income* — Revenues are recognized when an expense associated with the grant is recognized. Expenses are recognized when incurred.

*Contributed Support* — The Agency recognizes all unconditional gifts and promises to give in the period notified. Contributed support is reported as unrestricted or temporarily restricted depending upon the existence of donor stipulations.

F. Compensated Absences

The Agency charges the Head Start and Early Head Start programs for vacation leave earned by employees during the period. A yearly accrual is made in the accounting records to recognize the total leave benefits payable. The maximum amount of vacation leave accrued for a full-time employee is 360 hours. The maximum amount of vacation leave that may be accrued by regular part-time employees is pro-rated based on the 360 hours. At the time of separation from the Agency, 100 percent of the employee's accrued vacation leave is paid. As of June 30, 2010 and 2009, the liability for accrued vacation leave, including related payroll taxes, was \$67,918 and \$57,568, respectively.

Personal leave is earned by regular, full-time employees at a rate of 8 hours per month. Eligible regular part-time employees, who work at least 20 hours per week, earn personal leave on a straight pro-rated basis. There is no maximum for accrued personal leave hours.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010 and 2009

NOTE 1. NATURE OF AGENCY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,  
continued

G. Cash and Cash Equivalents and Investments

The Agency considers all unrestricted highly liquid investments, with an initial maturity of three months or less and not intended to be held for a long-term basis, to be cash equivalents. As of June 30, 2010 and 2009, cash and cash equivalents consisted of interest bearing checking and savings accounts with average interest rates of .55 and .63 percent, respectively. Investments for the year ended June 30, 2010, include a 12-month certificate of deposit earning interest at a rate of 1.15 percent. Investments for the year ended June 30, 2009, include a 12-month certificate of deposit earning interest at a rate of 3.15 percent, a 54-day certificate of deposit earning interest at a rate of 1.45 percent a 30-day certificate of deposit earning interest at a rate of 1.35.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions, which affect the reported assets, liabilities, revenues, and expenditures during the reporting period. Actual results could differ from those estimates.

I. Contributed Goods and Services

Substantial contributions from volunteers have assisted the Agency with specific programs. Donated goods and services that create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation are recognized in the financial statements as contributed services revenue and expense. Contributed goods are valued at their estimated fair value at the date of contribution.

The fair market value of contributed services and space for the years ended June 30, 2010 and 2009 was \$71,686 and \$60,342, respectively. In 2010 and 2009 other volunteer assistance and supplies with estimated values of \$406,365 and \$412,050, respectively, are not reflected in the financial statements because they do not qualify for recognition.

J. Inventories

The Agency does not record inventories as assets in its financial statements. Inventories are expensed when purchased and are not considered material to the financial statements.

K. Fixed Assets

The Agency capitalizes equipment costing at least \$5,000 with a useful life of two years or more. Property and equipment are carried at cost. Donated assets are recognized at the estimated fair value on the date of transfer. Depreciation is recognized on the straight-line basis over estimated lives of three to thirty years.

Ravalli Head Start, Inc.  
Hamilton, Montana

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010 and 2009

NOTE 1. NATURE OF AGENCY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,  
continued

L. Subsequent Events

The Agency recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed as of June 30, 2010, including the estimates inherent in the process of preparing financial statements. Subsequent events that provide evidence about conditions that did not exist as of June 30, 2010, but arose after that date and prior to the financial statements are available to be issued are not recognized in these financial statements. The Agency evaluates subsequent events through the date the financial statements are available to be issued, which is the date of the auditor's report.

M. Income Taxes

Provisions for income taxes have not been recorded in these financial statements because the Agency believes it had no income unrelated to its exempt purposes in 2010 or 2009. With few exceptions, the Agency is no longer subject to U.S. federal or state tax examinations by tax authorities for years before 2007.

NOTE 2. GRANTS AND OTHER RECEIVABLES

*Grants Receivable* represents the balance of earned grant funds not yet received in cash. Head Start allows draw downs as cash is needed.

*Other Receivables* represent amounts owing to the Agency from other items not represented elsewhere. The Child and Adult Care Food Program (CACFP) reimburses the Agency based upon the number of qualified meals served to eligible participants. The Agency provides childcare services and is reimbursed by the State of Montana. All amounts are considered collectible; therefore, no provision for bad debts has been made.

NOTE 3. CONSTRUCTION IN PROGRESS

Construction in progress consisted of expenditures for building of the Head Start facility in Stevensville, Montana as of June 30, 2009. Upon completion of the project in November of 2009 the amounts were transferred from construction in progress to building improvements.

Ravalli Head Start, Inc.  
Hamilton, Montana

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010 and 2009

NOTE 4. FIXED ASSETS

Changes in fixed assets were as follows:

	<u>Equipment</u>	<u>Vehicles</u>	<u>Land</u>	<u>Building and Improvements</u>
Balance at July 1, 2008	\$ 47,987	\$ 124,321	\$ 75,000	\$ 1,773,425
Deletions	0	0	0	0
Additions	<u>22,147</u>	<u>11,959</u>	<u>0</u>	<u>6,310</u>
Balance at June 30, 2009	70,134	136,280	75,000	1,779,735
Deletions	0	0	0	0
Additions	<u>72,717</u>	<u>55,710</u>	<u>0</u>	<u>455,126</u>
Balance at June 30, 2010	<u>\$ 142,851</u>	<u>\$ 191,990</u>	<u>\$ 75,000</u>	<u>\$ 2,234,861</u>

Changes in accumulated depreciation were as follows:

	<u>Equipment</u>	<u>Vehicles</u>	<u>Land</u>	<u>Building and Improvements</u>
Balance at July 1, 2008	\$ 24,342	\$ 99,299	\$ 0	\$ 352,766
Deletions	0	0	0	0
Additions	<u>6,310</u>	<u>14,630</u>	<u>0</u>	<u>62,888</u>
Balance at June 30, 2009	30,652	113,929	0	415,654
Deletions	0	0	0	0
Additions	<u>13,350</u>	<u>5,013</u>	<u>0</u>	<u>82,802</u>
Balance at June 30, 2010	<u>\$ 44,002</u>	<u>\$ 118,942</u>	<u>\$ 0</u>	<u>\$ 498,456</u>

The U.S. Department of Health and Human Services retains a reversionary interest in fixed assets acquired with federal funds. Disposition of those assets is subject to rules and regulations of the United States Government.

Ravalli Head Start, Inc.  
Hamilton, Montana

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010 and 2009

NOTE 5. LONG-TERM DEBT

The Agency's obligations under loans payable consists of the following:

	<u>Authorized</u>	<u>2010 Outstanding</u>	<u>2009 Outstanding</u>
First Security Bank	\$ 850,000	\$ 704,692	\$ 727,990
Date of Loan	7/16/2002		
Maturity	11/1/2032		
Interest Rate to 7/16/2012	4.49%		
Interest Rate Determined Every 5 Years, Two-Thirds of Prime Plus .2%			
Principal and Interest/Monthly	\$ 3,851		
Secured by Deed of Trust			
 Ravalli County Bank	 20,000	 14,920	 15,485
Date of Loan	6/7/2004		
Maturity	6/8/2014		
Interest Rate	4.15%		
Principal and Interest/Annually	\$ 1,023		
Secured by Deed of Trust			
 Montana Comm. Develop. Corp.	 100,000	 89,786	 92,587
Date of Loan	3/29/2007		
Maturity	4/1/2017		
Interest Rate	5%		
Principal and Interest/Monthly	\$ 643		
Secured by Deed of Trust			
 First Security Bank	 165,000	 <u>144,862</u>	 <u>158,353</u>
Date of Loan	3/29/2007		
Maturity	3/29/2017		
Interest Rate	7.50%		
Principal and Interest/Monthly	\$ 1,271		
Secured by Deed of Trust			
 Total		 <u>\$ 954,260</u>	 <u>\$ 994,415</u>

Ravalli Head Start, Inc.  
Hamilton, Montana

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010 and 2009

NOTE 5. LONG-TERM DEBT, continued

Loan principal matures are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2011	\$ 23,116
2012	24,336
2013	25,624
2014	40,185
2015	27,944
2016 and After	<u>813,055</u>
Total	\$ <u>954,260</u>

NOTE 6. TEMPORARILY RESTRICTED NET ASSETS

Changes in temporarily restricted net assets were as follows:

	<u>RESPIRE PRE-K</u>	<u>SCHOOL SUPPLIES/ READINESS PRE-K</u>	<u>DENTAL PRE-K</u>	<u>NEW SCHOOL PRE-K</u>	<u>PARENTS EHS</u>	<u>TOTAL</u>
BEGINNING BALANCE 07/01/08	\$ 1,180	\$ 500	\$ 8,777	\$ 0	\$ 4,465	\$ 14,922
DONATIONS	0	2,000	1,500	45,325	2,279	51,104
RELEASED FROM RESTRICTIONS	0	(1,500)	(4,897)	0	(2,788)	(9,185)
INCREASE/(DECREASE )	0	500	(3,397)	45,325	(509)	41,919
ENDING BALANCE 6/30/2009	1,180	1,000	5,380	45,325	3,956	56,841
DONATIONS	0	5,250	5,500	0	2,919	13,669
EXPENDED IN CURRENT YEAR	(1,180)	(4,941)	(8,148)	(45,325)	(2,181)	(61,775)
INCREASE/(DECREASE )	(1,180)	309	(2,648)	(45,325)	738	(48,106)
ENDING BALANCE 06/30/10	\$ <u>0</u>	\$ <u>1,309</u>	\$ <u>2,732</u>	\$ <u>0</u>	\$ <u>4,694</u>	\$ <u>8,735</u>

Ravalli Head Start, Inc.  
Hamilton, Montana

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010 and 2009

**NOTE 7. OPERATING AND CAPITAL LEASES**

The Agency classifies its leases as either operating or capitalized leases. The Agency entered into an agreement to lease real property from Hamilton School District for \$200 per year. The lease commenced on June 25, 2004 and will expire on November 1, 2032. For the years 2010 through 2014, the future minimum payments for each year are \$200. For the years 2015-2032, the aggregate rental payments are \$3,600.

In February of 2010 the Agency entered into an agreement to lease office space from Hamilton School District for \$1,200 per month. The lease commenced on February 5, 2010 and will expire on the last day of June 2020. The lease is cancelable upon loss of grant funds with a 30 day written notice.

**NOTE 8. RISK MANAGEMENT/CONCENTRATION OF RISK**

The Agency is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and participants, and natural disasters. The Agency transfers its risks for personal and real property coverage through the purchase of a commercial insurance policy. Settled claims have not exceeded the amount of any commercial coverage or the legally defined liability limits.

The Agency has a concentration of risk related to its revenue sources. The Agency received more than 96 percent and 93 percent of its revenue from the Head Start Grant for the years ending June 30, 2010 and 2009, respectively.

**NOTE 9. RETIREMENT PLAN**

The Agency maintains a 401(k) retirement plan for eligible employees. Regular employees are eligible to participate after one-year service. The employee is eligible for matching contributions as specified in the plan document. The Agency contributions to the plan were \$19,921 and \$17,702 for years ending June 30, 2010 and 2009, respectively.

**NOTE 10. SUBSEQUENT EVENTS / CONTINGENT LIABILITIES**

The Agency received a letter from the Department of Health and Human Services (DHHS), in December of 2009, which noted the findings for the previous year's audit report and made recommendations to the Agency. One of the recommendations was for the Agency to calculate the amount of unallowable costs charged to the Federal programs, and return the amount to DHHS. The Agency responded to the letter, and requested that the repayment be waived. In May of 2010, the Agency received notification that DHHS had completed their review of grant period ending 6/30/2008 and did not require repayment.

The Agency discovered a document error in their 401(k) Profit Sharing Plan. Due to change in administrator documents were drafted with incorrect language. The Agency was not in compliance with the plan. The agency is going through a Voluntary Correction Program and they are currently waiting for a response. The Agency's estimated cost is anticipated to be a one-time filing fee of \$2,500 plus attorney fees.

Supplemental Schedules  
Ravalli Head Start, Inc.  
Hamilton, Montana

EXPLANATION OF SUPPLEMENTAL SCHEDULES  
June 30, 2010

BUDGET COLUMN

The grant award budget column is based upon the last document provided by the grantor. The grantee is allowed to make certain budget transfers within prescribed circumstances by written notification to the grantor. These transfers are not reflected.

The intention of the Agency is to show the budget based upon the planned budget, rather than the final budget including all transfers, to provide a more meaningful presentation to the reader, and to provide better information internally for the development of future budgets.

EXPLANATION OF ACRONYMS

Acronyms used in the grant number indicate the grantor agency. Acronyms used in the supplemental schedules are as follows:

DPHHS—U.S. Department of Health and Human Services  
CACFP—Child and Adult Care Food Program

RECONCILIATION TO THE FINANCIAL STATEMENTS

The supplemental schedule (page 19) is for individual grants completed in the current year, which may not coincide with the Agency's fiscal year. Consequently, amounts shown may differ from amounts reported in the accompanying financial statements.

**SUPPLEMENTAL**

**SCHEDULES**

Supplemental Schedule  
Ravalli Head Start, Inc.  
Hamilton, Montana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2010

Federal Source <i>Pass-Through Source</i> Program Name	Federal CFDA Number	Agency or Pass-through Number	Program or Award Amount	Federal Expenditures
<i>Head Start-Cluster</i>				
Department of Health and Human Services				
<i>Direct</i>				
Head Start Projects and Early Head Start	93.600	08CH0118/13	07/01/09 to 06/30/10	\$ 1,684,631 \$ 1,684,359
In-kind Head Start Projects and Early Head Start			07/01/09 to 06/30/10	421,158 421,158
ARRA - Head Start 2009 COLA Quality Improvement Funding	93.708	08SE0118/01	07/01/09 to 09/30/10	109,121 76,504
ARRA - In-kind - Head Start 2009 COLA Quality Improvement Funding			07/01/09 to 09/30/10	27,280 27,280
ARRA - Early Head Start Expansion	93.709	08SA0118/01	11/01/09 to 09/29/10	915,532 567,600
ARRA - In-kind - Early Head Start Expansion			11/01/09 to 09/29/10	28,883 28,883
Total Department of Health and Human Services, Head Start-Cluster			<u>3,186,605</u>	<u>2,805,784</u>
Department of Agriculture				
<i>Montana Department of Public Health and Human Services</i>				
Child and Adult Care Food Program	10.558	16696		\$ 51,891
Child and Adult Care Food Program	10.558	51571		<u>13,631</u>
Total Department of Agriculture			\$	<u>65,522</u>
TOTAL EXPENDITURES			\$	2,871,306
LESS: IN-KIND				(477,321)
TOTAL FEDERAL EXPENDITURES			\$	<u><u>2,393,985</u></u>

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

BASIS OF ACCOUNTING

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

Supplemental Schedule  
Ravalli Head Start, Inc.  
Hamilton, Montana

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS

HEAD START

Grant Period: July 1, 2009 to June 30, 2010  
Grantor: DPHHS  
Grant Number: 08CH0118/13

	<u>BUDGET</u>	<u>ACTUAL</u>
<b>REVENUES</b>		
Grant Revenue	\$ 1,684,631	\$ 1,684,359
CACFP	65,522	65,522
In-kind	<u>421,158</u>	<u>421,158</u>
<b>TOTAL REVENUES</b>	<b>\$ <u>2,171,311</u></b>	<b>\$ <u>2,171,039</u></b>
<b>EXPENSES</b>		
Personnel	\$ 956,700	\$ 933,533
Fringe Benefits	323,566	356,428
Travel	21,000	30,197
Food Services	65,522	65,522
Supplies	65,040	67,116
Contractual	41,400	48,426
Other	276,925	248,659
In-kind	<u>421,158</u>	<u>421,158</u>
<b>TOTAL EXPENSES</b>	<b>\$ <u>2,171,311</u></b>	<b>\$ <u>2,171,039</u></b>
<b>REVENUES OVER EXPENSES</b>	<b>\$ <u><u>0</u></u></b>	<b>\$ 0</b>
<b>NET ASSETS, JULY 1, 2009</b>		<b>\$ <u>0</u></b>
<b>NET ASSETS, JUNE 30, 2010</b>		<b>\$ <u><u>0</u></u></b>



Loren W. Randall, P.C.  
Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Ravalli Head Start, Inc.  
81 Kurtz Lane  
Hamilton, Montana 59840

We have audited the basic financial statements of Ravalli Head Start, Inc. (Agency) as of and for the year ended June 30, 2010 and have issued our report thereon dated January 6, 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 the Agency'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 Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 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 the 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 the Agency'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 for the information of management, audit committee, others within the entity, the State of Montana, and appropriate Federal and Pass through Agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Loren W. Randall, P.C.*

Loren W. Randall, PC  
Certified Public Accountants

January 6, 2011  
Missoula, Montana



Loren W. Randall, P.C.  
Certified Public Accountants

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

Board of Directors  
Ravalli Head Start, Inc.  
81 Kurtz Lane  
Hamilton, Montana 59840

**Compliance**

We have audited Ravalli Head Start, Inc. (Agency) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Agency's major federal programs for the year ended January 6, 2011. Agency'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 Agency's management. Our responsibility is to express an opinion on Agency'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,<sup>24</sup> 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 Agency'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 Agency's compliance with those requirements.

As described in item C10-1 in the accompanying schedule of findings and questioned costs, Agency did not comply with requirements regarding enrollment that are applicable to its Head Start Cluster. Compliance with such requirements is necessary, in our opinion, for Agency to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Agency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

## Internal Control Over Compliance

Management of Agency 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 Agency'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 Agency'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 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items IC10-1. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Agency's responses and, accordingly, we express no opinion on the responses.

This report is intended for the information of management, audit committee, others within the entity, the State of Montana, and appropriate Federal and Pass through Agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Loren W. Randall, P.C.*

Loren W. Randall, PC  
Certified Public Accountants

January 6, 2011  
Missoula, Montana

Ravalli Head Start, Inc.  
Hamilton, Montana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
AND STATUS OF PRIOR YEAR COMMENTS

For the Year Ended June 30, 2010

SECTION I. SUMMARY OF THE AUDITOR'S RESULTS

Financial Statements

Type of Auditor's Report Issued.

Unqualified

Internal Control over Financial Reporting:

Material Weaknesses Identified?

\_\_\_ Yes    X No

Significant Deficiencies Identified that are not  
Considered to be Material Weaknesses?

\_\_\_ Yes    X None Reported

Noncompliance material to the  
Financial Statements Noted?

\_\_\_ Yes    X No

Federal Awards

Internal Control over Major Programs:

Material Weaknesses Identified?

\_\_\_ Yes    X No

Significant Deficiencies Identified that are not  
Considered to be Material Weaknesses?

X Yes    \_\_\_ None Reported

Type of auditor's report issued on  
Compliance for Major Programs:

Qualified

Any Audit Findings Disclosed that  
are Required to be Reported in Accordance  
With Section 510(a) of OMB Circular A-133?

X Yes    \_\_\_ No

Identification of Major Programs:

CFDA Number                      Name of Federal Program or Cluster

CFDA #93.600, #93.708, #93.709    Head Start Cluster, Department of Health and Human Services

Dollar threshold used to distinguish between Type A and Type B Programs:    \$300,000

Auditee Qualified as Low-Risk Auditee?

\_\_\_ Yes    X No

Ravalli Head Start, Inc.  
Hamilton, Montana

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
AND STATUS OF PRIOR YEAR COMMENTS**

For the Year Ended June 30, 2010

**SECTION II. FINANCIAL STATEMENT FINDINGS**

There were no findings required to be reported in the current or prior year.

**SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**C10-1 ENROLLMENT**

Department of Health and Human Services

93.709 ARRA - Early Head Start Expansion

Grant No. 08SA0118/01 Term 11/01/09 to 09/29/10

As required by Office of Human Development Services, Health and Human Services, Section 1305.7(b) a Head Start grantee must maintain its funded enrollment level.

The Agency received expansion dollars to open a new location in Hamilton, Montana. When location opened in May of 2010, funded enrollment for the Hamilton Early Head Start was set at 80 participants. Due to it being a new program the Agency has not yet met full enrollment and has been in contact with it's regional Head Start office and is working toward being fully enrolled.

The Agency should comply with HHS by attaining and maintaining full enrollment.

**IC10-1 INTERNAL CONTROL OVER MATCHING CONTRIBUTIONS**

Department of Health and Human Services

93.600 Head Start Projects and Early Head Start

Grant No. 08CH0118/01 Term: 07/01/09 to 06/30/10

93.708 ARRA - Head Start 2009 COLA Quality Improvement Funding

Grant No. 08SE0118/01 Term: 07/01/09 to 09/30/10

The agency must maintain adequate internal controls over the tracking of matching contributions.

The Agency's staff did not fully enter in-kind amounts into their system from the supporting documentation.

The Agency should improve internal controls over matching contributions to ensure they have included all matching contributions they have documented.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
AND STATUS OF PRIOR YEAR COMMENTS

For the Year Ended June 30, 2010

SECTION IV STATUS OF PRIOR YEAR COMMENTS

C09-1 PROCUREMENT – CONTRACT PROVISIONS / DEBARMENT AND SUSPENSION – In the prior year, it was noted verification that contractors were not suspended or debarred, or otherwise excluded from receiving Federal contracts did not occur for contractors hired for the Agency's construction project. Subsequent to audit fieldwork, verification for all contractors was obtained and none were found to be suspended or debarred from Federal contracts.

Status: They Agency has improved their procedures with regards to contract provisions/debarment and suspension. During testing for 2009/2010 there were no noted instances of non compliance noted.

C09-2 DAVIS-BACON ACT – In the prior year, it was noted that the Agency did not consistently receive weekly certified payrolls and statements of compliance from contractors or subcontractors working on the project.

Status: Weekly certified payrolls and statements of compliance were required for the current year the Agency had hired a consultant to ensure compliance with Davis-Bacon Act, during testing for 2009/2010 there were no instances of noncompliance noted.

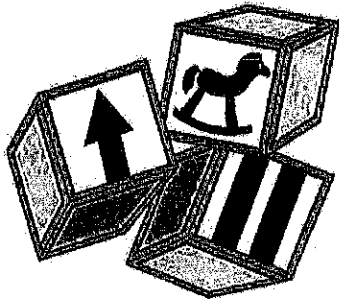
C09-3 DATA REPORTING PACKAGE – In the prior year, the audit, data collection form, and reporting package were not completed by the due date.

Status: The Agency has made improvements in system their to ensure they complete all reports by their due dates.

C08-01 ALLOWABLE COSTS / COST PRINCIPLES – In the year ending June 30, 2008, near the end of the fiscal year, administrative staff was paid administrative leave for two-week period. The Agency's established policies do not include a provision for administrative leave benefits.

Status: During the 2008/09 and 2009/10 audit period, the Agency did not pay administrative leave benefits to its employees.

The Agency received a letter from the Department of Health and Human Services (DHHS) in December of 2009, recommending the amount paid for administrative leave paid in 2007/2008 be determined and returned to DHHS. The Agency responded to the letter, and requested that the \$7,014 repayment be waived. In May of 2010, the Agency received notification that DHHS had completed their review of grant period 6/30/2008 and did not require repayment.



# Ravalli Head Start, Inc. Missoula Early Head Start

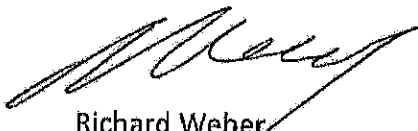
January 6, 2011

Loren W. Randall, P.C.  
Certified Public Accountants  
PO Box 4325  
Missoula, MT 59806

To Whom It May Concern:

Regarding the findings in your 2010 audit of Ravalli Head Start, Inc., Section III., Federal Award Findings and Questioned Costs – the Board of Directors of Ravalli Head Start, Inc. concurs with your findings. We continue to work toward full enrollment at Ravalli Early Head Start and will be fully enrolled by April 29, 2011. We communicate biweekly with the Office of Head Start Regional Office, updating them on our enrollment progress and recruitment efforts. We are and will continue to review our internal procedures related to data entry of matching contributions to ensure compliance with the Head Start Act.

Sincerely,



Richard Weber,  
Chairman, Board of Directors