

**OPTIONS - A CHILD CARE  
AND HUMAN SERVICES AGENCY  
REPORT ON AUDIT OF  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**OPTIONS - A CHILD CARE AND HUMAN SERVICES AGENCY**  
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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Options - A Child Care and  
Human Services Agency (Options)  
(A California Non-Profit Corporation)  
West Covina, California

We have audited the accompanying statement of financial position of Options - A Child Care and Human Services Agency (Options) (A California Non-Profit Corporation) as of June 30, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Options' management. Our responsibility is to express an opinion on these financial statements based on our audit.

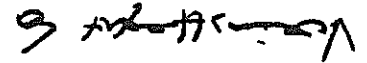
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Options' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Options as of June 30, 2008, 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 December 10, 2008, on our consideration of Options' 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 performed for the purpose of forming an opinion on the basic financial statements of Options taken as a whole. The accompanying schedule of expenditures of federal and State 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 was prepared according to the accounting principles used for the basic financial statements and 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.

December 10, 2008



**OPTIONS - A CHILD CARE AND HUMAN SERVICES AGENCY**  
**(A California Non-Profit Corporation)**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2008**

| <b>ASSETS</b>  |                      |
|--|----------------------|
| Current Assets:  |                      |
| Cash in Banks and on Hand  | 8,088,107            |
| Contract Funds Receivable (Note 4)                                 | 7,946,663            |
| Accounts Receivable  | 458,835              |
| Prepaid Expenses   | 11,940               |
| <b>Total Current Assets</b>  | <b>16,505,545</b>    |
| Property, Plant and Equipment<br>(net of accumulated depreciation) | 1,558,198            |
| <b>Total Assets</b>  | <b>\$ 18,063,743</b> |
| <br>   |                      |
| <b>LIABILITIES</b>   |                      |
| Accounts Payable   | 6,321,947            |
| and Accrued Liabilities  | 1,269,958            |
| Contract Funds Payable   | 217,657              |
| Contract Advances  | 2,993,920            |
| Reserve  | 77,218               |
| Notes Payable  | 10,880,700           |
| <b>NET ASSETS - UNRESTRICTED</b>                                   | <b>7,183,043</b>     |
| <b>TOTAL LIABILITIES &amp; NET ASSETS</b>                          | <b>\$ 18,063,743</b> |

See accompanying auditors' reports and notes to financial statements.

**OPTIONS - A CHILD CARE AND HUMAN SERVICES AGENCY**  
**(A California Non-Profit Corporation)**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**CHANGE IN UNRESTRICTED NET ASSETS**

|   |                     |
|---|---------------------|
| Federal Funding                         | 23,043,601          |
| State Funding                           | 31,826,748          |
| County Funding                          | 9,925,768           |
| Parent Fees - Subsidized                | 1,241,641           |
| Parent Fees-Non-Subsidized              | 1,950,282           |
| Parent Fees-Non-Subsidized - United Way | 16,949              |
| Interest                                | 118,896             |
| Other Income                            | 786,165             |
| Total Support                           | <u>68,910,050</u>   |
| <b>EXPENSES</b>                         |                     |
| Certified Salaries:                     |                     |
| Teachers                                | 10,250,724          |
| School Administration                   | 594,044             |
| Supervisors                             | 2,430,037           |
| Other                                   | 573,704             |
| Classified Salaries:                    |                     |
| Clerical and Other Office Personnel     | 2,874,139           |
| Maintenance Personnel                   | 283,748             |
| Transportation Personnel                | 131,947             |
| Other                                   | 1,603,797           |
| Employee Benefits                       | 5,350,890           |
| Other Books                             | 14,359              |
| Instructional Supplies                  | 1,109,426           |
| Subscriptions                           | 3,928               |
| Other Supplies                          | 1,681,196           |
| Food Services:                          |                     |
| Food                                    | 1,084,936           |
| Contracts for Personal Services         | 33,887,570          |
| Travel, Conference & Other              | 362,972             |
| Dues & Memberships                      | 61,180              |
| Insurance                               | 252,098             |
| Utilities & Housekeeping Services       | 699,273             |
| Contracts, Rents & Leases               | 970,802             |
| College Reimbursement                   | 14,608              |
| Legal & Auditing                        | 81,075              |
| Other Services                          | 835,300             |
| Equipment & Building                    | 56,976              |
| Depreciation/Use Allowance              | 353,635             |
| Indirect                                | 2,820,597           |
| Total Expenses                          | <u>68,382,961</u>   |
| Change in Unrestricted Net Assets       | 527,089             |
| Net Assets - beginning of year          | 6,848,796           |
| Adjustments and settlements             | (192,842)           |
| Net Assets - end of year                | <u>\$ 7,183,043</u> |

See accompanying auditors' reports and notes to financial statements.

**OPTIONS - A CHILD CARE AND HUMAN SERVICES AGENCY**  
**(A California Non-Profit Corporation)**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

|   |                     |
|---|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                     |
| Increase (decrease) in net assets   | \$ 334,247          |
| Adjustments to reconcile increase in net assets to net cash provided by operating expenses: |                     |
| Depreciation  | 353,635             |
| Contract funds receivable   | (1,913,417)         |
| Accounts receivable   | (6,424)             |
| Prepaid expenses  | (8,863)             |
| Accounts payable and accrued expenses   | 908,283             |
| Contract funds payable  | (1,657,738)         |
| Advances and reserves   | 328,824             |
| Net cash (used in) provided by operating activities   | (1,661,453)         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                     |
| Purchase of fixed assets  | (288,329)           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                     |
| Note payable principal payments   | (2,857)             |
| <b>NET INCREASE (DECREASE) IN CASH</b>  | <b>(1,952,639)</b>  |
| <b>CASH AND CASH EQUIVALENTS - Beginning of year</b>  | <b>10,040,746</b>   |
| <b>CASH AND CASH EQUIVALENTS - End of year</b>  | <b>\$ 8,088,107</b> |

See accompanying auditors' reports and notes to financial statements.  
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**OPTIONS - A CHILD CARE AND HUMAN SERVICES AGENCY**  
**(A California Non-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**1. ORGANIZATION**

Options - A Child Care and Human Services Agency (Options) was founded in 1981 and provides a coordinated, interdisciplinary network of quality, professionally delivered early care and education services for children and families living in the greater San Gabriel Valley/Whittier/Pomona region of Los Angeles County. Options is dedicated to meeting the needs of its clients in a holistic manner, with personalized services provided by staff who genuinely care about the well being and growth of the children and parents they serve.

Options administers several child development programs, a Head Start program, two child care food programs, child care resource and referral program, after school Enrichment programs, CalWORKS Stage I program and Los Angeles Universal Preschool programs.

*Program Services*

Options serves the greater San Gabriel Valley of Los Angeles County including, but not limited to, the following cities and towns: Alhambra, Covina, Eagle Rock, East Whittier, El Monte, Highland Park, Irwindale, La Puente, Monrovia, Monterey Park, Rowland Heights, Pomona, San Gabriel, South El Monte, South Whittier, Walnut, Whittier, and West Covina. Options seeks to reduce the causes of poverty and serves the community by carrying out the following programs:

State Preschool Division - In preparing preschoolers and their families for kindergarten and the transition to elementary school, Options provides a high quality, developmental, educational program which meets the needs of the whole child while forming collaborative partnerships with schools and community institutions.

Head Start Division - Options provides a variety of educational and comprehensive developmental services to low income preschool children.

Surround Care Division - Options provides year round before and after school and educational enrichment programs for elementary school aged children.

Child Development Centers Division - Options provides year round child care and education for preschool aged children.

Child Care Food Program - Options provides meals to children in its centers and reimbursement to licensed family child care providers for meals served in their homes to children, in accordance with federal and state laws.

Child Care Services Division - Options is able to offer subsidized child care through contracts with community child care providers and objective referral information.

Enrichment Program - Options provides after school enrichment activity programs for elementary and middle school aged children.

**OPTIONS - A CHILD CARE AND HUMAN SERVICES AGENCY  
(A California Non-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008  
(CONTINUED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Accounting*

The financial statements and fiscal records of Options are prepared on the accrual basis of accounting and, therefore, include all support and revenues when earned and all expenses when incurred, regardless of whether these support and revenues were received or paid as of the end of a fiscal period. Grants are recognized as support when earned in accordance with the terms of each grant or agreement.

*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, Options 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.

*Unrestricted Net Assets*

Unrestricted net assets generally result from revenues obtained by providing services, receiving unrestricted contributions, and receiving interest and dividends from income-producing assets. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of Options and the purposes specified in its Articles of Incorporation or Bylaws and limits resulting from contractual agreements entered into by Options in the course of its operations.

*Cash and Cash Equivalents*

Cash and cash equivalents are from time to time variously composed of cash on hand and in commercial checking accounts, and savings accounts. These investments are carried at cost, which approximates market value. Options maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. Options has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. See also Note 4.

*Fixed Assets/Depreciation*

Property and equipment acquired with grant/contract funds is accounted for in accordance with related regulations.

Certain assets purchased with government grant or contract funds are subject to restrictions including a guideline for depreciation and a reversionary interest in such assets. Provision for depreciation on applicable assets is computed by the straight-line method over the estimated useful lives of the related assets which range from 10 to 15 years for portable classrooms and 5 years for other assets.

**OPTIONS - A CHILD CARE AND HUMAN SERVICES AGENCY**  
**(A California Non-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*Use of Estimates*

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

*Concentrations of Credit Risk*

Contract funds receivable at June 30, 2008 are due from Federal, California State and County of Los Angeles governmental entities and Los Angeles Universal Preschool.

*Investments*

Investments in marketable securities with readily determinable fair values and all investments in debt securities are carried at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of functional expenses.

*Estimates*

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

*Risk Management*

Options is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which Options carries commercial insurance.

*Contingencies*

Options participates in federal grants, the principal of which is the U.S. Department of Health & Human Services. Disbursement of funds received under these grants requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed costs resulting from such an audit could become a liability of the general fund or other applicable funds.

*In-Kind Services*

In-kind services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Options. For the year ended June 30, 2008 no such in-kind services were received. Volunteers also provided services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under SFAS No. 116 were not met.

**OPTIONS - A CHILD CARE AND HUMAN SERVICES AGENCY**  
**(A California Non-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
**(CONTINUED)**

**3. INCOME TAXES**

Options is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Options is also exempt from California franchise taxes under Section 23701(d) of the Revenue and Taxation Code and, therefore, has made no provision for Federal or California income taxes. Contributors, donors and grantors may obtain tax benefits. In addition, Options has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code.

**4. RISKS AND UNCERTAINTIES**

Options maintains cash balances at two financial institutions. Accounts at each financial institution were insured by the Federal Deposit Insurance Corporation up to \$100,000. At June 30, 2008, the cash balances totaled \$8,088,108. It is the opinion of management that the solvency of the financial institutions is not of particular concern at this time.

Head Start regulations require federal Head Start funds on deposit to be either covered by FDIC insurance, or to be collateralized by the financial institution. Options maintains a separate interest-bearing checking account at Wells Fargo Bank for federal Head Start funds. Options has tried to obtain collateralization of these funds, and has been denied. This Head Start regulation (45 CFR Part 74.21 (b)(3)) was cited by the Head Start Region IX Fiscal Office in its review of the 2006/07 audit. In late 2008 FDIC insurance was increased, on a permanent basis, to \$250,000 per institution. In October 2008, Options instituted a new internal fiscal procedure to insure that funds on deposit in the Head Start checking account will not exceed this \$250,000 level. The procedure includes more frequent drawdown of smaller amounts of Head Start funds as needed.

Options receives a substantial amount of revenue from their programs funded by the U.S. Department of Health & Human Services and the California Department of Education. During the year ended June 30, 2008, receipts from these sources totaled \$54,817,411, representing 80% of Options' total revenues for the year. At June 30, 2008, amounts due from these organizations in accounts receivable totaled \$7,124,481.

**OPTIONS - A CHILD CARE AND HUMAN SERVICES AGENCY**  
**(A California Non-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
**(CONTINUED)**

**5. CONTRACT FUNDS RECEIVABLE**

Contract funds receivable represents funds remaining to be received from the various agencies as part of a whole contract. As of June 30, 2008, contract funds receivable consists of the following:

|                   |                     |   |
|-------------------|---------------------|---|
| Program           | Amount              | Agency Due From   |
| Child Development | \$ 4,792,190        | California State Department of Education                      |
| Child Care Food   | 1,492,570           | California State Department of Education                      |
| Head Start        | 839,721             | U.S. Department of Health and Human Services                  |
| Family Center     | 30,286              | County of Los Angeles Department of Children and Family Svcs. |
| County Child Care | 584,420             | County of Los Angeles Department of Public Social Services.   |
| LAP               | 70,689              | Los Angeles Universal Preschool                               |
| General           | 136,787             | Various   |
| Total             | <u>\$ 7,946,663</u> |   |

Options has not accrued a loss for allowances for uncollectible receivables as it is the opinion of management that it is highly probable that all receivables will be collected.

**6. ACCOUNTS RECEIVABLE**

Accounts receivable includes a loan receivable from the Center for Integrated Family and Health Services, Inc. totaling \$296,000. The loan is non-interest bearing and is due on demand. Additionally, accounts receivable represents the portion of support earned, but funds not yet received as of year-end. The accounts receivable balance at June 30, 2008, totaled \$337,068. Options has not accrued a loss for allowances for uncollectible receivables as it is the opinion of management that it is highly probable that all receivables will be collected.

**7. FIXED ASSETS**

The following is a summary of changes in fixed assets for the year ended June 30, 2008:

|                               |                     |                   |             |                     |
|-------------------------------|---------------------|-------------------|-------------|---------------------|
| Equipment                     | \$ 252,499          | \$ -              | \$ -        | \$ 252,499          |
| Vehicles                      | 137,062             | -                 | -           | 137,062             |
| Portables                     | 5,688,171           | 289,290           | -           | 5,977,461           |
| Total                         | <u>\$ 6,077,732</u> | <u>\$ 289,290</u> | <u>\$ -</u> | <u>\$ 6,367,022</u> |
| Less accumulated depreciation | <u>(4,454,228)</u>  |                   |             | <u>(4,808,825)</u>  |
| Fixed assets, net             | <u>\$ 1,623,504</u> |                   |             | <u>\$ 1,558,197</u> |
|                               | Balance             | Additions         | Deletions   | Balance             |
|                               | June 30, 2007       |                   |             | June 30, 2008       |

Depreciation expense was \$354,597 for the year ended June 30, 2008.

**OPTIONS - A CHILD CARE AND HUMAN SERVICES AGENCY**  
**(A California Non-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
**(CONTINUED)**

Accumulated unpaid employee vacation benefits are recognized as liabilities of Options. The amount of accumulated vacation totaled \$1,022,937, as of June 30, 2008, and is in "Accounts Payable and Accrued Liabilities" in the accompanying "Statement of Financial Position".

**8. ACCRUED VACATION**

Contract funds payable represent funds received that will have to be repaid if not entirely expended. As of June 30, 2008, contract funds payable advances consist of the following:

|   |                     |
|---|---------------------|
|   | Total               |
| Child Development                       | 1,169,862           |
| Family Day Care Child Care Food Program | 82,255              |
| Family Center                           | 4,228               |
| Center Based Child Care Food Program    | 13,613              |
|   | <u>\$ 1,269,958</u> |

**9. CONTRACT FUNDS PAYABLE**

The reserve represents \$2,993,920 of the Child Development Division's excess of Federal and State revenues received over expenses. Options has been granted the right to retain this excess provided the funds are applied to Direct Service, Resource and Referral and Alternative Payment Programs within the Child Development Division.

**11. NOTE PAYABLE**

Notes payable as of June 30, 2008, consists of the following:

Note payable to lending institution, payable in monthly principal and interest payments approximately of \$679, accruing interest at 5.611%, secured by building deed of trust, maturing September 2023.

|  |                  |
|--|------------------|
| As of June 30, 2007                      | 80,075           |
| Less: current portion (7/1/07 - 6/30/08) | <u>(2,857)</u>   |
| Total Long-Term Debt                     | <u>\$ 77,218</u> |

**OPTIONS - A CHILD CARE AND HUMAN SERVICES AGENCY  
(A California Non-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008  
(CONTINUED)**

**12. IN-KIND**

Values assigned to in-kind contributions and the related expenses are based on federal guidelines. In accordance with those guidelines, values are based upon estimated area-wide averages for purchased services, facilities, or supplies of a similar type. In-kind contributions and expenses are recorded when used in the program and are not carried forward.

In-kind services with an estimated value of \$2,416,775 for the year ended June 30, 2008 were not recognized in the financial statements as they did not meet the criteria for recognition under Statement of Financial Accounting Standards No. 116 *Accounting for Contributions Received and Contributions Made*.

**13. LEASE COMMITMENT**

Options leases various office spaces expiring in various years through 2012. Rental expense for the year ended June 30, 2008, consists of the following:

|  |   |                     |
|--|---|---------------------|
|  | Child Development                       | \$ 636,990          |
|  | Family Day Care Child Care Food Program | 30,417              |
|  | Head Start                              | 124,607             |
|  | Center Based Child Care Food Program    | 17,635              |
|  | County Child Care                       | 80,109              |
|  | Los Angeles Universal Preschool         | 5,202               |
|  | General                                 | 4,974               |
|  | Total Direct Lease Costs                | 899,934             |
|  | Indirect Lease Costs                    | 223,235             |
|  | <u>Total</u>                            | <u>\$ 1,123,169</u> |

**14. INDIRECT COST**

The Indirect Division's costs are reimbursed by and allocated among the other divisions based on approved indirect cost rates. Accordingly, the Indirect Division is eliminated to prevent overstatement of combined net asset balance except that actual indirect income exceeded allocated expenses by \$215,239.

**OPTIONS - A CHILD CARE AND HUMAN SERVICES AGENCY**  
**(A California Non-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
**(CONTINUED)**

**15. FUNCTIONAL EXPENSES**

Directly identifiable expenses are charged to program services. Expenses related to more than one function are charged to program services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Options.

Functional expense for the fiscal year ended June 30, 2008, consist of the following:

|  |                        |               |
|--|------------------------|---------------|
|  | Program Services       |               |
|  | Management and General |               |
|  | Total                  |               |
|  | \$ 65,562,366          | \$ 68,131,723 |
|  | 2,569,357              |               |

GOVERNMENT AUDIT INFORMATION SECTION

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

To the Board of Directors  
Options - A Child Care and  
Human Services Agency (Options)  
(A California Non-Profit Corporation)  
West Covina, California

We have audited the financial statements of Options - A Child Care and Human Services Agency (Options) (A California Non-Profit Corporation) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 10, 2008. We conducted our audit in accordance with U.S. U.S. generally accepted auditing standards 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 Options' 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 Options' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Options' internal control over financial reporting.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects an entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of an entity's financial statements that is more than inconsequential will not be prevented or detected by an entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood 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 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 Options' 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 the audit committee, management, others within the organization 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.

*Vasini, Heyn & Company*  
December 10, 2008

**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**

To the Board of Directors  
Options - A Child Care and  
Human Services Agency (Options)  
(A California Non-Profit Corporation)  
West Covina, California

Compliance

We have audited the compliance of Options - A Child Care and Human Services Agency (Options) (A California Non-Profit Corporation) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A - 133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Options major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Options management. Our responsibility is to express an opinion on Options 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 Options' 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 Options' compliance with those requirements.

In our opinion, Options 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 June 30, 2008.

Internal Control Over Compliance

The management of Options 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 Options' internal control over compliance with the 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, 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 Options' internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects an entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by an entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by an entity's internal control.

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 audit committee, management, Board of Directors, 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.

*W. H. Hunt*  
December 10, 2008

**OPTIONS - A CHILD CARE AND HUMAN SERVICES AGENCY**  
**(A California Non-Profit Corporation)**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
**(FEIN: 95-3602641)**

| Federal Grantor/<br>Pass Through Grantor/<br>Program Title | Program<br>Number | Pass-Through<br>Grantors<br>Numbers | Program<br>Or Award<br>Amount | Recognized<br>Revenue | Disbursements/<br>Expenditures | State<br>Reserve<br>Fund |
|--|-------------------|-------------------------------------|-------------------------------|-----------------------|--------------------------------|--------------------------|
|--|-------------------|-------------------------------------|-------------------------------|-----------------------|--------------------------------|--------------------------|

**FEDERAL - Major Programs**

|  |        |                 |             |             |             |    |
|--|--------|-----------------|-------------|-------------|-------------|----|
| 1. U.S. Department of Agriculture<br>Passed Through California<br>State Department of Education,<br>Office of Child Nutrition Services:<br>Center Child Care<br>Family Child Care<br>Child Care Food Program | 10,558 | 19-J852-1763-11 | \$1,371,996 | \$1,371,996 | \$1,371,996 | \$ |
|  | 10,558 | 19-J852-1763-1F | 5,785,044   | 5,785,044   | 5,785,044   | \$ |
|  |        |                 | \$7,157,040 | \$7,157,040 | 7,157,040   | \$ |

|  |        |             |             |             |             |    |
|--|--------|-------------|-------------|-------------|-------------|----|
| 2. U.S. Department of Health and Human Services<br>Headstart | 93,600 | 09CH0029/23 | \$6,798,946 | \$3,012,572 | \$3,012,572 | \$ |
|  | 93,600 | 09CH0029/24 | 6,802,166   | 3,769,431   | 3,769,431   | \$ |
|  |        |             | \$6,782,003 | \$6,782,003 | 6,782,003   | \$ |

**3. Child Development Services**

|                                 |        |             |                     |                     |                     |            |
|---------------------------------|--------|-------------|---------------------|---------------------|---------------------|------------|
| FCH                             | 94,575 | CFCC 7014   | \$215,047           | \$176,734           | \$176,734           | \$         |
| R & R                           | 93,575 | CRMP 7030   | \$62,299            | 62,299              | 62,299              | \$         |
| AP                              | 93,575 | CAPP 7036   | 2,546,497           | 2,546,497           | 2,546,497           | \$         |
| Stage 3                         | 93,575 | C3AP 7033   | 5,209,896           | 5,047,801           | 5,047,801           | \$         |
| Stage 2                         | 93,575 | C2AP 7033   | 771,940             | 663,124             | 663,124             | \$         |
| General Child Care (BB)         | 93,575 | CCTR 7175   | 470,337             | 470,337             | 470,337             | \$         |
| Exempti Care Outreach           | 93,575 | CECT 7029   | 46,408              | 46,408              | 46,408              | \$         |
| Health & Safety                 | 93,575 | CHST 7029   | 23,704              | 19,203              | 19,203              | \$         |
| Instructional Supplies          | 93,575 | CIMS 7259   | 6,927               | 6,927               | 6,927               | \$         |
| Instructional Supplies - COUSD  | 93,575 | subcontract | 881                 | 881                 | 881                 | \$         |
| Instructional Supplies - RUSD   | 93,575 | subcontract | 1,732               | 1,732               | 1,732               | \$         |
| Instructional Supplies - AUSD   | 93,575 | subcontract | 3,464               | 3,464               | 3,464               | \$         |
| Instructional Supplies - SGUSD  | 93,575 | subcontract | 612                 | 612                 | 612                 | \$         |
| Child Care Initiative Project   | 93,575 | CCIP 7029   | 44,188              | 44,188              | 44,188              | \$         |
| CCDF Infant Toddler             | 93,575 | CCAP 7171   | 4,799               | 4,799               | 4,799               | \$         |
| CCDF Schoolage Resource         | 93,575 | CSGC 7119   | 7,199               | 7,199               | 7,199               | \$         |
| CCDF Schoolage Resource-SGUSD   | 93,575 | subcontract | 2,354               | 2,354               | 2,354               | \$         |
|                                 |        |             | \$9,104,559         | \$9,104,559         | \$9,104,559         | \$         |
| <b>TOTAL FEDERAL ASSISTANCE</b> |        |             | <b>\$23,043,602</b> | <b>\$23,043,602</b> | <b>\$23,043,602</b> | <b>\$0</b> |

The above schedule was prepared on the accrual basis of accounting.  
 See accompanying auditors' reports and notes to basic financial statements.



**OPTIONS - A CHILD CARE AND HUMAN SERVICES AGENCY  
(A California Non-Profit Corporation)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008  
SUMMARY OF AUDIT RESULTS:**

**Section I**

1 The auditors' report expresses an unqualified opinion on the general purpose financial statements of:  
Options - A Child Care and Human Services Agency

2 No instances of noncompliance were disclosed during the audit which were material to the financial statements of:  
Options - A Child Care and Human Services Agency

3 The auditors' report on compliance on all major federal programs expresses an unqualified opinion for the major federal award programs for:  
Options - A Child Care and Human Services Agency

4 No material weaknesses(es) identified 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*.

5 No significant deficiency(ies) identified that are not considered to be material weaknesses 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*.

6 No material weaknesses(es) identified 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.

7 No significant deficiency(ies) identified that are not considered to be material weaknesses 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.

8 Audit findings relative to the major federal award programs for:  
Options - A Child Care and Human Services Agency  
are referenced in the attached Schedule of Findings and Questioned Costs as follows:

| Finding No. | Reference |
|-------------|-----------|
| None        | None      |

9 The threshold for distinguishing Types A and B programs was:  
\$691,308

10 Options - A Child Care and Human Services Agency  
was determined to be a:  
low-risk auditee

11 The programs tested as major programs included:

| CFDA<br>Program Name              | 10,558 | 93,600     | 93,575                                 |
|-----------------------------------|--------|------------|--|
| Child and Adult Care Food Program |        | Head Start | Child Care and Development Block Grant |

**Section II - Financial Statement Findings**

None Reported

**Section III - Federal Award Findings and Questioned Costs**

None Reported

**OPTIONS - A CHILD CARE AND HUMAN SERVICES AGENCY  
 (A California Non-Profit Corporation)  
 FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTIONS  
 FOR THE YEAR ENDED JUNE 30, 2008**

| <u>CURRENT YEAR</u> | <u>Program</u>  | <u>Finding/Noncompliance</u> | <u>Questioned Costs</u> |
|---------------------|---|------------------------------|-------------------------|
|                     | Headstart   | None                         | None                    |
|                     | California Department of<br>Education Child Development | None                         | None                    |
|                     | Child Care Food Program                                 | None                         | None                    |

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS:**

**2007 Findings:**

There were no 2007 findings.

**2007 Questioned Costs:**

There were no 2007 questioned costs.

**2006 Findings:**

There were no 2006 findings.

**2006 Questioned Costs:**

There were no 2006 questioned costs.