



AUDITED FINANCIAL STATEMENTS, SUPPLEMENTAL INFORMATION  
AND REPORTS IN COMPLIANCE WITH UNIFORM GUIDANCE  
AS OF AND FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

**ORANGE COUNTY HEAD START, INC.**  
FINANCIAL STATEMENTS



**CONTENTS**

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<b><i>As of and for the years ended June 30, 2019 and 2018</i></b>	<b>Page</b>
<b>Independent Auditor's Report</b>	1 – 2
<b>Financial statements:</b>	
Statements of financial position as of June 30, 2019 and 2018	3
Statements of activities for the years ended June 30, 2019 and 2018	4
Statements of functional expenses for the years ended June 30, 2019 and 2018	5
Statements of cash flows for the years ended June 30, 2019 and 2018	6
Notes to financial statements for the years ended June 30, 2019 and 2018	7 – 17
<b>Supplementary Information:</b>	
Supplemental schedule of activities by grant for the year ended June 30, 2019	18
Supplemental schedule of expenses by category for the year ended June 30, 2019	19
Supplemental schedule of expenses by Head Start Centers for the year ended June 30, 2019	20 -21
Supplemental schedule of expenses compared to budget for the year ended June 30, 2019	22
Supplemental schedule of reported meals and earned reimbursement for the period July 1, 2018 to June 30, 2019	23
Schedule of expenditures of federal awards for the year ended June 30, 2019	24
Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	25 – 26
Independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance	27 – 28
Schedule of findings and questioned costs as of and for the year ended June 30, 2019	29
Status of prior year findings and recommendations as of and for the years ended June 30, 2019 and 2018	30

## INDEPENDENT AUDITOR'S REPORT

To The Board of Directors  
**Orange County Head Start, Inc.**  
Santa Ana, California

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Orange County Head Start, Inc. ("OCHS") (a nonprofit California corporation), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## INDEPENDENT AUDITOR'S REPORT *(continued)*

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OCHS as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Other information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedules for the year ended June 30, 2019 of activities by grant, of expenses by category, of expenses by Head Start Centers, of expenses compared to budget, and of reported meals and earned reimbursement are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2019, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2020, on our consideration of OCHS'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 solely 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 effectiveness of OCHS's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCHS's internal control over financial reporting and compliance.



Long Beach, California  
February 3, 2020

**ORANGE COUNTY HEAD START, INC.**  
**STATEMENTS OF FINANCIAL POSITION**

<i>As of June 30,</i>	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,619,684	\$ 642,158
Grants receivable	2,725,491	3,676,364
Other receivables	103,207	247
<b>Total current assets</b>	<b>4,448,382</b>	<b>4,318,769</b>
<b>Property and equipment, net of accumulated depreciation of \$61,164 and \$30,582, respectively</b>	<b>91,745</b>	<b>122,327</b>
<b>Deposits</b>	<b>61,872</b>	<b>61,872</b>
<b>Total assets</b>	<b>\$ 4,601,999</b>	<b>\$ 4,502,968</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 562,482	\$ 646,048
Accrued expenses - other	2,065,171	1,930,131
Accrued vacation	395,902	361,582
Advances - other grants	89,445	89,440
Deferred Rent	21,295	32,373
<b>Total current liabilities</b>	<b>3,134,295</b>	<b>3,059,574</b>
<b>Commitments and contingencies</b>		
<b>Net assets:</b>		
Without donor restrictions	1,467,704	1,443,394
<b>Total net assets</b>	<b>1,467,704</b>	<b>1,443,394</b>
<b>Total liabilities and net assets</b>	<b>\$ 4,601,999</b>	<b>\$ 4,502,968</b>

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

**ORANGE COUNTY HEAD START, INC.**  
**STATEMENTS OF ACTIVITIES**

<i>For the years ended June 30,</i>	<b>2019</b>	<b>2018</b>
<b>Changes in net assets without restrictions</b>		
<b>Public support and revenue:</b>		
Head Start grants	\$ 38,898,036	\$ 37,390,130
In-kind contributions	5,411,340	5,268,011
Child care food program	1,284,708	1,187,010
Other grants	166,724	43,515
<b>Total public support and revenue without donor restrictions</b>	<b>45,760,808</b>	<b>43,888,666</b>
<b>Expenses</b>		
<b>Program services:</b>		
Head start	40,986,112	38,620,769
Child care food program	1,284,708	1,187,010
<b>Supporting services:</b>		
Management and general	3,465,678	4,103,590
<b>Total expenses</b>	<b>45,736,498</b>	<b>43,911,369</b>
<b>Increase (decrease) in net assets without donor restrictions</b>	<b>24,310</b>	<b>(22,703)</b>
<b>Net assets, beginning of year</b>	<b>1,443,394</b>	<b>1,466,097</b>
<b>Net assets, end of year</b>	<b>\$ 1,467,704</b>	<b>\$ 1,443,394</b>

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

**ORANGE COUNTY HEAD START, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**

	2019					2018				
	Program Services			Supporting Services	Total	Program Services			Supporting Services	Total
	Child Care		Subtotal	Management and General	Expenses	Child Care		Subtotal	Management and General	Expenses
	Head Start	Food Program				Head Start	Food Program			
Salaries and wages	\$ 14,702,675	\$ 44,183	\$ 14,746,858	\$ 1,647,799	\$ 16,394,657	\$ 13,507,872	\$ 46,212	\$ 13,554,084	\$ 1,496,551	\$ 15,050,635
Contractual	15,866,995	-	15,866,995	370,643	16,237,638	14,227,499	-	14,227,499	102,833	14,330,332
Fringe benefits	5,273,629	18,432	5,292,061	535,327	5,827,388	5,428,264	9,069	5,437,333	758,911	6,196,244
Other	4,254,631	-	4,254,631	748,776	5,003,407	4,170,583	64,962	4,235,545	1,344,425	5,579,970
Supplies	888,182	1,222,093	2,110,275	163,133	2,273,408	1,286,551	1,066,767	2,353,318	400,870	2,754,188
	\$ 40,986,112	\$ 1,284,708	\$ 42,270,820	\$ 3,465,678	\$ 45,736,498	\$ 38,620,769	\$ 1,187,010	\$ 39,807,779	\$ 4,103,590	\$ 43,911,369

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

**ORANGE COUNTY HEAD START, INC.**  
**STATEMENTS OF CASH FLOWS**

<i>For the years ended June 30,</i>	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 24,310	\$ (22,703)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Non-cash items included in change in net assets:		
Depreciation	30,582	30,582
(Increase) decrease in assets:		
Grants receivable	950,873	(1,061,387)
Other receivables	(102,960)	482
Prepaid expenses	-	14,626
Increase (decrease) in liabilities:		
Accounts payable	(83,566)	(292,863)
Accrued expenses - other	135,040	433,476
Accrued vacation	34,320	31,759
Advances - other grants	5	(2,248)
Deferred Rent	(11,078)	7,277
<b>Net cash provided by (used in) operating activities</b>	<b>977,526</b>	<b>(860,999)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>977,526</b>	<b>(860,999)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>642,158</b>	<b>1,503,157</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,619,684</b>	<b>\$ 642,158</b>

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



***For the years ended June 30, 2019 and 2018***

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**NOTE 1**

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**ORGANIZATION AND PURPOSE**

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

Nationally, Head Start began providing services in 1965 and is now available to children and families in counties throughout the country. Locally, OCHS has been in existence since 1979 and currently provides services to over 3,000 children. Head Start services are available to preschool children from low-income families at no cost. OCHS has centers located throughout Orange County.

***Program services:***

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

Family and Community Partnership – The program encourages and promotes parent involvement in their children's learning and helps parents make progress toward their educational, literacy, and employment goals.

Every OCHS center elects parent representatives to serve a one-year term on the Policy Council Board. This board, along with a community member Board of Directors, provides governance oversight for OCHS.

Program Design and Management – The program also provides training and technical assistance to OCHS's program staff.

**NOTE 2**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of accounting:***

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

*For the years ended June 30, 2019 and 2018*

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**NOTE 2 - CONTINUED**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of accounting:***

In preparing these financial statements, OCHS evaluated the period from July 1, 2019 through February 3, 2020, the date the financial statements were available for issuance, for subsequent events requiring recognition and/or disclosure in the accompanying financial statements.

***Basis of presentation:***

During the year ended June 30, 2019, the Organization adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-14, "*Presentation of Financial Statements of Not-for-Profit Entities*" (Topic 958).

In accordance with ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*, the Organization's net assets, revenues, gains, expenses and losses are classified as with donor restrictions and without donor restrictions, as follows:

- *Net assets without donor restrictions* – Net assets available for use at the discretion of the Board of Directors (the "Board") and/or management for general operations and not subject to donor restrictions.
- *Net assets with donor restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, or when the stipulated purpose for which the resource was restricted has been accomplished, or both.

Revenues are reported as increases in net assets without donor restrictions, unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions, unless their uses are restricted by explicit donor stipulation or by law.

Revenue with donor restrictions which expire in the same fiscal year in which the revenue is recorded is reported as net assets with donor restrictions and reclassified as net assets released from restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction.

*For the years ended June 30, 2019 and 2018*

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**NOTE 2 - CONTINUED**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Accounting for grant revenue:***

A significant portion of OCHS's revenue is derived from governmental grant awards. Current grant revenue is recognized as expenditures are made or liabilities are incurred in connection with fulfilling the purposes of the award. Expenses incurred, which are not yet reimbursed, are accounted for as grants receivable.

Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to the statement of activities and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to grants, contracts, or accounts receivable.

***Fair value of financial instruments:***

OCHS's financial instruments, including cash and cash equivalents, grants and other receivables, accounts payable, and other liabilities are carried at cost, which approximates their fair values because of the short-term maturity of these instruments and the relative stability of interest rates. Long-term borrowings are also carried at amounts that approximate fair value.

***Estimates inherent in the preparation of financial statements:***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the respective reporting periods. Actual results could differ from those estimates and assumptions, and such differences could be material to the financial statements.

***Cash and cash equivalents:***

For the purposes of the statement of cash flows, OCHS considers all highly liquid short-term investments available for current use with an initial maturity of three months or less to be cash and cash equivalents.

***Property and equipment:***

Assets acquired through Federal grant resources are considered to be owned by the grantor while such assets are in use under the funded program, or while they are being used for a similar program. Any such expenditures are subject to grant regulations. The total cost of fixed assets acquired through Federal grant resources and on hand at June 30, 2019 and 2018 were \$6,878,306 and \$6,701,789, respectively.

*For the years ended June 30, 2019 and 2018*

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**NOTE 2 - CONTINUED**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Property and equipment:***

OCHS follows Title 2 in the Code of Federal Regulations (“CFR”), Appendix B Chapter 11 to Part 230, *Selected Items of Cost*. Under this provision, the computation of use allowances for depreciation will exclude: (a) the cost of land; (b) any portion of the cost of buildings and equipment borne by or donated by the Federal Government irrespective of where title was originally vested or where it presently resides; and (c) any portion of the cost of buildings and equipment contributed by or for the nonprofit organization in satisfaction of a statutory matching requirement. OCHS uses funds received from the Federal Government to purchase the assets as it believes the recognition of use allowances or depreciation is not applicable. For the years ended June 30, 2019 and 2018, the property and equipment acquired through Federal grant resources use allowance recognized was \$0.

OCHS reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of its property and equipment may not be recoverable. An impairment loss is recognized when the assets’ carrying value exceeds both the assets’ estimated undiscounted future cash flows and the assets’ estimated fair value. Measurement of any impairment loss is then based on the estimated fair value of the assets. Considerable judgment is required to project such future cash flows and, if required, to estimate the fair value of the property and equipment and the resulting amount of the impairment. For the years ended June 30, 2019 and 2018, the impairment charges recognized on property and equipment, acquired through Federal grant resources, was \$150,065 and \$154,000, respectively.

Property and equipment that is purchased through non-Federal resources is stated at cost. Major improvements and betterments to existing property and equipment are capitalized as incurred. Cost for maintenance and repairs which do not extend the useful life of the applicable assets are charged to expense as incurred. Upon disposition, the cost and accumulated depreciation of disposed assets are removed from the accounts and any resulting gains and losses are included in the statement of activities.

Depreciation is computed using the straight-line method of depreciation over the estimated useful lives of the assets as follows:

Vehicles and equipment	4 years
Office furniture and equipment	3 years
Software	3 years
Leasehold improvements	5 years

*For the years ended June 30, 2019 and 2018*

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**NOTE 2 - CONTINUED**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Commitments and contingencies:***

OCHS participates in the federally assisted Head Start Grant Program. This Program is subject to compliance requirements established by the grantor. Failure to meet such compliance requirements could result in a liability for reimbursement of grant funds. Management believes there is no liability for such reimbursement as of June 30, 2019 and 2018.

The Office of Head Start provides grants for definite project periods of five years (60 months) for all Head Start grantees as part of the Designation Renewal System (“DRS”). DRS was established by the Department of Health and Human Services to determine whether the Head Start and Early Head Start agencies deliver high-quality and comprehensive services to the families they serve. The DRS established five-year grant periods for all Head Start service awards, with many agencies receiving further five-year grants without competing for funding.

The following conditions are required for the grants: Governance, Health and Safety, School Readiness and Audit Training are required for all five-year grants on the Notice of Award (“NoA”). Each grantee completes activities outlined and, where required, submits results to the Regional Office within identified time frames.

An agency must meet the standards of the required condition in order to be eligible for funding without competition. OCHS is operating under the five-year grant period.

***Risk management:***

OCHS 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 OCHS carries commercial insurance.

***Donated services:***

Donated services are recognized as contributions in accordance with FASB ASC 958, *Not-for-Profit Entities*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by OCHS. Volunteers also provided services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under FASB ASC 958 were not met.

***Functional allocation of expenses:***

The costs of providing the various program services and other activities of the Organization are shown on the statement of functional expenses. Expenses that can be identified with a specific activity are allocated directly according to their functional benefit. Personnel related expense allocations are based on the staff time spent on each function. Expenses that cannot be directly identified with a specific function are allocated among the program services and the other activities benefited. Certain costs, such as occupancy, office, and other expenses are allocated among the program services and other activities benefited based on full time equivalents.

*For the years ended June 30, 2019 and 2018*

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**NOTE 2 - CONTINUED**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Income taxes:***

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

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

***Risk concentration:***

For the years ended June 30, 2019 and 2018, approximately 85% and 87%, respectively, of the funding for OCHS comes from the U.S. Department of Health and Human Services ("DHHS"). At June 30, 2019 and 2018, amounts due from DHHS in grants receivable were \$2,491,429 and \$3,311,592, respectively, which accounted for 91% and 90%, respectively, of total grants receivable.

In addition, amounts due from the State of California for the child care food program were \$234,062 and \$364,772 as of June 30, 2019 and 2018, respectively, which accounted for 9% and 10%, respectively, of total grants receivable.

***Financial instruments and credit risk concentration:***

Financial instruments that potentially subject the Organization to a concentration of credit risk are primarily cash and cash equivalents and grants receivable. OCHS maintains its cash balances in the form of bank demand deposits and money market accounts with major financial institutions that management has determined to be credit worthy.

OCHS has no significant financial instruments with off-balance sheet risk of accounting loss. The concentration of credit risk of grants receivable is the result of the substantial majority of funding the Organization receives from the Office of Head Start.

OCHS is required to maintain a separate bank account for the State Child Care Food Program.

*For the years ended June 30, 2019 and 2018*

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**NOTE 2 - CONTINUED**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***New accounting standards not yet adopted:***

*Accounting for leases*

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. Under this new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with GAAP, the recognition, measurement, and presentation of expenses and cashflows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, the new ASU will require both types of leases to be recognized on the balance sheet. ASU 2016-02 will take effect for fiscal years beginning after December 15, 2020 with early adoption permitted. The Organization is currently evaluating the impact of the pending adoption of ASU 2016-02 on its financial statements.

*Clarifying the scope and the accounting guidance for contributions received and contributions made*

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958)*. ASU 2018-08 requires that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.

After a contribution has been deemed unconditional, an entity would then consider whether the contribution is restricted on the basis of the current definition of the term *donor-imposed restriction*, which includes a consideration of how broad or narrow the purpose of the agreement is, and whether the resources are available for use only after a specified date. The amendments in ASU 2018-08 are effective on a modified prospective basis for the fiscal years beginning after December 15, 2018. The Organization is currently evaluating the impact of the pending adoption of ASU 2018-08 on the financial statements.

*Revenue from contracts with customers*

In May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers*," which establishes a comprehensive revenue recognition standard in U.S. GAAP. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018. The Organization is currently evaluating the effect the adoption of ASU 2014-09 will have on the financial statements.

***For the years ended June 30, 2019 and 2018***

**NOTE 3**

**LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The following reflects the Organization’s financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed purpose restrictions within one year of the balance sheet date. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet dates, are comprised of the following:

<b><i>As of June 30,</i></b>	<b>2019</b>	<b>2018</b>
Financial assets at year-end:		
Cash and cash equivalents	\$ 1,619,684	\$ 642,158
Grants receivable	2,725,491	3,676,364
Other receivable	103,207	247
Total financial assets available	4,448,382	4,318,769
Less those unavailable for general expenditures within one year, due to:		
Net assets with donor restrictions for specified purposes	-	-
Subtotal	-	-
Financial assets available to meet cash needs for general expenditures within one year	<b>\$ 4,448,382</b>	<b>\$ 4,318,769</b>

At June 30, 2019 and 2018, the Organization had \$4,448,382 and \$4,318,769, respectively, of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures.

As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization reviews its funding levels on an on-going basis to ensure they are adequate to meet its obligations.

**NOTE 4**

**GRANTS RECEIVABLE**

The balance of grants receivable represents amounts due from the following funding sources:

<b><i>As of June 30,</i></b>	<b>2019</b>	<b>2018</b>
Head Start	\$ 2,491,429	\$ 3,311,592
Child Care Program	234,062	364,772
Total grants receivable	<b>\$ 2,725,491</b>	<b>\$ 3,676,364</b>



*For the years ended June 30, 2019 and 2018*

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**NOTE 4 – CONTINUED**

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**GRANTS RECEIVABLE**

OCHS has not accrued an allowance for uncollectible receivables as of June 30, 2019 and 2018, since it is the opinion of management that it is highly probable that all receivables will be collected. Furthermore, OCHS has not experienced any significant write-offs in past years, as all grant receivables are owed by governmental agencies with committed funding arrangements.

**NOTE 5**

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**PROPERTY AND EQUIPMENT**

Property and equipment consists of leasehold improvements as follows:

<i>As of June 30,</i>	<b>2019</b>	<b>2018</b>
Leasehold improvements	\$ 152,909	\$ 152,909
Less: accumulated depreciation	(61,164)	(30,582)
Property and equipment, net	\$ 91,745	\$ 122,327

Depreciation expense was \$30,582 for the years ended June 30, 2019 and 2018, respectively.

**NOTE 6**

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**RESTRICTIONS ON NET ASSETS**

From time to time, OCHS may receive contributions subject to donor restrictions. Those contributions received with restrictions are released from restrictions when expenses are incurred, the purpose has been fulfilled, or through passage of time. At June 30, 2019 and 2018, there were no net assets subject to donor restrictions.

**NOTE 7**

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**IN-KIND CONTRIBUTIONS**

Values assigned to in-kind contributions and the related expenses are based on federal guidelines. In accordance with those guidelines, values are based upon estimated area-wide averages for purchased services, facilities, or supplies of a similar type. In-kind contributions recognized under generally accepted accounting principles (“GAAP”) were \$5,411,340 and \$5,268,011 for the years ended June 30, 2019 and 2018, respectively.

In addition, donated parent and volunteer services with an estimated value of \$2,699,898 and \$2,338,539 for the years ended June 30, 2019 and 2018, respectively, were not recognized in the financial statements as they did not meet the criteria for recognition under FASB ASC 958.

***For the years ended June 30, 2019 and 2018***

**NOTE 7 – CONTINUED**

**IN-KIND CONTRIBUTIONS**

A summary of in-kind contributions received and reported and in-kind contributions meeting criteria of FASB ASC 958 and included in the statement of activities under various expense categories for the years ended June 30, 2019 and 2018 were as follows:

<b><i>For the years ended June 30,</i></b>	<b>2019</b>	<b>2018</b>
Contractual	\$ 3,897,127	\$ 3,784,424
Others	1,510,878	1,476,716
Supplies	3,335	6,871
Total reported on schedule of activities by grant (page 18)	5,411,340	5,268,011
Additional in-kind contributions that meet federal guidelines	2,699,898	2,338,539
Total in-kind contributions reported on Head Start schedule of expenses compared to budget (page 19)	\$ 8,111,238	\$ 7,606,550

**NOTE 8**

**EMPLOYEE RETIREMENT PLANS**

Qualified administrative employees and employees of the sites operated by OCHS are covered under a retirement plan whereby OCHS contributes an amount up to 7 percent of gross salaries of OCHS staff members into a tax-sheltered annuity program. For the years ended June 30, 2019 and 2018, OCHS's retirement contributions totaled \$1,057,062 and \$896,916, respectively.

Qualified employees of those delegate agencies electing to provide for employee retirement are covered by various contributory retirement plans. OCHS reimburses the delegate agencies for contributions made on behalf of qualifying employees.

**NOTE 9**

**COMMITMENTS**

***Leases:***

OCHS leases its main headquarters in Santa Ana, California, under a fourteen-year non-cancellable operating lease agreement which expires on August 30, 2027. OCHS has entered into several leases for classrooms and office space. The terms of the leases vary and are concurrent with the fiscal year. Total rent expense incurred on these leases was \$1,279,471 and \$1,242,784 for the years ended June 30, 2019 and 2018, respectively. In addition, OCHS received a total of \$1,214,231 and \$1,078,315 of in-kind rent for the years ended June 30, 2019 and 2018, respectively.

***For the years ended June 30, 2019 and 2018***

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**NOTE 9 – CONTINUED**

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**COMMITMENTS**

***Leases:***

OCHS also leases certain office equipment under leases classified as operating leases. For the years ended June 30, 2019 and 2018, OCHS incurred \$89,120 and \$91,299, respectively, in office equipment rent expense.

Total rent expense incurred was \$2,582,822 and \$2,412,398 for the years ended June 30, 2019 and 2018, respectively.

Future non-cancelable minimum lease payments required under noncancelable operating leases having initial or remaining non-cancelable lease terms in excess of one year at June 30, 2019 are as follows:

<b><i>For the year ending June 30,</i></b>	<b>Total</b>
2020	\$ 1,414,361
2021	1,358,657
2022	1,181,930
2023	1,120,161
2024	1,051,987
Thereafter	2,706,069
	<b>\$ 8,833,165</b>

OCHS's lease agreements include a clause that OCHS has the right to terminate lease agreements when federal funding issues occur except for the lease of its main office.

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

<i>For the year ended June 30, 2019</i>	<b>Head Start</b>			<b>CACFP</b>	<b>Others</b>	<b>Total</b>
	<b>Head Start</b>	<b>In-Kind</b>	<b>Total</b>			
<b>Revenue:</b>						
Head Start grant	\$ 38,898,036	\$ -	\$ 38,898,036	\$ -	\$ -	\$ 38,898,036
In-kind contributions	-	5,411,340	5,411,340	-	-	5,411,340
Child care food program	-	-	-	1,284,708	-	1,284,708
Other grants	-	-	-	-	166,724	166,724
<b>Total revenue</b>	<b>38,898,036</b>	<b>5,411,340</b>	<b>44,309,376</b>	<b>1,284,708</b>	<b>166,724</b>	<b>45,760,808</b>
<b>Expenses:</b>						
Personnel	16,350,474	-	16,350,474	44,183	-	16,394,657
Contractual	12,339,373	3,897,127	16,236,500	-	1,138	16,237,638
Fringe benefits	5,808,956	-	5,808,956	18,432	-	5,827,388
Other	3,420,439	1,510,878	4,931,317	-	72,090	5,003,407
Supplies	978,794	3,335	982,129	1,222,093	69,186	2,273,408
<b>Total expenses</b>	<b>38,898,036</b>	<b>5,411,340</b>	<b>44,309,376</b>	<b>1,284,708</b>	<b>142,414</b>	<b>45,736,498</b>
<b>Change in net assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 24,310</b>	<b>\$ 24,310</b>

*See the independent auditor's report*

Note:

*In-kind contributions of volunteer services in the amount of \$2,699,898 were not recorded in the financial statements because they did not meet the criteria for recognition under FASB ASC 958.*

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

<i>For the year ended June 30, 2019</i>	<b>Personnel</b>	<b>Contractual</b>	<b>Fringe benefits</b>	<b>Other</b>	<b>Supplies</b>	<b>Total</b>
<b>Administration expenses:</b>						
Executive	\$ 265,438	\$ -	\$ 66,666	\$ 129,574	\$ 9,587	\$ 471,265
Quality systems	563,088	8,800	155,715	85,379	17,567	830,549
Human resources	170,150	18,175	67,165	14,328	1,402	271,220
Accounting/procurement	455,567	60,772	177,900	282,333	55,706	1,032,278
Administrative - miscellaneous	193,556	281,758	67,881	165,072	9,685	717,952
<b>Total administration expenses</b>	<b>1,647,799</b>	<b>369,505</b>	<b>535,327</b>	<b>676,686</b>	<b>93,947</b>	<b>3,323,264</b>
<b>Program expenses:</b>						
Facilities	137,837	190,782	51,280	99,632	(707)	478,824
Governance	49,471	-	12,774	21,978	668	84,891
Education	432,458	2,584,418	121,829	305,584	13,037	3,457,326
Disabilities	282,396	18,735	97,780	3,319	532	402,762
Health	355,401	-	106,046	5,516	2,702	469,665
Social services	1,444,809	-	438,469	7,431	4,772	1,895,481
Program services	425,447	-	150,361	206,513	11,941	794,262
Food services/nutrition	632,869	400,002	241,015	38,003	23,144	1,335,033
Grantee Head Start T&TA	222,277	235,311	109,893	27,178	-	594,659
Early Head Start	4,618,844	1,041,572	1,580,975	878,179	330,787	8,450,357
<b>Total program expenses</b>	<b>8,601,809</b>	<b>4,470,820</b>	<b>2,910,422</b>	<b>1,593,333</b>	<b>386,876</b>	<b>17,963,260</b>
<b>Total centers' expenses</b>	<b>6,100,866</b>	<b>66,084</b>	<b>2,363,207</b>	<b>1,150,420</b>	<b>497,971</b>	<b>10,178,548</b>
Grantee in-kind contributions	-	3,897,127	-	1,214,617	113	5,111,857
<b>Total grantee</b>	<b>14,702,675</b>	<b>8,434,031</b>	<b>5,273,629</b>	<b>3,958,370</b>	<b>884,960</b>	<b>33,253,665</b>
<b>Delegate agency expenses:</b>						
Orange Children & Parents Together	-	3,446,994	-	-	-	3,446,994
City of La Habra	-	472,960	-	-	-	472,960
Santa Ana Unified School District	-	3,513,010	-	-	-	3,513,010
<b>Total delegate agency expenses</b>	<b>-</b>	<b>7,432,964</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,432,964</b>
Delegate in-kind contributions	-	-	-	296,261	3,222	299,483
<b>Total Head Start expenses</b>	<b>14,702,675</b>	<b>15,866,995</b>	<b>5,273,629</b>	<b>4,254,631</b>	<b>888,182</b>	<b>40,986,112</b>
<b>Total CCFP expenses</b>	<b>44,183</b>	<b>-</b>	<b>18,432</b>	<b>-</b>	<b>1,222,093</b>	<b>1,284,708</b>
Fatherhood program	-	-	-	520	-	520
Miscellaneous donations	-	1,138	-	71,570	69,186	141,894
<b>Total other grants</b>	<b>-</b>	<b>1,138</b>	<b>-</b>	<b>72,090</b>	<b>69,186</b>	<b>142,414</b>
<b>Total program expenses</b>	<b>14,746,858</b>	<b>15,868,133</b>	<b>5,292,061</b>	<b>4,326,721</b>	<b>2,179,461</b>	<b>42,413,234</b>
<b>Total expenses</b>	<b>\$ 16,394,657</b>	<b>\$ 16,237,638</b>	<b>\$ 5,827,388</b>	<b>\$ 5,003,407</b>	<b>\$ 2,273,408</b>	<b>\$ 45,736,498</b>

*See the independent auditor's report*

**Note :**

*In-kind contributions of volunteer services in the amount of \$2,699,898 were not recorded in the financial statements because they did not meet the criteria for recognition under FASB ASC 958.*

**ORANGE COUNTY HEAD START, INC.**

**SUPPLEMENTAL SCHEDULE OF EXPENSES BY HEAD START CENTERS**

<i>For the year ended June 30, 2019</i>	<b>Personnel</b>	<b>Contractual</b>	<b>Fringe benefits</b>	<b>Other</b>	<b>Supplies</b>	<b>Total</b>
<b>Expenses by Center:</b>						
<b>Head Start:</b>						
HS Home Base North	\$ 19,680	\$ -	\$ 20,056	\$ 447	\$ 3,160	\$ 43,343
HS Home Base South	41,889	-	21,271	942	2,671	66,773
HS Home Base Central	25,198	-	11,682	1,141	-	38,021
Placentia	391,606	-	140,104	77,655	20,559	629,924
Capo	304,963	1,616	112,137	30,343	24,100	473,159
D.L. Wood	314,946	-	119,778	71,728	32,077	538,529
Fullerton	276,273	-	102,240	84,084	23,518	486,115
Delhi	329,019	-	121,729	90,430	25,377	566,555
Buena Park	357,392	-	146,415	33,688	16,971	554,466
Baden Powell	314,238	-	126,601	26,795	20,762	488,396
Walter	229,534	-	95,844	25,793	27,242	378,413
Jean Hardy	290,062	-	118,342	20,024	13,393	441,821
Evelyne Lobo Villegas	91,905	-	38,140	33,802	5,888	169,735
Centralia	340,397	-	141,993	56,164	42,248	580,802
Matt Kline	358,527	-	151,226	19,882	23,671	553,306
KIDS	226,337	-	97,073	112,956	18,866	455,232
Glenn L. Martin	284,717	-	110,403	18,552	21,525	435,197
Schweitzer	252,223	-	77,989	14,867	19,155	364,234
Topaz	345,255	-	129,902	19,223	22,531	516,911
Stanton	310,817	-	141,821	109,808	23,436	585,882
Hope Center	224,474	-	91,290	56,237	14,608	386,609
Andrews	130,496	-	43,818	24,765	12,135	211,214
Franklin	173,586	-	75,132	24,236	19,287	292,241
Carver	119,995	-	32,400	225	7,583	160,203
Duration	38,261	64,468	15,687	167,783	36,549	322,748
Lambert - La Harbor	309,076	-	80,134	28,850	20,659	438,719
<b>Total</b>	<b>\$ 6,100,866</b>	<b>\$ 66,084</b>	<b>\$ 2,363,207</b>	<b>\$ 1,150,420</b>	<b>\$ 497,971</b>	<b>\$ 10,178,548</b>

*See the independent auditor's report*

**ORANGE COUNTY HEAD START, INC.**

**SUPPLEMENTAL SCHEDULE OF EXPENSES BY HEAD START CENTERS - CONTINUED**

<i>For the year ended June 30, 2019</i>	<b>Personnel</b>	<b>Contractual</b>	<b>Fringe benefits</b>	<b>Other</b>	<b>Supplies</b>	<b>Total</b>
<b>Expenses by Center:</b>						
<b>Early Head Start:</b>						
EHS-Allocations	\$ 516,429	\$ 815,728	\$ 126,651	\$ 269,059	\$ 90,389	\$ 1,818,256
EHS Home Base North	323,795	-	100,306	12,414	195	436,710
EHS Home Base South	335,317	-	104,492	16,738	910	457,457
EHS Home Base Central	293,184	-	103,297	12,335	3,142	411,958
Buena Park EHS	218,576	37,466	77,301	56,150	17,498	406,991
Topaz EHS	347,526	56,465	128,332	16,025	21,723	570,071
KIDS EHS	448,565	27,002	178,816	102,316	18,239	774,938
Baden Powell EHS	108,535	-	43,165	8,075	6,872	166,647
Franklin EHS	105,118	-	28,431	11,166	9,604	154,319
Centralia EHS	21,915	-	4,604	-	-	26,519
Fullerton EHS	13,645	-	2,684	-	-	16,329
Andrews EHS	205,000	-	61,182	74,183	19,283	359,648
Crescent EHS	450,948	30,471	190,862	98,547	28,630	799,458
4th Street EHS	238,299	29,182	87,131	68,122	26,605	449,339
Evelyne Lobo Villeags EHS	89,933	-	31,805	33,811	5,976	161,525
Ruby Drive EHS	301,670	45,258	104,357	18,830	19,861	489,976
Matt Kline EHS	234,920	-	82,013	26,314	15,679	358,926
Jeane hardy EHS	137,975	-	48,700	18,226	15,102	220,003
Schweitzer EHS	89,187	-	34,868	6,115	9,438	139,608
Walter EHS	82,650	-	21,627	14,337	7,202	125,816
Lambert-La Habra	55,657	-	20,351	15,416	14,439	105,863
<b>Total</b>	<b>\$ 4,618,844</b>	<b>\$ 1,041,572</b>	<b>\$ 1,580,975</b>	<b>\$ 878,179</b>	<b>\$ 330,787</b>	<b>\$ 8,450,357</b>

*See the independent auditor's report*

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

<i>For the year ended June 30, 2019</i>	<b>Budget</b>	<b>Actual</b>	<b>Actual over (under) budget</b>
Expenses:			
Personnel	\$ 15,503,159	\$ 16,350,474	\$ 847,315
Contractual	12,407,194	12,339,373	(67,821)
Fringe benefits	6,677,133	5,808,956	(868,177)
Other	3,525,500	3,420,439	(105,061)
Supplies	854,050	978,794	124,744
<b>Total expenses</b>	<b>\$ 38,967,036</b>	<b>\$ 38,898,036</b>	<b>\$ (69,000)</b>

*See the independent auditor's report*

Note:

*In-kind contributions of volunteer services in the amount of \$2,699,898 were not recorded in the financial statements because they did not meet the criteria for recognition under FASB ASC 958 but met federal guidelines of in-kinds contributions.*



**ORANGE COUNTY HEAD START, INC.**  
**SUPPLEMENTAL SCHEDULE OF REPORTED MEALS AND EARNED REIMBURSEMENT**

*For the Period July 1, 2018 through June 30, 2019*

Month	Breakfast	Rate	Total	Lunch	Rate	Total	Snacks	Rate	Total	Total Federal	Total Meals
JULY 2018	2,945	\$ 1.79	\$ 5,272	3,220	\$ 3.31	\$ 10,658	2,693	\$ 0.91	\$ 2,451	\$ 18,381	8,858
AUGUST 2018	1,951	1.79	3,492	2,097	3.31	6,941	1,734	0.91	1,578	12,011	5,782
SEPTEMBER 2018	15,435	1.79	27,629	19,781	3.31	65,475	11,994	0.91	10,915	104,019	47,210
OCTOBER 2018	20,832	1.79	37,289	27,080	3.31	89,635	16,375	0.91	14,901	141,825	64,287
NOVEMBER 2018	17,840	1.79	31,934	23,933	3.31	79,218	14,988	0.91	13,639	124,791	56,761
DECEMBER 2018	14,052	1.79	25,153	19,175	3.31	63,469	11,930	0.91	10,856	99,478	45,157
JANUARY 2019	17,175	1.79	30,743	23,639	3.31	78,245	14,595	0.91	13,281	122,269	55,409
FEBRUARY 2019	17,135	1.79	30,672	23,663	3.31	78,325	14,872	0.91	13,534	122,531	55,670
MARCH 2019	19,316	1.79	34,576	27,126	3.31	89,787	17,136	0.91	15,594	139,957	63,578
APRIL 2019	16,587	1.79	29,691	23,297	3.31	77,113	14,532	0.91	13,224	120,028	54,416
MAY 2019	21,854	1.79	39,119	30,825	3.31	102,031	19,200	0.91	17,472	158,622	71,879
JUNE 2019	10,860	1.79	19,439	13,495	3.31	44,668	1,008	0.91	916	65,023	25,363
<b>Total Center meals</b>	<b>175,982</b>			<b>237,331</b>			<b>141,057</b>				<b>554,370</b>
<b>Total Federal</b>			<b>\$ 315,009</b>			<b>\$ 785,565</b>			<b>\$ 128,361</b>	<b>\$ 1,228,935</b>	

Federal Reimbursement \$ 1,228,935

Cash-in-lieu of Commodities (Lunch & Supper Meals) 0.2350 237,331 55,773

**\$ 1,284,708**

*See the independent auditor's report*

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

<i>For the year ended June 30, 2019</i>	<b>Federal CFDA number</b>	<b>Grant number</b>	<b>Grant amount</b>	<b>Revenue recognized</b>	<b>Expenditures</b>
<b><u>Federal Program</u></b>					
<u>U.S. Department of Health and Human Services:</u>					
Head Start	93.600	09CH915505	\$ 38,898,036	\$ 38,898,036	\$ 38,898,036
<u>U.S. Department of Agriculture:</u>					
Pass through State of California					
<u>Department of Education</u>					
Child Care Food Program	10.558	30-1453-OJ	N/A	1,284,708	1,284,708
Total Federal Awards				\$ 40,182,744	\$ 40,182,744
<b>Amount Provided to Sub-recipients:</b>					
<u>U.S. Department of Health and Human Services:</u>					
Orange Children & Parents Together (OCPT)	93.600	09CH915505	N/A	\$ 3,446,994	\$ 3,446,994
Santa Ana Unified School District	93.600	09CH915505	N/A	3,513,010	3,513,010
City of La Habra	93.600	09CH915505	N/A	472,960	472,960
Total				\$ 7,432,964	\$ 7,432,964

*See the independent auditor's report*

**Note A – Basis of Presentation:**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activities of OCHS under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of OCHS, it is not intended to and does not present the financial position, changes in net assets, or cash flows of OCHS.

**Note B – Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note C – Indirect Cost Rate**

OCHS has elected to not use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

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

Board of Directors  
**Orange County Head Start, Inc.**  
Santa Ana, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Orange County Head Start, Inc. (“OCHS”) (a nonprofit California Corporation), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 3, 2020.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered OCHS’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCHS’s internal control. Accordingly, we do not express an opinion on the effectiveness of OCHS’s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (Continued)**

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether OCHS's financial statements are free from 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*.

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rossi LLP*

Long Beach, California  
February 3, 2020



## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors  
**Orange County Head Start, Inc.**  
Santa Ana, California

### ***Report on Compliance for Each Major Federal Program***

We have audited Orange County Head Start, Inc.'s ("OCHS") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of OCHS's major federal programs for the year ended June 30, 2019. OCHS's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of OCHS's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about OCHS'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 on compliance for each major federal program. However, our audit does not provide a legal determination of OCHS's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, OCHS's complied, in all material respects, with the types of 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, 2019.

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (*Continued*)**

***Report on Internal Control Over Compliance***

Management of OCHS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered OCHS’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of OCHS’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. *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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Rossi LLP*

Long Beach, California  
February 3, 2020

**ORANGE COUNTY HEAD START, INC.**  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS

***As of and for the year ended June 30, 2019***

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**SUMMARY OF AUDIT RESULTS**

**Financial Statements**

Type of auditor’s report issued: Unmodified opinion

Internal control over financial reporting:

- Material weaknesses identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses?  Yes  No

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None

Type of auditor’s report issued on compliance for major programs: Unmodified opinion

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516 (a)?  Yes  No

**Audited as Major Programs:**

<b><u>CFDA Numbers</u></b>	<b><u>Name of Federal Program or Cluster</u></b>	<b><u>Expenditures</u></b>
93.600	Head Start	\$ 38,898,036
10.558	Child Care Food	1,284,708

Dollar threshold used to distinguish between Type A and Type B programs \$ 1,205,482

Auditee qualified as low-risk auditee?  Yes  No

**FINANCIAL STATEMENT FINDINGS**

There are no financial statement findings.

There are no federal award findings and questioned cost

**ORANGE COUNTY HEAD START, INC.**  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

***As of and for the years ended June 30, 2019 and 2018***

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There were no prior year's audit findings or recommendations.