



 **Orange County Head Start, Inc.**
Empowering Children & Families

AUDITED FINANCIAL STATEMENTS
AND REPORTS IN COMPLIANCE WITH OMB CIRCULAR A-133
AS OF AND FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

ORANGE COUNTY HEAD START, INC.
FINANCIAL STATEMENTS



CONTENTS

<i>As of and for the years ended June 30, 2014 and 2013</i>	Page
Independent Auditor's Report	1 – 2
Financial statements:	
Statement of financial position as of June 30, 2014 and 2013	3
Statement of activities for the years ended June 30, 2014 and 2013	4 – 5
Statement of cash flows for the years ended June 30, 2014 and 2013	6
Notes to financial statements for the years ended June 30, 2014 and 2013	7 – 12
Supplementary Information:	
Supplemental schedule of activities by grant for the year ended June 30, 2014	13
Supplemental schedule of expenses by category for the year ended June 30, 2014	14
Supplemental schedule of expenses by Head Start Centers for the year ended June 30, 2014	15
Supplemental schedule of expenses compared to budget for the year ended June 30, 2014	16
Supplemental schedule of reported meals and earned reimbursement for the period July 1, 2013 to June 30, 2014	17
Schedule of expenditures of federal awards for the year ended June 30, 2014	18
Schedule of expenditures of federal awards for the year ended June 30, 2013	19
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>	20 – 21
Independent auditor's report on compliance for each major program and on internal control over compliance required by OMB circular A-133	22 – 23
Schedule of findings and questioned costs as of and for the year ended June 30, 2014	24
Schedule of findings and questioned costs as of and for the year ended June 30, 2013	25
Status of prior year findings and recommendations as of and for the years ended June 30, 2014 and 2013	26

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Orange County Head Start, Inc.

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 statement of financial position as of June 30, 2014 and 2013, 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.



Rossi LLP rossillp.com
Certified Public Accountants
Consultants

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, 2014 and 2013, 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 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 schedules of expenditures of federal awards for the years ended June 30, 2014 and 2013 are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the 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 also have issued our report dated February 26, 2015, on our consideration of OCHS' 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 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' internal control over financial reporting and compliance.

Rossi LLP

February 26, 2015
Long Beach, California

ORANGE COUNTY HEAD START, INC.
STATEMENT OF FINANCIAL POSITION

<i>As of June 30,</i>	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,902,848	\$ 2,126,681
Grants receivable	237,987	586,017
Other receivables	-	16,601
Deposits	48,165	48,165
Total assets	\$ 3,189,000	\$ 2,777,464
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 970,691	\$ 1,232,738
Accrued expenses - other	966,412	528,588
Accrued vacation	230,775	373,605
Advances - other grants	95,374	84,896
Total current liabilities	2,263,252	2,219,827
Commitments and contingencies		
Net assets:		
Unrestricted	790,094	490,069
Temporarily restricted	135,654	67,568
Total net assets	925,748	557,637
Total liabilities and net assets	\$ 3,189,000	\$ 2,777,464

The accompanying notes are an integral part of these financial statements

ORANGE COUNTY HEAD START, INC.
STATEMENT OF ACTIVITIES

<i>For the year ended June 30,</i>	2014		
	Unrestricted	Temporarily restricted	Total
Revenues:			
Head Start grants	\$ 33,109,522	\$ -	\$ 33,109,522
In-kind contributions	4,268,343	-	4,268,343
Child care food program	1,373,206	-	1,373,206
Other grants	322,990	135,654	458,644
Net assets released from restrictions	67,568	(67,568)	-
Total revenue	39,141,629	68,086	39,209,715
Expenses:			
Contractual	13,090,726	-	13,090,726
Personnel	13,016,536	-	13,016,536
Fringe benefits	5,929,776	-	5,929,776
Space	3,761,586	-	3,761,586
Supplies	2,016,118	-	2,016,118
Other	952,579	-	952,579
Travel and transportation	67,726	-	67,726
Equipment	6,557	-	6,557
Total expenses	38,841,604	-	38,841,604
Change in net assets	300,025	68,086	368,111
Net assets, beginning of year	490,069	67,568	557,637
Net assets, end of year	\$ 790,094	\$ 135,654	\$ 925,748

The accompanying notes are an integral part of these financial statements

ORANGE COUNTY HEAD START, INC.
STATEMENT OF ACTIVITIES

<i>For the year ended June 30,</i>	2013		
Revenues:	Unrestricted	Temporarily restricted	Total
Head Start grants	\$ 34,931,820	\$ -	\$ 34,931,820
In-kind contributions	3,472,966	-	3,472,966
Child care food program	1,433,194	-	1,433,194
Other grants	150,829	67,568	218,397
Total revenue	39,988,809	67,568	40,056,377
Expenses:			
Personnel	14,055,221	-	14,055,221
Contractual	12,101,744	-	12,101,744
Fringe benefits	6,472,834	-	6,472,834
Space	4,001,005	-	4,001,005
Supplies	2,014,837	-	2,014,837
Other	707,535	-	707,535
Equipment	291,255	-	291,255
Training and technical assistance	225,612	-	225,612
Travel and transportation	196,741	-	196,741
Total expenses	40,066,784	-	40,066,784
Change in net assets	(77,975)	67,568	(10,407)
Net assets, beginning of year	568,044	-	568,044
Net assets, end of year	\$ 490,069	\$ 67,568	\$ 557,637

The accompanying notes are an integral part of these financial statements

ORANGE COUNTY HEAD START, INC.
STATEMENT OF CASH FLOWS

<i>For the years ended June 30,</i>	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 368,111	\$ (10,407)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Increase) decrease in assets:		
Grants receivable	348,030	400,742
Other receivables	16,601	(8,833)
Prepaid expenses	-	67,525
Increase (decrease) in liabilities:		
Accounts payable	(262,047)	124,840
Accrued expenses - other	437,824	(534,266)
Accrued vacation	(142,830)	(46,559)
Advances - other grants	10,478	75,794
Due to delegates	-	(49,173)
Net cash provided by operating activities	776,167	19,663
Cash and cash equivalents, beginning of year	2,126,681	2,107,018
Cash and cash equivalents, end of year	\$ 2,902,848	\$ 2,126,681

The accompanying notes are an integral part of these financial statements

For the years ended June 30, 2014 and 2013

NOTE 1

ORGANIZATION AND PURPOSE

The Head Start Program, administered by Orange County Head Start, Inc. ("OCHS") in the Orange County area, 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 4,000 children. Head Start services are available to preschool children from low-income families at no cost. OCHS has centers located throughout the 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.

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

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.

In preparing these financial statements, OCHS evaluated the period from July 1, 2014 through February 26, 2015, 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:

OCHS follows the provisions of *the Financial Accounting Standards Board* ("FASB") in its *Accounting Standards Codification* ("ASC") 958, *Not-for-Profit Entities*. Under these provisions, net asset and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of OCHS and

For the years ended June 30, 2014 and 2013

changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met either by actions of OCHS and/or the passage of time. There were \$135,654 and \$67,568, in temporarily restricted net assets as of June 30, 2014 and 2013.

Permanently restricted net assets - Net assets subject to permanent donor-imposed stipulations that OCHS maintain them permanently. Generally, the donors of these assets permit OCHS to use all or part of the income earned on related investments for general or specific purposes. There were no permanently restricted net assets at June 30, 2014 and 2013.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their uses are restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the classes of net assets as applicable.

Accounting for grant revenue:

A majority of OCHS's revenue is derived from governmental grant awards that are restricted to specific program or project support. Current grant revenue is recognized as expenditures are made or liabilities are incurred in connection with fulfilling the specific restricted purposes of

the award. Cash received in excess of grant expenditures is accounted for as restricted advances. 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.

Use of estimates:

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 period. Actual results could differ from those estimates.

Cash and cash equivalents:

For the purposes of the statement of cash flows, OCHS considers all highly liquid accounts available for current use with an initial

For the years ended June 30, 2014 and 2013

maturity of three months or less to be cash and cash equivalents.

Property and equipment:

Assets acquired through 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 dispositions of restricted assets or funds derived therein are subject to grant regulations. The total cost of fixed assets acquired through grant resources and on hand at June 30, 2014 and 2013 was \$6,272,997 and \$6,240,010, respectively. For the years ended June 30, 2014 and 2013, the property and equipment use allowance recognized was \$206,880 and \$257,928, respectively.

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, 2014 and 2013, respectively.

The Office of Head Start has been providing grants for an indefinite project period. This indefinite project period has ended as of June 30, 2014. The Office of the Head Start is moving from indefinite project periods to 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 will complete activities outlined and, where required, submit results to the Regional Office within identified time frames.

An agency needs to meet the standards of the required condition in order to be eligible for funding without competition.

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.

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 Revenue and Taxation Code and, therefore, has made no provision for Federal or California income taxes. In addition, OCHS has been

For the years ended June 30, 2014 and 2013

determined by the Internal Revenue Service not to 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 financial statements include any uncertain tax positions and accordingly, has not recognized any liability for unrecognized tax benefits in the accompanying financial statements.

As of June 30, 2014, information returns for fiscal years subsequent to June 30, 2010 and 2009 were subject to examination by Federal and California taxing authorities, respectively.

Risk concentration:

Approximately 84% and 87% of the funding for OCHS comes from the U.S. Department of Health and Human Services (“DHHS”) for the years ended June 30, 2014 and 2013, respectively. At June 30, 2014 and 2013, amounts due from DHHS in grants receivable were \$0 and \$333,593 which accounted for 0% and 57%, respectively, of total grants receivable.

In addition, amounts due from the State of California for the child care food program were \$237,987 and \$252,424 as of June 30, 2014 and 2013 which accounted for 100% and 43%, respectively, of total grants receivable.

Financial instruments and credit risk concentration:

OCHS’ cash funds are exposed to credit loss for the amount of funds held in financial institutions in excess of the Federal Deposit Insurance Corporation (“FDIC”) insured limits of \$250,000. At various times, OCHS had cash in banks in excess of the FDIC limits during the years ended June 30, 2014 and 2013. It is the opinion of management that the solvency of the financial institution is not of particular concern at this time. OCHS has not experienced and does not anticipate nonperformance by such institutions.

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

Reclassifications:

Certain reclassifications have been made so that the June 30, 2013 financial statements amounts conform to the June 30, 2014 financial statements classifications. These reclassifications had no effect on the reported change in net assets for the year ended June 30, 2013.

NOTE 3

GRANTS RECEIVABLE

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

<i>As of June 30,</i>	2014	2013
Head Start	\$ -	\$ 333,593
Child Care Program	237,987	252,424
Total grants receivable	\$ 237,987	\$ 586,017

OCHS has not accrued a loss for allowances for uncollectible receivables 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

For the years ended June 30, 2014 and 2013

receivables are owed by governmental agencies.

NOTE 4

COMMITMENTS

Leases:

OCHS has entered into several leases for classrooms and office space. The terms of the leases vary and are concurrent with the fiscal year. For the years ended June 30, 2014 and 2013, OCHS incurred \$935,498 and \$1,119,664, respectively, in rent expense.

In addition, OCHS received a total of \$1,294,275 and \$1,773,896 of in-kind rent for the years ended June 30, 2014 and 2013, respectively.

OCHS also leases certain office equipment under leases classified as operating leases. For the years ended June 30, 2014 and 2013, OCHS incurred \$136,701 and \$223,071, respectively, in office equipment rent expense.

Future minimum lease payments required under operating leases having initial or remaining non-cancelable lease terms in excess of one year at June 30, 2014 are as follows:

<i>For the year ending June 30,</i>	Total
2015	\$ 1,070,972
2016	890,759
2017	740,855
2018	697,865
2019	663,245
Thereafter	1,078,152
	\$ 5,141,848

OCHS 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.

NOTE 5

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 ending June 30, 2014 and 2013, OCHS' retirement contributions totaled \$835,150 and \$920,534, 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 6

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 OCHS' programs.

Functional expenses for the fiscal years ended June 30 are as follows:

<i>For the years ended June 30,</i>	2014	2013
Program service	\$34,562,458	\$ 35,693,165
Management and general	\$4,279,146	4,373,619
Total expenses	\$38,841,604	\$ 40,066,784

For the years ended June 30, 2014 and 2013

NOTE 7

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 \$4,268,343 and \$3,472,966 for the years ended June 30, 2014 and 2013, respectively.

In addition, donated parent and volunteer services with an estimated value of \$3,244,961 and \$3,613,936 for the years ended June 30, 2014 and 2013, respectively, were not recognized in the financial statements as they did not meet the criteria for recognition under FASB ASC 958.

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, 2014 and 2013 is as follows:

<i>For the years ended June 30,</i>	2014	2013
Contractual	\$ 2,767,002	\$ 1,427,313
Space	1,294,274	1,773,896
Supplies	-	13,829
Travel and transportation	187	-
Use allowance of equipment purchased with federal funds	206,880	257,928
Total reported on schedule of activities by grant (page 12)	\$ 4,268,343	3,472,966
Additional in-kind meeting federal guidelines	3,244,961	3,613,939
Less use allowance of equipment purchased with federal funds not allowed as in-kind match toward federal award purchased	(206,880)	(257,928)
Total in-kind contributions reported on Head Start schedule of expenses compared to budget (page 16)	\$ 7,306,424	\$ 6,828,977

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

<i>For the year ended June 30, 2014</i>	Head Start					Total
	Head Start	In-Kind	Total	CACFP	Others	
Revenue:						
Head Start grant	\$ 33,109,522	\$ -	\$ 33,109,522	\$ -	\$ -	\$ 33,109,522
In-kind contributions	-	4,268,343	4,268,343	-	-	4,268,343
Child care food program	-	-	-	1,373,206	-	1,373,206
Other grants	-	-	-	-	458,644	458,644
Total revenue	33,109,522	4,268,343	37,377,865	1,373,206	458,644	39,209,715
Expenses:						
Personnel	12,993,180	-	12,993,180	23,356	-	13,016,536
Fringe benefits	5,929,776	-	5,929,776	-	-	5,929,776
Space	2,467,312	1,294,274	3,761,586	-	-	3,761,586
Supplies	666,118	-	666,118	1,350,000	-	2,016,118
Other	655,321	206,880	862,201	-	90,378	952,579
Contractual	10,323,724	2,767,002	13,090,726	-	-	13,090,726
Equipment	6,557	-	6,557	-	-	6,557
Travel and transportation	67,539	187	67,726	-	-	67,726
Total expenses	33,109,527	4,268,343	37,377,870	1,373,356	90,378	38,841,604
Change in net assets	\$ (5)	\$ -	\$ (5)	\$ (150)	\$ 368,266	\$ 368,111

See the independent auditor's report

Note:

In-kind contributions of volunteer services in the amount of \$3,244,961 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, 2014</i>	Personnel	Fringe benefits	Space	Supplies	Other	Contractual	Equipment	Travel and transportation	Total
Administration expenses:									
Executive	\$ 189,427	\$ 48,026	\$ 54,531	\$ 8,014	\$ 13,546	\$ 2,433	\$ -	\$ 38	\$ 316,015
Quality systems	479,810	169,849	51,032	10,379	4,580	-	-	6,458	722,108
Human resources	158,612	64,770	-	8,255	15,930	25,273	-	1,487	274,327
Accounting/Procurement	331,505	133,906	49,734	18,974	168,192	129,295	(5,466)	749	826,889
Administrative - miscellaneous	452,536	62,028	386,090	19,626	48,324	112,923	(0)	1,721	1,083,243
Total administration expenses	1,611,890	478,579	541,387	65,248	250,572	269,924	(5,466)	10,453	3,222,582
Program expenses:									
Executive - program	94,699	24,009	27,261	4,006	6,772	1,217	-	15	157,979
Facilities	247,044	121,787	302,243	8,726	21,432	-	1,325	6,537	709,094
Governance	117,225	32,560	-	2,606	31,864	-	-	344	184,599
Education	626,506	234,942	58,914	7,326	19,075	145,304	607	4,076	1,096,750
Disabilities	279,715	127,025	-	544	953	-	-	4,481	412,718
Health	149,158	53,233	770	23,393	3,728	50	-	2,744	233,076
Social services	1,300,567	599,078	-	173	1,795	-	-	7,308	1,908,921
Program services	469,374	172,947	131,869	4,050	8,252	-	-	7,740	794,232
Food services/nutrition	506,973	290,698	114,446	12,430	67,907	300	2,245	3,352	998,351
Grantee Head Start T&TA	144,283	-	1,240	4,752	77,001	24,894	-	20,489	272,659
Early Head Start	1,424,924	679,656	130,221	22,582	25,732	10,018	7,846	-	2,300,979
Total program expenses	5,360,468	2,335,935	766,964	90,588	264,511	181,783	12,023	57,086	9,069,358
Total centers' expenses	6,020,822	3,115,262	1,158,961	510,282	140,238	-	-	-	10,945,565
Grantee in-kind contributions	-	-	1,294,274	-	206,880	1,943,088	-	187	3,444,429
Total grantee	12,993,180	5,929,776	3,761,586	666,118	862,201	2,394,795	6,557	67,726	26,681,934
Delegate agency expenses:									
Orange Children & Parents Togethe	-	-	-	-	-	2,832,539	-	-	2,832,539
Anaheim City School District	-	-	-	-	-	2,117,077	-	-	2,117,077
City of La Habra	-	-	-	-	-	1,569,477	-	-	1,569,477
Santa Ana Unified School District	-	-	-	-	-	3,352,924	-	-	3,352,924
Total delegate agency expenses	-	-	-	-	-	9,872,017	-	-	9,872,017
Delegate in-kind contributions	-	-	-	-	-	823,914	-	-	823,914
Total Head Start expenses	12,993,180	5,929,776	3,761,586	666,118	862,201	13,090,726	6,557	67,726	37,377,870
Total CCFP expenses	23,356	-	-	1,350,000	-	-	-	-	1,373,356
Family Festival	-	-	-	-	13,514	-	-	-	13,514
E-Rate	-	-	-	-	50,743	-	-	-	50,743
Program income - Non-Federal	-	-	-	-	14,700	-	-	-	14,700
Fatherhood program	-	-	-	-	10,950	-	-	-	10,950
Miscellaneous donations	-	-	-	-	471	-	-	-	471
Total other grants	-	-	-	-	90,378	-	-	-	90,378
Total expenses	\$ 13,016,536	\$ 5,929,776	\$ 3,761,586	\$ 2,016,118	\$ 952,579	\$ 13,090,726	\$ 6,557	\$ 67,726	\$ 38,841,604

See the independent auditor's report

Note:

In-kind contributions of volunteer services in the amount of \$3,244,961 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, 2014</i>	Personnel	Fringe benefits	Space	Supplies	Other	Total
Expenses by Center:						
HS Home Base North	\$ 63,186	\$ 44,755	\$ -	\$ 12,086	\$ 6,602	\$ 126,629
HS Home Base South	42,749	24,028	-	2,583	4,490	73,850
Placentia	345,515	184,651	68,373	21,758	6,996	627,293
Capo	226,442	125,821	66,213	34,018	5,217	457,711
D.L. Wood	362,880	183,461	53,550	22,297	7,274	629,462
Fullerton	326,717	178,443	153,984	31,679	6,339	697,162
Delhi	259,252	127,559	78,079	22,676	5,959	493,525
Brea	5,875	(8)	3,941	-	242	10,050
Ruby Drive	225,868	119,916	9,709	18,321	7,942	381,756
Hawaiian Gardens	72	8,100	7,006	56	719	15,953
Buena Park	244,220	133,137	28,032	32,841	6,636	444,866
Baden Powell	413,017	196,237	46,968	26,233	6,608	689,063
Walter	273,170	133,333	74,615	34,179	5,983	521,280
Jean Hardy	320,597	162,056	28,890	21,210	5,896	538,649
Evelyne Lobo Villegas	194,987	93,569	60,713	11,732	6,778	367,779
Centralia	346,051	166,817	53,405	36,881	7,121	610,275
Matt Kline	334,720	177,834	48,558	20,469	5,363	586,944
KIDS	349,120	177,254	119,367	24,960	5,567	676,268
Glenn L. Martin	270,146	146,333	16,131	21,426	6,716	460,752
Schweitzer	290,012	153,189	58,657	29,059	6,096	537,013
Topaz	359,197	177,151	28,908	28,007	5,883	599,146
Midway	219,226	106,081	53,177	22,881	6,761	408,126
Stanton	284,224	147,030	57,508	17,827	7,301	513,890
Hope Center	263,579	148,515	43,177	17,103	5,749	478,123
Total Centers' expenses	\$ 6,020,822	\$ 3,115,262	\$ 1,158,961	\$ 510,282	\$ 140,238	\$ 10,945,565

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, 2014</i>	Budget	Actual	Actual over (under) budget
Expenses:			
Personnel	\$ 13,095,632	\$ 12,993,180	\$ (102,452)
Fringe benefits	5,911,557	5,929,776	18,219
Space	2,321,842	2,467,312	145,470
Supplies	711,151	666,118	(45,033)
Other	663,201	655,321	(7,880)
Contractual	10,343,266	10,323,724	(19,542)
Travel and transportation	62,873	67,539	4,666
Equipment	-	6,557	6,557
Total	33,109,522	33,109,527	5
In-kind match-Head Start	5,755,256	7,306,424	1,551,168
Total expenses	\$ 38,864,778	\$ 40,415,951	\$ 1,551,173

See the independent auditor's report

Note:

In-kind contributions include contributions in the amount of \$3,244,961 that 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.
SCHEDULE OF REPORTED MEALS AND EARNED REIMBURSEMENT

<i>For the Period July 1, 2013 through June 30, 2014</i>											
Month	Breakfast	Rate	Total	Lunch	Rate	Total	Snacks	Rate	Total	Total Federal	Total Meals
JULY 2013	512	1.58	\$ 809	590	2.93	\$ 1,728	475	0.80	380	2,917	1,577
AUGUST 2013	260	1.58	411	305	2.93	894	237	0.80	190	1,495	802
SEPTEMBER 2013	13,544	1.58	21,400	23,762	2.93	69,623	11,799	0.80	9,439	100,462	49,105
OCTOBER 2013	22,253	1.58	35,160	40,078	2.93	117,429	20,421	0.80	16,337	168,926	82,752
NOVEMBER 2013	16,941	1.58	26,767	31,171	2.93	91,330	16,306	0.80	13,045	131,142	64,418
DECEMBER 2013	14,144	1.58	22,347	26,001	2.93	76,183	13,823	0.80	11,057	109,587	53,968
JANUARY 2014	18,102	1.58	28,601	33,264	2.93	97,464	17,320	0.80	13,856	139,921	68,686
FEBRUARY 2014	17,940	1.58	28,345	33,129	2.93	97,068	17,399	0.80	13,919	139,332	68,468
MARCH 2014	20,331	1.58	32,123	37,398	2.93	109,576	19,457	0.80	15,566	157,265	77,186
APRIL 2014	16,031	1.58	25,329	29,697	2.93	87,012	15,565	0.80	12,452	124,793	61,293
MAY 2014	20,258	1.58	32,008	37,430	2.93	109,670	19,436	0.80	15,549	157,227	77,124
JUNE 2014	9,222	1.58	14,571	15,976	2.93	46,810	8,703	0.80	6,962	68,343	33,901
Total Center meals	169,538			308,801			160,941				639,280
Total federal			\$ 267,871			\$ 904,787			\$ 128,752	\$ 1,301,410	

Federal Reimbursement \$ 1,301,410

Cash-in-lieu of Commoditi 0.2325 308,801 71,796

Total Federal Reimbursement: \$ 1,373,206

See the independent auditor's report

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

<i>For the year ended June 30, 2014</i>	Federal CFDA number	Grant number	Grant amount	Revenue recognized	Expenditures
Federal Program					
<u>U.S. Department of Health and Human Services:</u>					
Head Start	93.600	09CH0007/33	\$ 33,109,522	\$ 33,109,522	\$ 33,109,522
<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	1,373,206	1,373,206
Total Federal Awards				\$ 34,482,728	\$ 34,482,728
Amount Provided to Sub-recipients:					
<u>U.S. Department of Health and Human Services:</u>					
Orange Children & Parents Together (OCPT)	93.600	09CH0007/33	N/A	\$ 2,832,539	\$ 2,832,539
Anaheim City School District	93.600	09CH0007/33	N/A	2,117,077	2,117,077
City of La Habra	93.600	09CH0007/33	N/A	1,569,477	1,569,477
Santa Ana Unified School District	93.600	09CH0007/33	N/A	3,352,924	3,352,924
Total				\$ 9,872,017	\$ 9,872,017

See the independent auditor's report

Note A - Significant Accounting Policies:

The accompanying schedule of expenditures of federal awards includes the federal grant activities of OCHS and it is prepared on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

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

<i>For the year ended June 30, 2013</i>	Federal CFDA number	Grant number	Grant amount	Revenue recognized	Expenditures
Federal Program					
<u>U.S. Department of Health and Human Services:</u>					
Head Start	93.600	09CH0007/31	\$ 34,931,820	\$ 34,931,820	\$ 34,931,820
Universal Discount for Schools and Libraries (E-Rate)	99.Unknown			171,619	150,069
<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	1,433,194	1,433,194
Total Federal Awards				\$ 36,536,633	\$ 36,515,083
Amount Provided to Sub-recipients:					
<u>U.S. Department of Health and Human Services:</u>					
Orange Children & Parents Together (OCPT)	93.600	09CH0007/31	N/A	\$ 2,832,629	\$ 2,832,629
Anaheim City School District	93.600	09CH0007/31	N/A	2,117,077	2,117,077
City of La Habra	93.600	09CH0007/31	N/A	1,518,336	1,518,336
Santa Ana Unified School District	93.600	09CH0007/31	N/A	3,313,884	3,313,884
Irvine Head Start	93.600	09CH0007/31	N/A	646,832	646,832
Total				\$10,428,758	\$10,428,758

See the independent auditor's report

Note A - Significant Accounting Policies:

The accompanying schedule of expenditures of federal awards includes the federal grant activities of OCHS and it is prepared on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

ORANGE COUNTY HEAD START, INC.

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.

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, 2014 and 2013, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated February 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered OCHS' 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' internal control. Accordingly, we do not express an opinion on the effectiveness of OCHS' 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 audits 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.

ORANGE COUNTY HEAD START, INC.

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' 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 audits, 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 OCHS' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCHS' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



February 26, 2015
Long Beach, California

ORANGE COUNTY HEAD START, INC.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Orange County Head Start, Inc.

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 Circular A-133 Compliance Supplement* that could have a direct and material effect on each of OCHS' major federal programs for the years ended June 30, 2014 and 2013. OCHS' 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of OCHS' major federal programs based on our audits of the types of compliance requirements referred to above. We conducted our audits 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 OCHS' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audits provide a reasonable basis for our opinion on compliance for each major federal program. However, our audits do not provide a legal determination of OCHS' compliance.

Opinion on Each Major Federal Program

In our opinion, OCHS' 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 years ended June 30, 2014 and 2013.

ORANGE COUNTY HEAD START, INC.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (*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 audits of compliance, we considered OCHS' 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of OCHS' 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



February 26, 2015
Long Beach, California

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

As of and for the year ended June 30, 2014

SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

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 Reported None

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Audited as Major Programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
93.600	Head Start	\$ 33,109,522
10.558	Child Care Food Program	\$ 1,373,206

Dollar threshold used to distinguish between Type A and Type B programs \$ 1,034,482

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 costs.

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

As of and for the year ended June 30, 2013

SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

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 Reported None

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Audited as Major Programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
93.600	Head Start Cluster – Head Start	\$ 34,931,820
	Dollar threshold used to distinguish between Type A and Type B programs	\$ 1,095,452
	Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

FINANCIAL STATEMENT FINDINGS

There are no financial statement findings.

There are no federal award findings and questioned costs.

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

As of and for the years ended June 30, 2014 and 2013

There were no prior years audit findings or recommendations.