



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

**AUDITED FINANCIAL STATEMENTS, SUPPLEMENTAL INFORMATION
AND REPORTS IN COMPLIANCE WITH UNIFORM GUIDANCE
AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

ORANGE COUNTY HEAD START, INC.
FINANCIAL STATEMENTS



CONTENTS

<i>As of and for the years ended June 30, 2018 and 2017</i>	Page
Independent Auditor's Report	1 – 2
Financial statements:	
Statements of financial position as of June 30, 2018 and 2017	3
Statements of activities for the years ended June 30, 2018 and 2017	4 – 5
Statements of cash flows for the years ended June 30, 2018 and 2017	6
Notes to financial statements for the years ended June 30, 2018 and 2017	7 – 14
Supplementary Information:	
Supplemental schedule of activities by grant for the year ended June 30, 2018	15
Supplemental schedule of expenses by category for the year ended June 30, 2018	16
Supplemental schedule of expenses by Head Start Centers for the year ended June 30, 2018	17 - 18
Supplemental schedule of expenses compared to budget for the year ended June 30, 2018	19
Supplemental schedule of reported meals and earned reimbursement for the period July 1, 2017 to June 30, 2018	20
Schedule of expenditures of federal awards for the year ended June 30, 2018	21
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>	22 – 23
Independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance	24 – 25
Schedule of findings and questioned costs as of and for the year ended June 30, 2018	26
Status of prior year findings and recommendations as of and for the years ended June 30, 2018 and 2017	27

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 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, 2018, 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 19, 2019, 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 19, 2019

ORANGE COUNTY HEAD START, INC.
STATEMENTS OF FINANCIAL POSITION

<i>As of June 30,</i>	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 642,158	\$ 1,503,157
Grants receivable	3,676,364	2,614,977
Other receivables	247	729
Prepaid expenses	-	14,626
Total current assets	4,318,769	4,133,489
Property and equipment, net	122,327	152,909
Deposits	61,872	61,872
Total assets	\$ 4,502,968	\$ 4,348,270
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 646,048	\$ 938,911
Accrued expenses - other	1,930,131	1,496,655
Accrued vacation	361,582	329,823
Advances - other grants	89,440	91,688
Deferred Rent	32,373	25,096
Total current liabilities	3,059,574	2,882,173
Commitments and contingencies		
Net assets:		
Unrestricted	1,443,394	1,466,097
Total net assets	1,443,394	1,466,097
Total liabilities and net assets	\$ 4,502,968	\$ 4,348,270

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>	2018		
Revenues:	Unrestricted	Temporarily restricted	Total
Head Start grants	\$ 37,390,130	\$ -	\$ 37,390,130
In-kind contributions	5,268,011	-	5,268,011
Child care food program	1,187,010	-	1,187,010
Other grants	43,515	-	43,515
Total revenue	43,888,666	-	43,888,666
Expenses:			
Personnel	15,050,635	-	15,050,635
Contractual	14,330,332	-	14,330,332
Fringe benefits	6,196,244	-	6,196,244
Other	5,579,970	-	5,579,970
Supplies	2,754,188	-	2,754,188
Total expenses	43,911,369	-	43,911,369
Change in net assets	(22,703)	-	(22,703)
Net assets, beginning of year	1,466,097	-	1,466,097
Net assets, end of year	\$ 1,443,394	\$ -	\$ 1,443,394

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>		2017	
	Unrestricted	Temporarily restricted	Total
Revenues:			
Head Start grants	\$ 36,451,478	\$ -	\$ 36,451,478
In-kind contributions	6,515,405	-	6,515,405
Child care food program	1,096,304	-	1,096,304
Other grants	320,469	-	320,469
Net assets released from restrictions	175,026	(175,026)	-
Total revenue	44,558,682	(175,026)	44,383,656
Expenses:			
Personnel	15,873,408	-	15,873,408
Contractual	13,507,674	-	13,507,674
Fringe benefits	6,517,523	-	6,517,523
Other	6,312,739	-	6,312,739
Supplies	1,959,036	-	1,959,036
Total expenses	44,170,380	-	44,170,380
Change in net assets	388,302	(175,026)	213,276
Net assets, beginning of year	1,077,795	175,026	1,252,821
Net assets, end of year	\$ 1,466,097	\$ -	\$ 1,466,097

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>	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (22,703)	\$ 213,276
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Non-cash items included in change in net assets:		
Depreciation	30,582	-
(Increase) decrease in assets:		
Grants receivable	(1,061,387)	715,897
Other receivables	482	6,151
Prepaid expenses	14,626	(14,626)
Deposits	-	(1,865)
Increase (decrease) in liabilities:		
Accounts payable	(292,863)	465,635
Accrued expenses - other	433,476	(1,620,471)
Accrued vacation	31,759	70,064
Advances - other grants	(2,248)	(149,252)
Deferred Rent	7,277	25,096
Net cash used in operating activities	(860,999)	(290,095)
Cash flows from investing activities:		
Acquisition of property and equipment	-	(152,909)
Net cash used in investing activities	-	(152,909)
Net decrease in cash and cash equivalents	(860,999)	(443,004)
Cash and cash equivalents, beginning of year	1,503,157	1,946,161
Cash and cash equivalents, end of year	\$ 642,158	\$ 1,503,157

The accompanying notes are an integral part of these financial statements

For the years ended June 30, 2018 and 2017

NOTE 1

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 the 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

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 June 30, 2018 through February 19, 2019, the date the financial statements were available for issuance, for subsequent events requiring recognition and or disclosure in the accompanying financial statements.

For the years ended June 30, 2018 and 2017

NOTE 2 - CONTINUED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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 no temporarily restricted net assets at June 30, 2018 and 2017.

Permanently restricted net assets - Net assets subject to permanent donor-imposed stipulations that OCHS maintains 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 as of June 30, 2018 and 2017.

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. 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.

For the years ended June 30, 2018 and 2017

NOTE 2 - CONTINUED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2018 and 2017 were \$6,701,789 and \$6,089,071, respectively.

Effective for the year ended June 30, 2016, OCHS implemented 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, 2018 and 2017, 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 the 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, 2018 and 2017, the impairment charges recognized on property and equipment, acquired through Federal grant resources, was \$154,000 and \$122,210, respectively.

For the years ended June 30, 2018 and 2017

NOTE 2 - CONTINUED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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, 2018 and 2017.

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 needs to 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.

For the years ended June 30, 2018 and 2017

NOTE 2 - CONTINUED

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 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.

Under the new Internal Revenue Code Section 512(a)(7), certain employer-provided fringe benefits are considered unrelated business income (UBI) and are subject to income tax. The fringe benefit payments are classified as UBI if they are incurred by the Organization after December 31, 2017 for the following:

- On-premises athletic facility is a facility predominately used by employees and their families.
- Qualified transportation benefits include commuter vehicle and van pooling as well as transit, such as buses and trains.
- Qualified parking facility includes parking provided by an employer and parking reimbursements provided under a bona-fide reimbursement arrangement.

During the year ended June 30, 2018, OCHS does not believe that the payments made by the Organization are classified as UBI under the 2017 Tax Cuts and Jobs Acts as qualified transportation benefits and has not recognized any income tax charge for these fringe benefit payments, accordingly.

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.

Risk concentration:

For the years ended June 30, 2018 and 2017, approximately 87% and 82%, respectively, of the funding for OCHS comes from the U.S. Department of Health and Human Services ("DHHS"). At June 30, 2018 and 2017, amounts due from DHHS in grants receivable were \$3,311,592 and \$2,306,333, respectively, which accounted for 90% and 88%, respectively, of total grants receivable.

In addition, amounts due from the State of California for the child care food program were \$364,772 and \$308,644 as of June 30, 2018 and 2017, respectively, which accounted for 10% and 12%, respectively, of total grants receivable.

Financial instruments and credit risk concentration:

OCHS's 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, 2018 and 2017.

For the years ended June 30, 2018 and 2017

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments and credit risk concentration: - continued

OCHS has not experienced and does not anticipate nonperformance by such institution.

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

New accounting standards not yet adopted:

Accounting for net assets classifications

In August 2016, Financial Accounting Standard Board ("FASB") issued Accounting Standard Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. ASU 2016-14 was issued to improve the current net asset classification requirements and the information presented in the financial statements and notes thereto about a not-for-profit entity's liquidity, financial performance, and cash flows. Additionally, the amendments in ASU 2016-14 among other matters, reduce the current three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) to two classes of net assets (net assets with donor restrictions and net assets without donor restrictions). The amendments in ASU 2016-14 are effective for the fiscal years beginning after December 15, 2017. Management is currently evaluating the impact of the pending adoption of ASU 2016-14 on its financial statements.

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, 2019 with early adoption permitted. Management 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. Management is currently evaluating the impact of the pending adoption of ASU 2018-08 on the financial statements.

For the years ended June 30, 2018 and 2017

NOTE 3

GRANTS RECEIVABLE

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

<i>As of June 30,</i>	2018	2017
Head Start	\$ 3,311,592	\$ 2,306,333
Child Care Program	364,772	308,644
Total grants receivable	\$ 3,676,364	\$ 2,614,977

OCHS has not accrued an allowance for uncollectible receivables as of June 30, 2018 and 2017, 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 4

PROPERTY AND EQUIPMENT

Property and equipment consists of leasehold improvements as follows:

<i>As of June 30,</i>	2018	2017
Leasehold improvements	\$ 152,909	152,909
Less: accumulated depreciation	(30,582)	-
Property and equipment, net	\$ 122,327	\$ 152,909

Depreciation expense was \$30,582 and \$0 for the years ended June 30, 2018 and 2017, respectively.

NOTE 5

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. The total rent expense incurred on these leases was \$1,242,784 and \$1,173,090 for the years ended June 30, 2018 and 2017, respectively.

In addition, OCHS received a total of \$1,078,315 and \$1,014,073 of in-kind rent for the years ended June 30, 2018 and 2017, respectively.

OCHS also leases certain office equipment under leases classified as operating leases. For the years ended June 30, 2018 and 2017, OCHS incurred \$91,299 and \$76,022, respectively, in office equipment rent expense.

Total rent expense incurred was \$2,412,398 and \$2,263,185 for the years ended June 30, 2018 and 2017, respectively.

Future minimum lease payments required under operating leases having initial or remaining non-cancelable lease terms in excess of one year at June 30, 2018 are as follows:

<i>For the year ending June 30,</i>	Total
2019	\$ 1,299,662
2020	1,143,195
2021	298,528
2022	220,012
2023	221,680
Thereafter	406,230
	\$ 3,589,307

For the years ended June 30, 2018 and 2017

NOTE 5 - CONTINUED

COMMITMENTS

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.

NOTE 6

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, 2018 and 2017, OCHS's retirement contributions totaled \$896,916 and \$1,731,255, 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 7

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's programs.

Functional expenses for the fiscal years ended June 30, 2018 and 2017 are as follows:

<i>For the years ended June 30,</i>	2018	2017
Program service	\$ 39,873,996	\$ 40,479,536
Management and general	4,037,373	3,690,844
Total expenses	\$ 43,911,369	\$ 44,170,380

NOTE 8

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 \$5,268,011 and \$6,515,405 for the years ended June 30, 2018 and 2017, respectively.

In addition, donated parent and volunteer services with an estimated value of \$2,338,539 and \$745,315 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017 follows:

<i>For the years ended June 30,</i>	2018	2017
Contractual	\$ 3,784,424	\$ 3,403,650
Others	1,476,716	1,924,357
Supplies	6,871	8,122
Personnel	-	1,179,276
Total reported on schedule of activities by grant (page 15)	5,268,011	6,515,405
Additional in-kind meeting federal guidelines	2,338,539	745,315
Total in-kind contributions reported on Head Start schedule of expenses compared to budget (page 19)	\$ 7,606,550	\$ 7,260,720

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

<i>For the year ended June 30, 2018</i>	Head Start					Total
	Head Start	In-Kind	Total	CACFP	Others	
Revenue:						
Head Start grant	\$ 37,390,130	\$ -	\$ 37,390,130	\$ -	\$ -	\$ 37,390,130
In-kind contributions	-	5,268,011	5,268,011	-	-	5,268,011
Child care food program	-	-	-	1,187,010	-	1,187,010
Other grants	-	-	-	-	43,515	43,515
Total revenue	37,390,130	5,268,011	42,658,141	1,187,010	43,515	43,888,666
Expenses:						
Personnel	15,004,423	-	15,004,423	46,212	-	15,050,635
Contractual	10,545,234	3,784,424	14,329,658	-	674	14,330,332
Fringe benefits	6,182,320	-	6,182,320	9,069	4,855	6,196,244
Other	3,988,089	1,476,716	5,464,805	64,962	50,203	5,579,970
Supplies	1,670,064	6,871	1,676,935	1,066,767	10,486	2,754,188
Total expenses	37,390,130	5,268,011	42,658,141	1,187,010	66,218	43,911,369
Change in net assets	\$ -	\$ -	\$ -	\$ -	\$ (22,703)	\$ (22,703)

See the independent auditor's report

Note:

In-kind contributions of volunteer services in the amount of \$2,338,539 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, 2018</i>	Personnel	Contractual	Fringe benefits	Other	Supplies	Total
Administration expenses:						
Executive	\$ 227,774	\$ -	\$ 58,582	\$ 126,806	\$ 12,225	\$ 425,387
Quality systems	419,847	-	135,575	99,399	34,913	689,734
Human resources	150,507	30,423	72,989	18,601	3,777	276,297
Accounting/procurement	532,358	48,125	434,255	298,500	55,059	1,368,297
Administrative - miscellaneous	166,065	23,611	52,655	750,916	284,410	1,277,657
Total administration expenses	1,496,551	102,159	754,056	1,294,222	390,384	4,037,372
Program expenses:						
Facilities	175,390	527,425	73,393	295,296	216,957	1,288,461
Governance	39,677	-	14,067	25,758	1,598	81,100
Education	289,364	1,365,886	97,142	99,091	-	1,851,483
Disabilities	219,203	560	96,104	2,075	354	318,296
Health	224,595	2,600	95,092	8,533	13,824	344,644
Social services	1,112,556	-	442,377	11,241	5,689	1,571,863
Program services	344,846	-	129,375	220,873	10,001	705,095
Food services/nutrition	424,797	473,797	224,085	55,006	17,964	1,195,649
Grantee Head Start T&TA	-	12,968	190,569	654	1,673	205,864
Early Head Start	4,304,466	706,911	1,406,087	312,897	160,721	6,891,082
Total	7,134,894	3,090,147	2,768,291	1,031,424	428,781	14,453,537
Total centers' expenses	6,372,978	45,706	2,659,973	1,662,443	850,899	11,591,999
Grantee in-kind contributions	-	3,783,424	-	1,101,280	5,481	4,890,185
Total grantee	13,507,872	6,919,277	5,428,264	3,795,147	1,285,161	30,935,721
Delegate agency expenses:						
Orange Children & Parents Together	-	3,372,719	-	-	-	3,372,719
City of La Habra	-	452,915	-	-	-	452,915
Santa Ana Unified School District	-	3,481,588	-	-	-	3,481,588
Total delegate agency expenses	-	7,307,222	-	-	-	7,307,222
Delegate in-kind contributions	-	1,000	-	375,436	1,390	377,826
Total Head Start expenses	13,507,872	14,227,499	5,428,264	4,170,583	1,286,551	38,620,769
Total CCFP expenses	46,212	-	9,069	64,962	1,066,767	1,187,010
Open House	-	-	-	2,298	-	2,298
Program income - Non-Federal	-	-	-	-	-	-
Fatherhood program	-	-	-	1,200	-	1,200
Miscellaneous donations	-	674	4,855	46,705	10,486	62,720
Total other grants	-	674	4,855	50,203	10,486	66,218
Total program expenses	13,554,084	14,228,173	5,442,188	4,285,748	2,363,804	39,873,997
Total expenses	\$ 15,050,635	\$ 14,330,332	\$ 6,196,244	\$ 5,579,970	\$ 2,754,188	\$ 43,911,369

See the independent auditor's report

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

<i>For the year ended June 30, 2018</i>	Personnel	Contractual	Fringe benefits	Other	Supplies	Total
Expenses by Center:						
Head Start:						
HS Home Base North	\$ 34,406	\$ -	\$ 24,706	\$ 318	\$ -	\$ 59,430
HS Home Base South	19,124	-	9,294	-	177	28,595
HS Home Base Central	-	-	11,921	586	2,100	14,607
Placentia	347,292	-	129,440	94,707	44,288	615,727
Capo	368,175	-	136,275	35,955	24,874	565,279
D.L. Wood	321,875	-	82,858	94,003	87,411	586,147
Fullerton	367,097	-	132,411	82,690	36,670	618,868
Delhi	304,519	-	133,813	100,692	39,775	578,799
Buena Park	350,299	-	149,548	167,296	33,211	700,354
Baden Powell	326,067	-	125,693	60,317	71,368	583,445
Walter	281,077	-	127,247	43,339	31,111	482,774
Jean Hardy	313,582	-	132,297	54,023	59,719	559,621
Evelyne Lobo Villegas	161,286	-	60,198	138,128	16,777	376,389
Centralia	425,482	-	176,134	96,131	25,566	723,313
Matt Kline	409,764	231	159,579	45,578	40,479	655,631
KIDS	221,777	-	96,840	108,879	13,407	440,903
Glenn L. Martin	337,114	-	149,879	17,044	37,017	541,054
Schweitzer	232,307	-	100,244	77,313	46,138	456,002
Topaz	321,791	-	147,712	25,927	41,301	536,731
Stanton	322,886	-	133,511	79,107	33,469	568,973
Hope Center	234,619	-	119,890	52,817	13,804	421,130
Andrews	73,088	45,475	37,757	59,092	35,183	250,595
Crescent	9,437	-	44,460	75,261	32,596	161,754
Franklin	215,665	-	93,931	73,187	30,878	413,661
Carver	107,214	-	55,533	474	8,848	172,069
Lambert - La Harbor	267,035	-	88,802	79,579	44,732	480,148
Total	\$ 6,372,978	\$ 45,706	\$ 2,659,973	\$ 1,662,443	\$ 850,899	\$ 11,591,999

See the independent auditor's report

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

*For the year ended June
30, 2018*

	Personnel	Contractual	Fringe benefits	Other	Supplies	Total
Expenses by Center:						
Early Head Start:						
EHS-Allocations	\$ 1,381,095	\$ -	\$ 161,678	\$ 45,587	\$ -	\$ 1,588,360
EHS Home Base North	250,215	-	88,155	10,190	1,116	349,676
EHS Home Base South	307,273	-	109,067	15,804	2,698	434,842
EHS Home Base Central	179,317	-	106,375	12,756	6,450	304,898
Buena Park EHS	187,360	94,795	79,792	68,029	22,399	452,375
Topaz EHS	279,183	130,718	128,386	12,348	6,725	557,360
KIDS EHS	385,081	17,638	172,833	38,292	27,746	641,590
Baden Powell EHS	53,074	-	16,623	97	3,971	73,765
Franklin EHS	4,613	-	3,531	-	16	8,160
Andrews EHS	72,068	17,471	49,817	878	2,845	143,079
Crescent EHS	363,134	118,438	133,117	14,487	19,498	648,674
4th Street EHS	224,164	131,371	91,730	41,542	26,676	515,483
Evelyne Lobo Villeags EHS	-	10,895	18,299	242	943	30,379
Ruby Drive EHS	248,834	178,874	114,619	32,952	30,600	605,879
Matt Kline EHS	235,866	6,711	84,458	19,685	3,007	349,727
Jeane hardy EHS	114,719	-	36,412	-	4,386	155,517
Schweitzer EHS	18,470	-	11,195	8	1,645	31,318
Total	\$ 4,304,466	\$ 706,911	\$ 1,406,087	\$ 312,897	\$ 160,721	\$ 6,891,082

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, 2018</i>	Budget	Actual	Actual over (under) budget
Expenses:			
Personnel	\$ 14,843,143	\$ 15,004,423	\$ 161,280
Contractual	10,744,749	10,545,234	(199,515)
Fringe benefits	6,374,597	6,182,320	(192,277)
Other	3,912,890	3,988,089	75,199
Supplies	1,514,752	1,670,064	155,312
Total	37,390,131	37,390,130	(1)
In-kind match-Head Start	6,570,017	7,606,550	1,036,533
Total expenses	\$ 43,960,148	\$ 44,996,680	\$ 1,036,532

See the independent auditor's report

Note:

In-kind contributions of volunteer services in the amount of \$2,338,539 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, 2017 through June 30, 2018</i>											
Month	Breakfast	Rate	Total	Lunch	Rate	Total	Snacks	Rate	Total	Total Federal	Total Meals
JULY 2017	2,038	\$ 1.75	\$ 3,567	2,106	\$ 3.23	\$ 6,802	1,784	\$ 0.88	\$ 1,570	\$ 11,939	5,928
AUGUST 2017	1,507	1.75	2,637	1,602	3.23	5,174	1,337	0.88	1,177	8,988	4,446
SEPTEMBER 2017	10,096	1.75	17,668	13,525	3.23	43,686	8,087	0.88	7,117	68,471	31,708
OCTOBER 2017	15,688	1.75	27,454	21,316	3.23	68,851	12,381	0.88	10,895	107,200	49,385
NOVEMBER 2017	15,160	1.75	26,530	20,539	3.23	66,341	12,391	0.88	10,904	103,775	48,090
DECEMBER 2017	13,528	1.75	23,674	18,539	3.23	59,881	11,084	0.88	9,754	93,309	43,151
JANUARY 2018	15,643	1.75	27,375	21,888	3.23	70,698	13,403	0.88	11,795	109,868	50,934
FEBRUARY 2018	18,253	1.75	31,943	25,651	3.23	82,853	15,930	0.88	14,018	128,814	59,834
MARCH 2018	21,562	1.75	37,734	30,677	3.23	99,087	19,115	0.88	16,821	153,642	71,354
APRIL 2018	16,039	1.75	28,068	22,903	3.23	73,977	14,045	0.88	12,360	114,405	52,987
MAY 2018	22,024	1.75	38,542	31,745	3.23	102,536	19,659	0.88	17,300	158,378	73,428
JUNE 2018	11,678	1.75	20,437	14,391	3.23	46,483	10,246	0.88	9,016	75,936	36,315
Total Center meals	163,216			224,882			139,462				527,560
Total Federal			\$ 285,629			\$ 726,369			\$ 122,727	\$ 1,134,725	

Federal Reimbursement \$ 1,134,725

Cash-in-lieu of Commodities (Lunch & Supper Meals) 0.2325 224,882 52,285

\$ 1,187,010

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

<i>For the year ended June 30, 2018</i>	Federal CFDA number	Grant number	Grant amount	Revenue recognized	Expenditures
<u>Federal Program</u>					
<u>U.S. Department of Health and Human Services:</u>					
Head Start	93.600	09CH915504	\$ 37,390,130	\$ 37,390,130	\$ 37,390,130
<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	1,187,010	1,187,010
Total Federal Awards				\$ 38,577,140	\$ 38,577,140
Amount Provided to Sub-recipients:					
<u>U.S. Department of Health and Human Services:</u>					
Orange Children & Parents Together (OCPT)	93.600	09CH915503	N/A	\$ 3,372,719	\$ 3,372,719
Santa Ana Unified School District	93.600	09CH915503	N/A	3,481,588	3,481,588
City of La Habra	93.600	09CH915503	N/A	452,915	452,915
Total				\$ 7,307,222	\$ 7,307,222

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, 2018. 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, 2018, 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 19, 2019.

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 19, 2019

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, 2018. 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, 2018.

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 19, 2019

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

As of and for the year ended June 30, 2018

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:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
93.600	Head Start	\$ 37,390,130
10.558	Child Care Food	1,187,010

Dollar threshold used to distinguish between Type A and Type B programs \$ 1,157,314

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.
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

As of and for the years ended June 30, 2018 and 2017

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