



 **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, 2015 AND 2014

ORANGE COUNTY HEAD START, INC.
FINANCIAL STATEMENTS



CONTENTS

<i>As of and for the years ended June 30, 2015 and 2014</i>	Page
Independent Auditor's Report	1 – 2
Financial statements:	
Statement of financial position as of June 30, 2015 and 2014	3
Statement of activities for the years ended June 30, 2015 and 2014	4 – 5
Statement of cash flows for the years ended June 30, 2015 and 2014	6
Notes to financial statements for the years ended June 30, 2015 and 2014	7 – 12
Supplementary Information:	
Supplemental schedule of activities by grant for the year ended June 30, 2015	13
Supplemental schedule of expenses by category for the year ended June 30, 2015	14
Supplemental schedule of expenses by Head Start Centers for the year ended June 30, 2015	15 – 16
Supplemental schedule of expenses compared to budget for the year ended June 30, 2015	17
Supplemental schedule of reported meals and earned reimbursement for the period July 1, 2014 to June 30, 2015	18
Schedule of expenditures of federal awards for the year ended June 30, 2015	19
Schedule of expenditures of federal awards for the year ended June 30, 2014	20
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>	21 – 22
Independent auditor's report on compliance for each major program and on internal control over compliance required by OMB circular A-133	23 – 24
Schedule of findings and questioned costs as of and for the year ended June 30, 2015	25
Schedule of findings and questioned costs as of and for the year ended June 30, 2014	26
Status of prior year findings and recommendations as of and for the years ended June 30, 2015 and 2014	27



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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 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, 2015 and 2014 as required by Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis, and are 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 audits 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 December 15, 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

December 15, 2015
Long Beach, California

ORANGE COUNTY HEAD START, INC.
STATEMENT OF FINANCIAL POSITION

<i>As of June 30,</i>	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,541,465	\$ 2,902,848
Grants receivable	726,162	237,987
Other receivables	8,490	-
Prepaid expenses	46,999	-
Deposits	58,592	48,165
Total assets	\$ 4,381,708	\$ 3,189,000
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 934,220	\$ 970,691
Accrued expenses - other	1,877,211	966,412
Accrued vacation	230,950	230,775
Advances - other grants	270,343	95,374
Total current liabilities	3,312,724	2,263,252
Commitments and contingencies		
Net assets:		
Unrestricted	895,777	790,094
Temporarily restricted	173,207	135,654
Total net assets	1,068,984	925,748
Total liabilities and net assets	\$ 4,381,708	\$ 3,189,000

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>	2015		
	Unrestricted	Temporarily restricted	Total
Revenues:			
Head Start grants	\$ 34,534,345	\$ -	\$ 34,534,345
In-kind contributions	5,135,834	-	5,135,834
Child care food program	1,266,708	-	1,266,708
Other grants	41,268	173,207	214,475
Net assets released from restrictions	135,654	(135,654)	-
Total revenue	41,113,809	37,553	41,151,362
Expenses:			
Contractual	14,932,045	-	14,932,045
Personnel	12,809,828	-	12,809,828
Fringe benefits	5,742,552	-	5,742,552
Space	3,965,529	-	3,965,529
Supplies	2,530,192	-	2,530,192
Other	957,907	-	957,907
Travel and transportation	66,271	-	66,271
Equipment	3,802	-	3,802
Total expenses	41,008,126	-	41,008,126
Change in net assets	105,683	37,553	143,236
Net assets, beginning of year	790,094	135,654	925,748
Net assets, end of year	\$ 895,777	\$ 173,207	\$ 1,068,984

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		
Revenues:	Unrestricted	Temporarily restricted	Total
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 CASH FLOWS

<i>For the years ended June 30,</i>	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 143,236	\$ 368,111
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Increase) decrease in assets:		
Grants receivable	(488,175)	348,030
Other receivables	(8,490)	16,601
Prepaid expenses	(46,999)	-
Deposits	(10,427)	-
Increase (decrease) in liabilities:		
Accounts payable	(36,471)	(262,047)
Accrued expenses - other	910,799	437,824
Accrued vacation	175	(142,830)
Advances - other grants	174,969	10,478
Net cash provided by operating activities	638,617	776,167
Cash and cash equivalents, beginning of year	2,902,848	2,126,681
Cash and cash equivalents, end of year	\$ 3,541,465	\$ 2,902,848

The accompanying notes are an integral part of these financial statements

For the years ended June 30, 2015 and 2014

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, 2015 through December 15, 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, 2015 and 2014

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 \$173,207 and \$135,654, in temporarily restricted net assets as of June 30, 2015 and 2014.

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, 2015 and 2014.

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, 2015 and 2014

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, 2015 and 2014 was \$6,248,822 and \$6,272,997, respectively. For the years ended June 30, 2015 and 2014, the property and equipment use allowance recognized was \$191,888 and \$206,880, 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, 2015 and 2014, 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.

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.

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

For the years ended June 30, 2015 and 2014

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.

UCHS 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:

Approximately 84% of the funding for OCHS comes from the U.S. Department of Health and Human Services (“DHHS”) for the years ended June 30, 2015 and 2014, respectively. At June 30, 2015 and 2014, amounts due from DHHS in grants receivable were \$383,227 and \$0 which accounted for 53% and 0%, respectively, of total grants receivable.

In addition, amounts due from the State of California for the child care food program were \$342,935 and \$237,987 as of June 30, 2015 and 2014 which accounted for 47% and 100%, respectively, of total grants receivable.

Financial instruments and credit risk concentration:

UCHS’ 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, 2015 and 2014. 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.

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

NOTE 3

GRANTS RECEIVABLE

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

<i>As of June 30,</i>	2015	2014
Head Start	\$ 383,227	\$ -
Child Care Program	342,935	237,987
Total grants receivable	\$ 726,162	\$ 237,987

UCHS has not accrued an allowance for uncollectible receivables as of June 30, 2015 and 2014, respectively, 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.

For the years ended June 30, 2015 and 2014

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, 2015 and 2014, OCHS incurred \$1,007,528 and \$935,498, respectively, in rent expense.

In addition, OCHS received a total of \$1,290,471 and \$1,294,275 of in-kind rent for the years ended June 30, 2015 and 2014, respectively.

OCHS also leases certain office equipment under leases classified as operating leases. For the years ended June 30, 2015 and 2014, OCHS incurred \$151,288 and \$136,701, 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, 2015 are as follows:

<i>For the year ending June 30,</i>	Total
2015	\$ 1,194,541
2016	1,031,874
2017	981,748
2018	902,142
2019	803,950
Thereafter	379,106
	\$ 5,293,360

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, 2015 and 2014, OCHS' retirement contributions totaled \$805,077 and \$835,150, 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, 2015 and 2014 are as follows:

<i>For the years ended June 30,</i>	2015	2014
Program service	\$ 37,103,137	\$ 34,562,458
Management and general	3,904,989	4,279,146
Total expenses	\$ 41,008,126	\$ 38,841,604

For the years ended June 30, 2015 and 2014

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 \$5,135,834 and \$4,268,343 for the years ended June 30, 2015 and 2014, respectively.

In addition, donated parent and volunteer services with an estimated value of \$2,774,825 and \$3,244,961 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014 is as follows:

<i>For the years ended June 30,</i>	2015	2014
Contractual	\$ 3,653,475	\$ 2,767,002
Space	1,290,471	1,294,274
Travel and transportation	-	187
Use allowance of equipment purchased with federal funds	191,888	206,880
Total reported on schedule of activities by grant (page 13)	\$ 5,135,834	4,268,343
Additional in-kind meeting federal guidelines	2,774,825	3,244,961
Less use allowance of equipment purchased with federal funds not allowed as in-kind match toward federal award purchased	(191,888)	(206,880)
Total in-kind contributions reported on Head Start schedule of expenses compared to budget (page 17)	\$ 7,718,771	\$ 7,306,424

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

<i>For the year ended June 30, 2015</i>	Head Start					Total
	Head Start	In-Kind	Total	CACFP	Others	
Revenue:						
Head Start grant	34,534,345	\$ -	\$ 34,534,345	\$ -	\$ -	\$ 34,534,345
In-kind contributions	-	5,135,834	5,135,834	-	-	5,135,834
Child care food program	-	-	-	1,266,708	-	1,266,708
Other grants	-	-	-	-	214,475	214,475
Total revenue	34,534,345	5,135,834	39,670,179	1,266,708	214,475	41,151,362
Expenses:						
Personnel	12,809,828	-	12,809,828	-	-	12,809,828
Fringe benefits	5,738,518	-	5,738,518	-	4,034	5,742,552
Space	2,670,465	1,290,471	3,960,936	-	4,593	3,965,529
Supplies	1,254,332	-	1,254,332	1,243,629	32,231	2,530,192
Other	723,501	191,888	915,389	23,079	19,439	957,907
Contractual	11,267,856	3,653,475	14,921,331	-	10,714	14,932,045
Equipment	3,802	-	3,802	-	-	3,802
Travel and transportation	66,044	-	66,044	-	227	66,271
Total expenses	34,534,346	5,135,834	39,670,180	1,266,708	71,238	41,008,126
Change in net assets	\$ (1)	\$ -	\$ (1)	\$ -	\$ 143,237	\$ 143,236

See the independent auditor's report

Note:

In-kind contributions of volunteer services in the amount of \$2,774,825 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, 2015</i>	Personnel	Fringe benefits	Space	Supplies	Other	Contractual	Equipment	Travel and transportation	Total
Administration expenses:									
Executive	\$ 288,142	\$ 65,949	\$ 84,735	\$ 5,674	\$ 12,192	\$ 150	\$ -	\$ -	\$ 456,842
Quality systems	505,429	165,171	53,211	19,790	15,150	-	-	-	758,751
Human resources	138,254	61,473	-	7,015	8,452	49,236	-	-	264,430
Accounting/Procurement	408,564	328,658	68,864	25,018	210,205	90,707	1,449	174	1,133,639
Administrative - miscellaneous	220,561	63,329	411,754	48,813	137,324	140,838	-	-	1,022,619
Total administration expenses	1,560,950	684,580	618,564	106,310	383,323	280,931	1,449	174	3,636,281
Program expenses:									
Facilities	247,768	123,331	249,741	6,413	28,792	-	-	2,213	658,258
Governance	113,750	29,860	-	3,381	31,323	-	-	-	178,314
Education	378,910	93,815	14,743	349,737	22,905	823,005	-	-	1,683,115
Disabilities	268,094	117,477	-	169	4,121	-	-	-	389,861
Health	190,305	70,367	1,527	17,123	9,146	-	994	-	289,462
Social services	1,416,684	623,888	-	1,215	10,493	-	-	-	2,052,280
Program services	437,280	157,557	135,713	6,665	4,328	27,854	-	8,347	777,744
Food services/nutrition	493,975	256,632	111,399	177,174	129,550	276	526	-	1,169,532
Grantee Head Start T&TA	39,817	33,225	-	-	68,213	80,295	-	-	221,550
Early Head Start	1,456,365	582,791	596,122	49,834	2,948	58,586	-	24,733	2,771,379
Total program expenses	5,042,948	2,088,943	1,109,245	611,711	311,819	990,016	1,520	35,293	10,191,495
Total centers' expenses	6,205,930	2,964,995	942,656	536,311	28,359	17,695	833	30,577	10,727,356
Grantee in-kind contributions	-	-	1,290,471	-	191,888	2,925,788	-	-	4,408,147
Total grantee	12,809,828	5,738,518	3,960,936	1,254,332	915,389	4,214,430	3,802	66,044	28,963,279
Delegate agency expenses:									
Orange Children & Parents Together	-	-	-	-	-	2,869,078	-	-	2,869,078
Anaheim City School District	-	-	-	-	-	2,114,621	-	-	2,114,621
City of La Habra	-	-	-	-	-	1,606,006	-	-	1,606,006
Santa Ana Unified School District	-	-	-	-	-	3,389,508	-	-	3,389,508
Total delegate agency expenses	-	-	-	-	-	9,979,213	-	-	9,979,213
Delegate in-kind contributions	-	-	-	-	-	727,688	-	-	727,688
Total Head Start expenses	12,809,828	5,738,518	3,960,936	1,254,332	915,389	14,921,331	3,802	66,044	39,670,180
Total CCFP expenses	-	-	-	1,243,629	23,079	-	-	-	1,266,708
Family Festival	-	-	-	73	11,013	-	-	-	11,086
Program income - Non-Federal	-	1,099	-	-	-	-	-	-	1,099
Fatherhood program	-	-	-	-	2,979	-	-	-	2,979
Miscellaneous donations	-	2,935	4,593	32,158	5,447	10,714	-	227	56,074
Total other grants	-	4,034	4,593	32,231	19,439	10,714	-	227	71,238
Total expenses	\$ 12,809,828	\$ 5,742,552	\$ 3,965,529	\$ 2,530,192	\$ 957,907	\$ 14,932,045	\$ 3,802	\$ 66,271	\$ 41,008,126

See the independent auditor's report

Note:

In-kind contributions of volunteer services in the amount of \$2,774,825 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 - CONTINUED

<i>For the year ended June 30, 2015</i>	Personnel	Fringe benefits	Space	Supplies	Other	Contractual	Equipment	Travel and transportation	Total
Expenses by Center:									
Head Start:									
HS Home Base North	\$ 55,175	\$ 39,080	\$ -	\$ 14,045	\$ -	\$ -	\$ -	\$ 5,241	\$ 113,541
HS Home Base South	93,622	35,828	325	7,329	776	-	-	2,208	140,088
Placentia	371,365	175,488	66,393	20,642	1,030	-	317	673	635,908
Capo	267,859	126,118	37,797	18,392	726	5,245	516	1,223	457,876
D.L. Wood	383,710	176,873	53,844	25,996	1,040	-	-	1,800	643,263
Fullerton	346,345	179,838	74,975	30,491	973	-	-	2,314	634,936
Delhi	254,719	127,970	81,221	30,176	1,054	-	-	354	495,494
Ruby Drive	299,387	149,734	1,176	19,656	924	-	-	1,048	471,925
Buena Park	313,005	142,029	29,187	33,324	554	-	-	1,121	519,220
Baden Powell	376,407	166,593	13,954	32,163	1,417	-	-	954	591,488
Walter	275,485	129,232	43,007	27,817	1,664	-	-	1,045	478,250
Jean Hardy	362,279	170,197	19,408	16,964	4,508	-	-	740	574,096
Evelyne Lobo Villegas	198,018	86,792	67,816	12,346	589	-	-	1,825	367,386
Centralia	394,157	183,629	53,983	31,379	1,682	-	-	2,004	666,834
Matt Kline	364,582	182,461	31,991	27,501	1,773	-	-	681	608,989
KIDS	321,002	142,123	100,951	19,396	1,322	-	-	769	585,563
Glenn L. Martin	264,270	137,341	14,159	37,118	1,223	-	-	574	454,685
Schweitzer	269,633	131,710	13,590	26,317	3,424	-	-	1,180	445,854
Topaz	379,359	179,861	4,121	17,703	1,032	-	-	988	583,064
Midway	1,937	9,011	180	-	-	-	-	-	11,128
Stanton	260,090	123,528	65,365	16,809	868	-	-	1,698	468,358
Hope Center	287,452	143,256	47,822	18,826	616	-	-	1,178	499,150
Andrews	-	-	38,623	-	90	-	-	-	38,713
4th St. Center	36,955	15,040	21,076	22,763	621	1,400	-	483	98,338
Crescent	29,117	11,263	61,692	29,158	453	11,050	-	476	143,209
Total	\$ 6,205,930	\$ 2,964,995	\$ 942,656	\$ 536,311	\$ 28,359	\$ 17,695	\$ 833	\$ 30,577	\$ 10,727,356

See the independent auditor's report

ORANGE COUNTY HEAD START, INC.

SUPPLEMENTAL SCHEDULE OF EXPENSES BY HEAD START CENTERS - CONTINUED

<i>For the year ended June 30, 2015</i>	Personnel	Fringe benefits	Space	Supplies	Other	Contractual	Equipment	Travel and transportation	Total
Expenses by Center:									
Early Head Start:									
EHS-Allocations (delegates included)	371,328	93,867	499,918	5,816	563	40,694	-	-	1,012,186
EHS Home Base North	200,073	76,237	-	964	44	-	-	8,050	285,368
EHS Home Base Souht	228,297	110,325	-	238	468	6,960	-	16,473	362,761
Buena Park EHS	207,922	89,145	46,812	21,404	1,428	-	-	184	366,895
Topaz EHS	239,867	120,600	3,098	15,800	-	-	-	26	379,391
KIDS EHS	208,878	92,617	46,294	5,612	445	10,932	-	-	364,778
Total	\$ 1,456,365	\$ 582,791	\$ 596,122	\$ 49,834	\$ 2,948	\$ 58,586	\$ -	\$ 24,733	\$ 2,771,379

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, 2015</i>	Budget	Actual	Actual over (under) budget
Expenses:			
Personnel	\$ 12,998,913	\$ 12,809,828	\$ (189,085)
Fringe benefits	5,911,557	5,738,518	(173,039)
Space	2,665,412	2,670,465	5,053
Supplies	1,111,424	1,254,332	142,908
Other	708,707	723,501	14,794
Contractual	11,071,157	11,267,855	196,698
Travel and transportation	67,175	66,044	(1,131)
Equipment	-	3,802	3,802
Total	34,534,345	34,534,345	-
In-kind match-Head Start	6,863,981	7,718,771	854,790
Total expenses	\$ 41,398,326	\$ 42,253,116	\$ 854,790

See the independent auditor's report

Note:

In-kind contributions include contributions in the amount of \$2,774,825 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, 2014 through June 30, 2015</i>											
Month	Breakfast	Rate	Total	Lunch	Rate	Total	Snacks	Rate	Total	Total Federal	Total Meals
JULY 2014	670	1.62	\$ 1,085	721	2.98	\$ 2,149	594	0.82	487	3,721	1,985
AUGUST 2014	479	1.62	776	548	2.98	1,633	439	0.82	360	2,769	1,466
SEPTEMBER 2014	12,579	1.62	20,378	20,322	2.98	60,560	9,555	0.82	7,835	88,773	42,456
OCTOBER 2014	21,465	1.62	34,773	36,624	2.98	109,140	18,623	0.82	15,271	159,184	76,712
NOVEMBER 2014	14,106	1.62	22,852	25,040	2.98	74,619	13,083	0.82	10,728	108,199	52,229
DECEMBER 2014	13,151	1.62	21,305	23,264	2.98	69,327	12,135	0.82	9,951	100,583	48,550
JANUARY 2015	16,594	1.62	26,882	29,303	2.98	87,323	15,384	0.82	12,615	126,820	61,281
FEBRUARY 2015	17,101	1.62	27,704	30,131	2.98	89,790	15,676	0.82	12,854	130,348	62,908
MARCH 2015	19,998	1.62	32,397	35,499	2.98	105,787	18,700	0.82	15,334	153,518	74,197
APRIL 2015	15,309	1.62	24,801	27,393	2.98	81,631	14,283	0.82	11,712	118,144	56,985
MAY 2015	18,128	1.62	29,367	32,591	2.98	97,121	17,023	0.82	13,959	140,447	67,742
JUNE 2015	8,841	1.62	14,322	14,957	2.98	44,572	8,416	0.82	6,901	65,795	32,214
Total Center meals	158,421			276,393			143,911				578,725
Total federal			\$ 256,642			\$ 823,652			\$ 118,007	\$ 1,198,301	

Federal Reimbursement **\$ 1,198,301**

Cash-in-lieu of Commodities **0.2475 276,393 68,407**

Total Federal Reimbursement: \$ 1,266,708

See the independent auditor's report

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

<i>For the year ended June 30, 2015</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	09CH915501	\$ 35,381,344	\$ 34,534,345	\$ 34,534,345
<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	1,266,708	1,266,708
Total Federal Awards				\$ 35,801,053	\$ 35,801,053
Amount Provided to Sub-recipients:					
<u>U.S. Department of Health and Human Services:</u>					
Orange Children & Parents Together (OCPT)	93.600	09CH915501	N/A	\$ 2,869,078	\$ 2,869,078
Anaheim City School District	93.600	09CH915501	N/A	2,114,621	2,114,621
City of La Habra	93.600	09CH915501	N/A	1,606,006	1,606,006
Santa Ana Unified School District	93.600	09CH915501	N/A	3,389,508	3,389,508
Total				\$ 9,979,213	\$ 9,979,213

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, 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	09CH0007/31	N/A	\$ 2,832,539	\$ 2,832,539
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	1,569,477	1,569,477
Santa Ana Unified School District	93.600	09CH0007/31	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.

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, 2015 and 2014, 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 December 15, 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 the 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.

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.

Rossi LLP

December 15, 2015
Long Beach, California

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.
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 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, 2015 and 2014. 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, 2015 and 2014.

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.

Rossi LLP

December 15, 2015
Long Beach, California

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

As of and for the year ended June 30, 2015

SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

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 Reported

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

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	\$ 34,534,345
Dollar threshold used to distinguish between Type A and Type B programs		\$ 1,074,032

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, 2014

SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

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

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	\$ 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.
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

As of and for the years ended June 30, 2015 and 2014

There were no prior years audit findings or recommendations.