

**ORANGE COUNTY HEAD START, INC.**

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**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

June 30, 2020 and 2019



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

# ORANGE COUNTY HEAD START, INC.

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## 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, 2020, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

### 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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

**Other Matters**

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedules of activities by grant, of expenses by category, of expenses by Head Start Centers, of expenses compared to budget, and of reported meals and earned reimbursement are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, 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 March 12, 2021, 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.

***Prior Period Financial Statements***

The financial statements of Orange County Head Start, Inc. as of and for the year ended June 30, 2019, were audited by Rossi LLP, who merged with BPM LLP effective as of November 1, 2020. Rossi LLP's report dated February 3, 2020, expressed an unmodified opinion on those statements.



Long Beach, California  
March 12, 2021

# ORANGE COUNTY HEAD START, INC.

## STATEMENTS OF FINANCIAL POSITION

As of June 30, 2020 and 2019

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	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,385,413	\$ 1,619,684
Grants receivable	1,524,903	2,725,491
Other receivables	5,996	103,207
Prepaid expenses	<u>1,000</u>	<u>-</u>
Total current assets	3,917,312	4,448,382
Property and equipment, net of accumulated depreciation	61,163	91,745
Deposits	<u>61,997</u>	<u>61,872</u>
Total assets	<u>\$ 4,040,472</u>	<u>\$ 4,601,999</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 941,525	\$ 562,482
Accrued expenses - other	947,190	2,065,171
Accrued vacation	591,984	395,902
Advances - other grants	100,033	89,445
Deferred rent	<u>124,607</u>	<u>21,295</u>
Total current liabilities	<u>2,705,339</u>	<u>3,134,295</u>
Commitments and contingencies		
Net assets:		
Without donor restrictions	<u>1,335,133</u>	<u>1,467,704</u>
Total net assets	<u>1,335,133</u>	<u>1,467,704</u>
Total liabilities and net assets	<u>\$ 4,040,472</u>	<u>\$ 4,601,999</u>

# ORANGE COUNTY HEAD START, INC.

## STATEMENTS OF ACTIVITIES

For the years ended June 30, 2020 and 2019

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	<u>2020</u>	<u>2019</u>
Public support and revenue:		
Head Start grants	\$ 37,802,170	\$ 38,898,036
In-kind contributions	3,755,431	5,411,340
Child care food program	1,006,106	1,284,708
Other grants	<u>8,163</u>	<u>166,724</u>
 Total public support and revenue without donor restrictions	 <u>42,571,870</u>	 <u>45,760,808</u>
 Expenses:		
Program services:		
Head Start	37,342,418	40,986,112
Child care food program	1,006,106	1,284,708
Supporting services:		
Management and general	<u>4,355,917</u>	<u>3,465,678</u>
 Total expenses	 <u>42,704,441</u>	 <u>45,736,498</u>
 (Decrease) increase in net assets without donor restrictions	 (132,571)	 24,310
 Net assets, beginning of year	 <u>1,467,704</u>	 <u>1,443,394</u>
 Net assets, end of year	 <u>\$ 1,335,133</u>	 <u>\$ 1,467,704</u>

# ORANGE COUNTY HEAD START, INC.

## STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended June 30, 2020 and 2019

	2020					2019				
	Program Services			Supporting Services		Program Services			Supporting Services	
	Child Care			Management and General	Total Expenses	Child Care			Management and General	Total Expenses
	Head Start	Food Program	Subtotal			Head Start	Food Program	Subtotal		
Salaries and wages	\$ 18,240,698	\$ 25,624	\$ 18,266,322	\$ 1,896,997	\$ 20,163,319	\$ 14,702,675	\$ 44,183	\$ 14,746,858	\$ 1,647,799	\$ 16,394,657
Contractual	8,349,349	-	8,349,349	124,538	8,473,887	15,866,995	-	15,866,995	370,643	16,237,638
Fringe benefits	5,782,198	1,941	5,784,139	984,094	6,768,233	5,273,629	18,432	5,292,061	535,327	5,827,388
Other	3,636,653	-	3,636,653	1,242,006	4,878,659	4,254,631	-	4,254,631	748,776	5,003,407
Supplies	1,333,520	978,541	2,312,061	108,282	2,420,343	888,182	1,222,093	2,110,275	163,133	2,273,408
Total expenses	\$ 37,342,418	\$ 1,006,106	\$ 38,348,524	\$ 4,355,917	\$ 42,704,441	\$ 40,986,112	\$ 1,284,708	\$ 42,270,820	\$ 3,465,678	\$ 45,736,498

# ORANGE COUNTY HEAD START, INC.

## STATEMENTS OF CASH FLOWS

For the years ended June 30, 2020 and 2019

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	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ (132,571)	\$ 24,310
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	30,582	30,582
(Increase) decrease in assets:		
Grants receivable	1,200,588	950,873
Other receivables	97,211	(102,960)
Prepaid expenses	(1,000)	-
Deposit	(125)	-
Increase (decrease) in liabilities:		
Accounts payable	379,043	(83,566)
Accrued expenses - other	(1,117,981)	135,040
Accrued vacation	196,082	34,320
Advances - other grants	10,588	5
Deferred rent	<u>103,312</u>	<u>(11,078)</u>
Net cash provided by operating activities	<u>765,729</u>	<u>977,526</u>
Net increase in cash and cash equivalents	765,729	977,526
Cash and cash equivalents, beginning of year	<u>1,619,684</u>	<u>642,158</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,385,413</u></u>	<u><u>\$ 1,619,684</u></u>



# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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### 1. Organization and Purpose

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

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

#### *Program Services*

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

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

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

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

### 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, 2020 through March 12, 2021, the date the financial statements were available for issuance, for subsequent events requiring recognition and/or disclosure in the accompanying financial statements.

# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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### 2. Summary of Significant Accounting Policies, continued

#### ***Basis of Presentation***

In accordance with Accounting Standards Codification (“ASC”) 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*, the Organization’s net assets, revenues, gains, expenses and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and change therein are classified and reported as follows:

**Net assets without donor restrictions:** Net assets available for use at the discretion of the Board of Directors (the “Board”) and/or management for general operations and not subject to donor restrictions.

**Net assets with donor restrictions:** Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, or when the stipulated purpose for which the resource was restricted has been accomplished, or both.

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

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

#### ***Accounting for Grant Revenue***

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

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

#### ***Fair Value of Financial Instruments***

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

# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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### 2. Summary of Significant Accounting Policies, continued

#### *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, 2020 and 2019 were \$6,536,163 and \$6,878,306, respectively.

OCHS follows Title 2 in the Code of Federal Regulations (“CFR”), Appendix B Chapter 11 to Part 230, *Selected Items of Cost*. Under this provision, the computation of use allowances for depreciation will exclude: (a) the cost of land; (b) any portion of the cost of buildings and equipment borne by or donated by the Federal Government irrespective of where title was originally vested or where it presently resides; and (c) any portion of the cost of buildings and equipment contributed by or for the nonprofit organization in satisfaction of a statutory matching requirement. OCHS uses funds received from the Federal Government to purchase the assets as it believes the recognition of use allowances or depreciation is not applicable. For the years ended June 30, 2020 and 2019, the property and equipment acquired through Federal grant resources use allowance recognized was \$0.

OCHS reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of its property and equipment may not be recoverable. An impairment loss is recognized when the assets’ carrying value exceeds both the assets’ estimated undiscounted future cash flows and the assets’ estimated fair value. Measurement of any impairment loss is then based on the estimated fair value of the assets. Considerable judgment is required to project such future cash flows and, if required, to estimate the fair value of the property and equipment and the resulting amount of the impairment. For the years ended June 30, 2020 and 2019, the impairment charges recognized on property and equipment, acquired through Federal grant resources, was \$680,224 and \$150,065, respectively.

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

# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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### 2. Summary of Significant Accounting Policies, continued

#### *Property and Equipment*, continued

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, 2020 and 2019.

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

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

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

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) a pandemic which remains a global concern. Governments, both locally and nationally, have instituted varying levels of actions to contain the virus’s spread. OCHS implemented a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for employees and participants. OCHS will continue to follow the federal, state and local government policies and advice. There is significant uncertainty around the breath and duration of business disruptions related to COVID-19, as well as its impact on the US and international economies and, as such, OCHS is unable to estimate the impact the pandemic may have on the accompanying financial statements.

#### *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.

# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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### 2. Summary of Significant Accounting Policies, continued

#### *Donated Services*

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

#### *Functional Allocation of Expenses*

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

#### *Income Taxes*

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

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

#### *Risk Concentration*

For the years ended June 30, 2020 and 2019, approximately 89% and 85%, respectively, of the funding for OCHS comes from the U.S. Department of Health and Human Services (“DHHS”). At June 30, 2020 and 2019, amounts due from DHHS in grants receivable were \$1,524,903 and \$2,491,429, respectively, which accounted for 100% and 91%, respectively, of total grants receivable.

In addition, amounts due from the State of California for the child care food program were \$0 and \$234,062 as of June 30, 2020 and 2019, respectively, which accounted for 0% and 9%, respectively, of total grants receivable.

# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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### 2. Summary of Significant Accounting Policies, continued

#### *Financial Instruments and Credit Risk Concentration*

Financial instruments that potentially subject the Organization to a concentration of credit risk are primarily cash and cash equivalents and grants receivable. OCHS maintains its cash balances in the form of bank demand deposits and money market accounts with major financial institutions that management has determined to be credit worthy. At various times during the years ended June 30, 2020 and 2019, the Organization maintained cash balances in excess of federally-insured limits.

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

OCHS maintains a separate bank account for the State Child Care Food Program.

#### *New Accounting Standards Not Yet Adopted*

##### **Accounting for Leases**

In February 2016, FASB issued Accounting Standards Update (“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 cash flows 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 was set to take effect for fiscal years beginning after December 15, 2020 with early adoption permitted but with the issuance of ASU 2020-05 in June 2020, FASB deferred the required adoption of ASU 2016-02 for one year, to be effective for annual reporting periods beginning after December 15, 2021. OCHS is currently evaluating the impact of the pending adoption of ASU 2016-02 on its financial statements.

##### **Revenue from Contracts with Customers**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods for services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In June 2020, the FASB issued ASU 2020-05 that deferred the effective date for OCHS until annual periods beginning after December 15, 2019. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. OCHS is currently evaluating the effect the provisions of this ASU will have on the financial statements.

# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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### 3. Liquidity and Availability of Financial Assets

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed purpose restrictions within one year of the balance sheet date. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet dates, are comprised of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 2,385,413	\$ 1,619,684
Grants receivable	1,524,903	2,725,491
Other receivable	<u>5,996</u>	<u>103,207</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,916,312</u>	<u>\$ 4,448,382</u>

At June 30, 2020 and 2019, the Organization had \$3,916,312 and \$4,448,382, respectively, of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures.

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

### 4. Grants Receivable

The balance of grants receivable represents amounts due from the following funding sources as of June 30:

	<u>2020</u>	<u>2019</u>
Head Start	\$ 1,524,903	\$ 2,491,429
Child Care Program	<u>-</u>	<u>234,062</u>
Total grants receivable	<u>\$ 1,524,903</u>	<u>\$ 2,725,491</u>

OCHS has not accrued an allowance for uncollectible receivables as of June 30, 2020 and 2019, since it is the opinion of management that it is highly probable that all receivables will be collected within one year. 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.

# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

### 5. Property and Equipment

Property and equipment consists of leasehold improvements as follows as of June 30:

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 152,909	\$ 152,909
Less: accumulated depreciation	<u>(91,746)</u>	<u>(61,164)</u>
Property and equipment, net	<u>\$ 61,163</u>	<u>\$ 91,745</u>

Depreciation expense was \$30,582 for the years ended June 30, 2020 and 2019, respectively.

### 6. Restrictions on Net Assets

From time to time, OCHS may receive contributions subject to donor restrictions. Those contributions received with restrictions are released from restrictions when expenses are incurred, the purpose has been fulfilled, or through passage of time. At June 30, 2020 and 2019, there were no net assets subject to donor restrictions.

### 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 \$3,755,431 and \$5,411,340 for the years ended June 30, 2020 and 2019, respectively.

In addition, donated parent and volunteer services with an estimated value of \$1,553,351 and \$2,699,898 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Contractual	\$ 2,559,101	\$ 3,897,127
Others	1,171,658	1,510,878
Supplies	<u>24,672</u>	<u>3,335</u>
Total reported on schedule of activities by grant (page 16)	3,755,431	5,411,340
Additional in-kind contributions that meet federal guidelines	<u>1,553,351</u>	<u>2,699,898</u>
Total in-kind contributions reported on Head Start schedule of expenses compared to budget (page 20)	<u>\$ 5,308,782</u>	<u>\$ 8,111,238</u>



# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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### 8. Employee Retirement Plans

Qualified administrative employees and employees of the sites operated by OCHS are covered under a retirement plan whereby OCHS contributes an amount up to 7 percent of gross salaries of OCHS staff members into a tax-sheltered annuity program. For the years ended June 30, 2020 and 2019, OCHS's retirement contributions totaled \$1,263,451 and \$1,057,062, 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.

### 9. Commitments

#### *Leases*

In October 2019, OCHS leases its main headquarters in Santa Ana, California, under a seven-year non-cancellable operating lease agreement which expires on August 30, 2027. OCHS has entered into several leases for classrooms and office space. The terms of the leases vary and are concurrent with the fiscal year. Total rent expense incurred on these leases was \$1,453,264 and \$1,279,471 for the years ended June 30, 2020 and 2019, respectively. In addition, OCHS received a total of \$1,171,578 and \$1,214,231 of in-kind rent for the years ended June 30, 2020 and 2019, respectively.

OCHS also leases certain office equipment under leases classified as operating leases. For the years ended June 30, 2020 and 2019, OCHS incurred \$106,577 and \$89,120, respectively, in office equipment rent expense.

Total rent expense incurred was \$2,731,419 and \$2,582,822 for the years ended June 30, 2020 and 2019, respectively.

Future non-cancelable minimum lease payments required under noncancelable operating leases having initial or remaining non-cancelable lease terms in excess of one year at June 30, 2020 are as follows:

	<u>Total</u>
For the year ending June 30:	
2021	\$ 1,405,977
2022	1,211,094
2023	1,177,220
2024	1,163,192
2025	976,853
Thereafter	<u>2,126,203</u>
	<u>\$ 8,060,539</u>

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, which has an out clause prior to the end of the grant period, which is five (5) years.

## **SUPPLEMENTARY INFORMATION**

**ORANGE COUNTY HEAD START, INC.**  
**SUPPLEMENTAL SCHEDULE OF ACTIVITIES BY GRANT**  
For the year ended June 30, 2020

	Head Start			CACFP	Others	Total
	Head Start	In-Kind	Total			
Revenue:						
Head Start grant	\$ 37,802,170	\$ -	\$ 37,802,170	\$ -	\$ -	\$ 37,802,170
In-kind contributions	-	3,755,431	3,755,431	-	-	3,755,431
Child care food program	-	-	-	1,006,106	-	1,006,106
Other grants	-	-	-	-	8,163	8,163
<b>Total revenue</b>	<b>37,802,170</b>	<b>3,755,431</b>	<b>41,557,601</b>	<b>1,006,106</b>	<b>8,163</b>	<b>42,571,870</b>
Expenses:						
Personnel	20,137,695	-	20,137,695	25,624	-	20,163,319
Contractual	5,910,171	2,559,101	8,469,272	-	4,615	8,473,887
Fringe benefits	6,765,879	-	6,765,879	1,941	413	6,768,233
Other	3,573,581	1,171,658	4,745,239	-	133,420	4,878,659
Supplies	1,414,844	24,672	1,439,516	978,541	2,286	2,420,343
<b>Total expenses</b>	<b>37,802,170</b>	<b>3,755,431</b>	<b>41,557,601</b>	<b>1,006,106</b>	<b>140,734</b>	<b>42,704,441</b>
Change in net assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (132,571)</u>	<u>\$ (132,571)</u>

**Note:**

In-kind contributions of volunteer services in the amount of \$1,553,351 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**  
For the year ended June 30, 2020

	Personnel	Contractual	Fringe Benefits	Other	Supplies	Total
Administration expenses:						
Executive	\$ 237,559	\$ -	\$ 56,738	\$ 64,856	\$ 7,174	\$ 366,327
Quality systems	799,499	-	181,562	91,023	4,652	1,076,736
Human resources	220,473	22,825	84,563	90,336	14,122	432,319
Accounting/procurement	437,161	93,747	596,288	253,295	19,713	1,400,204
Administrative - miscellaneous	202,305	3,351	64,530	609,076	60,335	939,597
Total administration expenses	<u>1,896,997</u>	<u>119,923</u>	<u>983,681</u>	<u>1,108,586</u>	<u>105,996</u>	<u>4,215,183</u>
Program expenses:						
Facilities	101,587	-	47,719	131,775	3,893	284,974
Governance	42,221	-	14,814	13,653	776	71,464
Education	409,909	48,384	119,876	163,633	350,182	1,091,984
Disabilities	283,110	240	91,662	2,728	310	378,050
Health	421,401	-	156,045	5,023	632	583,101
Social services	1,690,648	-	526,409	4,729	2,824	2,224,610
Program services	549,134	-	168,234	184,389	26,765	928,522
Food services/nutrition	887,690	-	318,888	43,751	262,956	1,513,285
Grantee Head Start T&TA	64,661	45,286	123,201	17,386	1,025	251,559
Early Head Start	6,616,270	450,023	1,827,022	776,673	281,930	9,951,918
Total program expenses	<u>11,066,631</u>	<u>543,933</u>	<u>3,393,870</u>	<u>1,343,740</u>	<u>931,293</u>	<u>17,279,467</u>
Total centers' expenses	7,174,067	928,352	2,388,328	1,121,255	377,555	11,989,557
Grantee in-kind contributions	-	2,559,101	-	1,158,158	24,672	3,741,931
Total grantee	<u>18,240,698</u>	<u>4,031,386</u>	<u>5,782,198</u>	<u>3,623,153</u>	<u>1,333,520</u>	<u>33,010,955</u>
Delegate agency expenses:						
City of La Habra	-	430,552	-	-	-	430,552
Santa Ana Unified School District	-	3,887,411	-	-	-	3,887,411
Total delegate agency expenses	<u>-</u>	<u>4,317,963</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,317,963</u>
Delegate in-kind contributions	-	-	-	13,500	-	13,500
Total Head Start expenses	<u>18,240,698</u>	<u>8,349,349</u>	<u>5,782,198</u>	<u>3,636,653</u>	<u>1,333,520</u>	<u>37,342,418</u>
Total CACFP expenses	<u>25,624</u>	<u>-</u>	<u>1,941</u>	<u>-</u>	<u>978,541</u>	<u>1,006,106</u>
Open House	-	-	-	579	-	579
Miscellaneous donations	-	4,615	413	132,841	2,286	140,155
Total other grants	<u>-</u>	<u>4,615</u>	<u>413</u>	<u>133,420</u>	<u>2,286</u>	<u>140,734</u>
Total program expenses	<u>18,266,322</u>	<u>8,353,964</u>	<u>5,784,552</u>	<u>3,770,073</u>	<u>2,314,347</u>	<u>38,489,258</u>
Total expenses	<u>\$ 20,163,319</u>	<u>\$ 8,473,887</u>	<u>\$ 6,768,233</u>	<u>\$ 4,878,659</u>	<u>\$ 2,420,343</u>	<u>\$ 42,704,441</u>

**Note:**

In-kind contributions of volunteer services in the amount of \$1,553,351 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

For the year ended June 30, 2020

	<u>Personnel</u>	<u>Contractual</u>	<u>Fringe Benefits</u>	<u>Other</u>	<u>Supplies</u>	<u>Total</u>
Expenses by Center:						
Head Start:						
HS Home Base North	\$ 40,842	\$ -	\$ 27,072	\$ 192	\$ 1,678	\$ 69,784
HS Home Base South	52,039	-	17,159	321	1,098	70,617
HS Home Base East	70,169	-	18,785	217	447	89,618
Placentia	383,712	195	118,642	90,167	9,729	602,445
Capo	248,240	102,580	77,272	36,087	17,590	481,769
D. L. Wood	319,876	43,107	156,327	72,243	8,230	599,783
Fullerton	262,263	4,615	90,293	65,806	10,443	433,420
Delhi	305,318	65,799	99,561	95,956	4,239	570,873
Buena Park	242,209	34,396	130,179	33,249	7,149	447,182
Baden Powell	289,636	33,851	118,619	26,684	13,083	481,873
Walter	226,409	31,737	100,629	27,676	9,264	395,715
Pleasant View	296,311	31,464	120,381	26,642	14,916	489,714
Evelyne Lobo Villegas	105,235	43,988	46,275	51,247	5,119	251,864
Centralia	362,115	49,849	139,051	53,048	16,012	620,075
Matt Kline	359,054	58,077	141,684	31,080	13,357	603,252
KIDS	245,138	59,590	101,100	86,888	7,855	500,571
Glenn L. Martin	289,748	44,692	101,681	16,065	10,258	462,444
Schweitzer	212,965	51,538	76,655	18,112	9,350	368,620
Topaz	249,656	107,586	92,168	21,951	14,385	485,746
Stanton	369,947	1,257	133,671	94,578	9,301	608,754
Hope Center	230,696	19,325	81,072	56,024	8,013	395,130
Andrews	134,954	21,947	43,412	40,431	13,112	253,856
Franklin	241,668	15,856	77,940	26,176	10,717	372,357
Carver	145,810	13,783	27,051	95	2,186	188,925
Lambert-La Habra	354,795	33,123	89,433	35,086	10,353	522,790
Covid	1,261	-	96	3,057	101,054	105,468
California	103,962	11,771	17,205	13,431	6,637	153,006
Central	284,506	14,287	45,805	33,662	7,268	385,528
Handy	188,591	4,951	35,543	15,317	5,097	249,499
Hewes	201,093	15,079	32,288	30,121	22,344	300,925
Taft	188,902	1,003	21,152	9,831	2,228	223,116
West Orange	166,947	12,906	10,127	9,815	5,043	204,838
<b>Total</b>	<b>\$ 7,174,067</b>	<b>\$ 928,352</b>	<b>\$ 2,388,328</b>	<b>\$ 1,121,255</b>	<b>\$ 377,555</b>	<b>\$ 11,989,557</b>

## ORANGE COUNTY HEAD START, INC.

### SUPPLEMENTAL SCHEDULE OF EXPENSES BY HEAD START CENTERS, Continued

For the year ended June 30, 2020

	Personnel	Contractual	Fringe Benefits	Other	Supplies	Total
Expenses by Center:						
Early Head Start:						
EHS-Allocations	\$ 863,614	\$ 142,482	\$ 112,618	\$ 279,817	\$ 181,116	\$ 1,579,647
Home Base North EHS	333,389	-	115,898	9,653	1,400	460,340
Home Base South EHS	338,629	-	98,073	12,234	411	449,347
Home Base East EHS	160,280	-	23,855	8,366	1,394	193,895
Home Base West EHS	334,668	-	91,581	10,210	2,375	438,834
Buena Park EHS	431,932	9,744	114,255	55,708	8,435	620,074
Topaz EHS	500,580	13,040	167,257	18,577	12,437	711,891
KIDS EHS	487,892	40,005	177,090	74,493	6,552	786,032
Baden Powell EHS	140,463	-	35,757	2,597	-	178,817
Franklin EHS	141,143	11,591	45,506	4,668	2,097	205,005
Centralia EHS	83,448	-	16,047	6,527	493	106,515
Fullerton EHS	226,813	10,213	46,626	23,920	-	307,572
Andrews EHS	251,094	20,996	72,793	31,810	4	376,697
Crescent EHS	495,539	53,767	197,186	109,577	18,909	874,978
4th Street EHS	264,936	59,188	97,407	46,427	9,994	477,952
Evelyne Lobo Villegas EHS	137,860	13,942	15,998	20,445	-	188,245
Ruby Drive EHS	407,293	71,985	119,455	21,865	12,618	633,216
Matt Kline EHS	292,288	-	103,352	7,868	21	403,529
Pleasant View EHS	228,144	3,070	65,765	9,247	101	306,327
Schweitzer EHS	129,334	-	32,732	3,052	-	165,118
Placentia EHS	86,288	-	19,599	9,217	-	115,104
Walter EHS	143,423	-	32,667	5,045	-	181,135
Lambert-La Habra EHS	137,220	-	25,505	5,208	1,918	169,851
Covid E	-	-	-	142	21,655	21,797
<b>Total</b>	<b>\$ 6,616,270</b>	<b>\$ 450,023</b>	<b>\$ 1,827,022</b>	<b>\$ 776,673</b>	<b>\$ 281,930</b>	<b>\$ 9,951,918</b>

**ORANGE COUNTY HEAD START, INC.**  
**SUPPLEMENTAL SCHEDULE OF EXPENSES COMPARED TO BUDGET**  
For the year ended June 30, 2020

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	Budget	Actual	Actual Over (Under) Budget
Expenses:			
Personnel	\$ 20,133,661	\$ 20,137,695	\$ 4,034
Contractual	5,780,613	5,910,171	129,558
Fringe benefits	6,843,772	6,765,879	(77,893)
Other	3,629,264	3,573,581	(55,683)
Supplies	1,414,860	1,414,844	(16)
Total expenses	\$ 37,802,170	\$ 37,802,170	\$ -

**Note:**

In-kind contributions of volunteer services in the amount of \$1,553,351 were not recorded in the financial statements because they did not meet the criteria for recognition under FASB ASC 958 but met federal guidelines of in-kinds contributions.

**ORANGE COUNTY HEAD START, INC.**

**SUPPLEMENTAL SCHEDULE OF REPORTED MEALS AND EARNED REIMBURSEMENT**

For the period July 1, 2019 through June 30, 2020

Month	Breakfast	Rate	Total	Lunch	Rate	Total	Snacks	Rate	Total	Total Federal	Total Meals
July 2019	4,329	\$ 1.84	\$ 7,965	4,973	\$ 3.41	\$ 16,958	4,116	\$ 0.94	\$ 3,869	\$ 28,792	13,418
August 2019	2,543	1.84	4,679	2,904	3.41	9,903	2,426	0.94	2,280	16,862	7,873
September 2019	17,305	1.84	31,841	22,471	3.41	76,626	14,737	0.94	13,853	122,320	54,513
October 2019	23,563	1.84	43,356	31,150	3.41	106,222	20,461	0.94	19,233	168,811	75,174
November 2019	17,584	1.84	32,355	23,231	3.41	79,218	15,139	0.94	14,231	125,803	55,954
December 2019	16,550	1.84	30,452	22,363	3.41	76,258	14,553	0.94	13,680	120,390	53,466
January 2020	20,981	1.84	38,605	28,783	3.41	98,150	18,702	0.94	17,580	154,335	68,466
February 2020	20,072	1.84	36,932	27,595	3.41	94,099	18,183	0.94	17,092	148,123	65,850
March 2020	10,547	1.84	19,406	14,668	3.41	50,018	9,508	0.94	8,938	78,362	34,723
April 2020	-	1.84	-	-	3.41	-	-	0.94	-	-	-
May 2020	-	1.84	-	-	3.41	-	-	0.94	-	-	-
June 2020	-	1.84	-	-	3.41	-	-	0.94	-	-	-
Total Center meals	<u>133,474</u>			<u>178,138</u>			<u>117,825</u>				<u>429,437</u>
Total Federal			<u>\$ 245,592</u>			<u>\$ 607,451</u>			<u>\$ 110,756</u>	<u>\$ 963,798</u>	
Federal reimbursement										\$ 963,798	
Cash-in-lieu of commodities (lunch and supper meals)							0.2375		178,138	<u>42,308</u>	
										<u>\$ 1,006,106</u>	



**ORANGE COUNTY HEAD START, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2020

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number	Grant Amount	Revenue Recognized	Total Federal Expenditures
<b><u>Department of Health and Human Services</u></b>					
Head Start	93.600	09CH01114601	\$ 39,954,065	\$ 37,802,170	\$ 37,802,170
Total Head Start Cluster			<u>\$ 39,954,065</u>	37,802,170	37,802,170
<b><u>Department of Agriculture</u></b>					
Pass-through from State of California					
<b><u>Department of Education</u></b>					
Child Care Food Program	10.558	30-1453-OJ	N/A	1,006,106	1,006,106
Total expenditures of federal awards				<u>\$ 38,808,276</u>	<u>\$ 38,808,276</u>
<b>Passed through to Sub-recipients:</b>					
<b><u>Department of Health and Human Services</u></b>					
Santa Ana Unified School District	93.600	09CH01114601	N/A	\$ 3,887,411	\$ 3,887,411
City of La Habra	93.600	09CH01114601	N/A	430,552	430,552
Total				<u>\$ 4,317,963</u>	<u>\$ 4,317,963</u>

# ORANGE COUNTY HEAD START, INC.

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2020

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### 1. 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, 2020. 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.

### 2. 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.

### 3. Indirect Cost Rate

OCHS has elected not to 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” or the “Organization”) (a nonprofit California Corporation), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 12, 2021.

### **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”) as a basis for designing 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 the 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.

### **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 financial statement. 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*.

Board of Directors  
Orange County Head Start, Inc.

### **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.

*BPM LLP*

Long Beach, California  
March 12, 2021

## 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, 2020. 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, 2020.

### 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.

*BPM LLP*

Long Beach, California  
March 12, 2021

**ORANGE COUNTY HEAD START, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
June 30, 2020

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**Section I: Summary of Audit Results**

***Financial Statements***

- |  |               |
|--|---------------|
| 1. Type of independent auditor's report issued:              | Unmodified    |
| 2. Internal control over financial reporting:                |               |
| • Material weaknesses identified?                            | No            |
| • Significant deficiencies identified?                       | None reported |
| 3. Noncompliance material to the financial statements noted? | No            |

***Federal Awards***

- |   |               |
|---|---------------|
| 4. Internal control over major programs:  |               |
| • Material weaknesses identified?   | No            |
| • Significant deficiencies identified?  | None reported |
| 5. Type of auditor's report issued on compliance for major programs:                                      | Unmodified    |
| 6. Audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? | No            |
| 7. Identification of major programs:  |               |
| Head Start  | CFDA # 93.600 |
| Child Care Food   | CFDA # 10.558 |
| 8. Dollar threshold used to distinguish between type A and type B programs:                               | \$1,164,248   |
| 9. Auditee qualified as a low risk auditee?   | Yes           |

**ORANGE COUNTY HEAD START, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued**  
June 30, 2020

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**Section II: Financial Statement Findings**

None noted.

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

None noted.

**Section IV: Status of Prior Year Findings**

None noted.