

**ORANGE COUNTY HEAD START, INC.**

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**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

June 30, 2021 and 2020



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

# ORANGE COUNTY HEAD START, INC.

## T A B L E O F C O N T E N T S

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	<b>Page(s)</b>
Independent Auditors' Report	1–2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7–16
Supplementary Information:	
Supplemental Schedule of Activities by Grant for the year ended June 30, 2021	17
Supplemental Schedule of Expenses by Category for the year ended June 30, 2021	18
Supplemental Schedule of Expenses by Head Start Centers for the year ended June 30, 2021	19–20
Supplemental Schedule of Expenses Compared to Budget for the year ended June 30, 2021	21
Supplemental Schedule of Reported Meals and Earned Reimbursement for the period July 1, 2020 through June 30, 2021	22
Schedule of Expenditures of Federal Awards for the year ended June 30, 2021	23
Notes to Schedule of Expenditures of Federal Awards for the year ended June 30, 2021	24
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25–26
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	27–28
Schedule of Findings and Questioned Costs as of and for the year ended June 30, 2021	29–30



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## INDEPENDENT AUDITORS' 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, 2021 and 2020, and the related statements of activities, functional expenses, 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.

### Auditors' 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 auditors' 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, 2021 and 2020, 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.

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 is presented for purposes of additional analysis as required by 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), 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 31, 2022, on our consideration of OCHS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OCHS's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCHS's internal control over financial reporting and compliance.



Long Beach, California  
March 31, 2022

# ORANGE COUNTY HEAD START, INC.

## STATEMENTS OF FINANCIAL POSITION

As of June 30, 2021 and 2020

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	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,951,784	\$ 2,385,413
Grants receivable	2,622,561	1,524,903
Other receivables	3,135	5,996
Prepaid expenses	<u>-</u>	<u>1,000</u>
Total current assets	4,577,480	3,917,312
Property and equipment, net of accumulated depreciation	30,581	61,163
Deposits	<u>61,997</u>	<u>61,997</u>
Total assets	<u>\$ 4,670,058</u>	<u>\$ 4,040,472</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 1,167,972	\$ 941,525
Accrued expenses - other	1,344,616	947,190
Accrued vacation	627,958	591,984
Advances - other grants	3,480	100,033
Deferred rent	<u>201,441</u>	<u>124,607</u>
Total current liabilities	<u>3,345,467</u>	<u>2,705,339</u>
Commitments (Note 9)		
Net assets:		
Without donor restrictions	<u>1,324,591</u>	<u>1,335,133</u>
Total net assets	<u>1,324,591</u>	<u>1,335,133</u>
Total liabilities and net assets	<u>\$ 4,670,058</u>	<u>\$ 4,040,472</u>

# ORANGE COUNTY HEAD START, INC.

## STATEMENTS OF ACTIVITIES

For the years ended June 30, 2021 and 2020

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	<u>2021</u>	<u>2020</u>
Public support and revenue:		
Head Start grants	\$ 39,247,081	\$ 37,802,170
In-kind contributions	2,366,629	3,755,431
Child Care Food Program	534,317	1,006,106
Other grants	<u>166,330</u>	<u>8,163</u>
Total public support and revenue without donor restrictions	<u>42,314,357</u>	<u>42,571,870</u>
Expenses:		
Program services:		
Head Start	37,500,484	37,342,418
Child Care Food Program	<u>534,317</u>	<u>1,006,106</u>
Total program services	38,034,801	38,348,524
Supporting services:		
Management and general	<u>4,290,098</u>	<u>4,355,917</u>
Total expenses	<u>42,324,899</u>	<u>42,704,441</u>
(Decrease) increase in net assets without donor restrictions	(10,542)	(132,571)
Net assets, beginning of year	<u>1,335,133</u>	<u>1,467,704</u>
Net assets, end of year	<u>\$ 1,324,591</u>	<u>\$ 1,335,133</u>

**ORANGE COUNTY HEAD START, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
For the years ended June 30, 2021 and 2020

	2021				2020					
	Program Services		Supporting Services		Program Services		Supporting Services			
	Head Start	Child Care Food Program	Subtotal	Management and General	Total Expenses	Head Start	Child Care Food Program	Subtotal	Management and General	Total Expenses
Personnel	\$ 19,360,655	\$ 34,272	\$ 19,394,927	\$ 1,929,775	\$ 21,324,702	\$ 18,240,698	\$ 25,624	\$ 18,266,322	\$ 1,896,997	\$ 20,163,319
Contractual	6,622,521	-	6,622,521	211,132	6,833,653	8,349,349	-	8,349,349	124,538	8,473,887
Fringe benefits	6,543,525	3,072	6,546,597	375,415	6,922,012	5,782,198	1,941	5,784,139	984,094	6,768,233
Occupancy	3,094,252	-	3,094,252	1,456,118	4,550,370	3,149,567	-	3,149,567	1,049,856	4,199,423
Supplies	1,340,962	496,973	1,837,935	96,735	1,934,670	1,333,520	978,541	2,312,061	108,282	2,420,343
Other	538,569	-	538,569	220,923	759,492	487,086	-	487,086	192,150	679,236
<b>Total expenses</b>	<b>\$ 37,500,484</b>	<b>\$ 534,317</b>	<b>\$ 38,034,801</b>	<b>\$ 4,290,998</b>	<b>\$ 42,324,899</b>	<b>\$ 37,342,418</b>	<b>\$ 1,006,106</b>	<b>\$ 38,348,524</b>	<b>\$ 4,355,917</b>	<b>\$ 42,704,441</b>

# ORANGE COUNTY HEAD START, INC.

## STATEMENTS OF CASH FLOWS

For the years ended June 30, 2021 and 2020

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	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ (10,542)	\$ (132,571)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	30,582	30,582
(Increase) decrease in assets:		
Grants receivable	(1,097,658)	1,200,588
Other receivables	2,861	97,211
Prepaid expenses	1,000	(1,000)
Deposit	-	(125)
Increase (decrease) in liabilities:		
Accounts payable	226,447	379,043
Accrued expenses - other	397,426	(1,117,981)
Accrued vacation	35,974	196,082
Advances - other grants	(96,553)	10,588
Deferred rent	76,834	103,312
	<u>(433,629)</u>	<u>765,729</u>
Net cash (used in) provided by operating activities		
	<u>(433,629)</u>	<u>765,729</u>
Net (decrease) increase in cash and cash equivalents	(433,629)	765,729
Cash and cash equivalents, beginning of year	<u>2,385,413</u>	<u>1,619,684</u>
Cash and cash equivalents, end of year	<u>\$ 1,951,784</u>	<u>\$ 2,385,413</u>



# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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### 1. Organization and Purpose

The Head Start Program, administered by Orange County Head Start, Inc. (“OCHS” or the “Organization”), is 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 commenced providing services in 1965 and is currently 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, California.

#### *Program Services*

##### **Head Start**

**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** – This 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** – This program also provides training and technical assistance to OCHS’s program staff.

**Child Care Food** – This program provides food services to all eligible children enrolled in the Head Start program.

### 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.

# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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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.

# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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

#### *Adoption of New Accounting Standards*

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers* (Topic 606) (“ASU 2014-09”), to clarify the principles for recognizing revenue. Under ASU 2014-09, revenue is recognized when a customer obtains control of promised goods or services and is recognized at an amount that reflects the consideration expected to be received in exchange for goods or services. The Organization adopted ASU 2014-09 for the year ended June 30, 2020 using the modified retrospective approach. There was no material impact to the financial statements.

#### *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.

#### *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 (“U.S. GAAP”) 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, 2021 and 2020 were \$6,115,889 and \$6,536,163, 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, 2021 and 2020, the property and equipment acquired through Federal grant resources use allowance recognized was \$0.

# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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

#### *Property and Equipment*, continued

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, 2021 and 2020, the impairment charges recognized on property and equipment, acquired through Federal grant resources, was \$516,765 and \$680,224, 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 (see Note 5).

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, 2021 and 2020.

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.

# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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

#### *Risks and Uncertainties*

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 and/or governments responses may have on its future financial results or financial condition.

#### *Risk Management*

OCHS is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which OCHS carries commercial insurance.

#### *Donated Services*

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

#### *Functional Allocation of Expenses*

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

#### *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, the Internal Revenue Service determined that the Organization is not 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 a liability for unrecognized tax benefits in the accompanying financial statements.



# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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

#### *Risk Concentration*

For the years ended June 30, 2021 and 2020, approximately 93% and 89%, respectively, of the funding for OCHS came from the U.S. Department of Health and Human Services (“DHHS”). At June 30, 2021 and 2020, amounts due from DHHS in grants receivable were \$2,469,307 and \$1,524,903, respectively, which accounted for 94% and 100%, respectively, of total grants receivable.

In addition, amounts due from the State of California for the child care food program were \$153,254 and \$0 as of June 30, 2021 and 2020, respectively, which accounted for 6% and 0%, respectively, of total grants receivable.

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

Financial instruments that potentially subject the Organization to a concentration of credit risk are primarily cash and cash equivalents and grants receivable. OCHS maintains its cash balances in the form of bank demand deposits and money market accounts with major financial institutions that management has determined to be credit worthy. At various times during the years ended June 30, 2021 and 2020, 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, the FASB issued ASU 2016-02, *Leases* (Topic 842) (“ASU 2016-02”). 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 U.S. 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 U.S. GAAP, which requires only capital leases to be recognized on the balance sheet, ASU 2016-02 will require both types of leases to be recognized on the balance sheet. ASU 2016-02 will take effect for fiscal years beginning after December 15, 2021 with early adoption permitted. The Organization is currently evaluating the impact of the pending adoption of ASU 2016-02 on its financial statements; however the Organization does not believe that the adoption of Topic 842 will have an effect on its financial condition.

# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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

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

##### **Contributed Nonfinancial Assets**

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958). Pursuant to this Pronouncement, contributed nonfinancial assets are presented as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. Not-for-Profit Entities (“NFP”) are required to disclose (a) A disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets and (b) For each category of contributed nonfinancial assets recognized provides: (i) Qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, the NFP will disclose a description of the programs or other activities in which those assets were used; (ii) the NFP’s policy (if any) about monetizing rather than utilizing contributed nonfinancial assets; (iii) a description of any donor-imposed restrictions associated with the contributed nonfinancial assets; (iv) a description of the valuation techniques and inputs used to arrive at a fair value measure; and (v) the principal market (or most advantageous market) used to arrive at a fair value measure. Topic 958 is effective for annual periods beginning after June 15, 2021.

### 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>2021</u>	<u>2020</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 1,951,784	\$ 2,385,413
Grants receivable	2,622,561	1,524,903
Other receivable	<u>3,135</u>	<u>5,996</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,577,480</u>	<u>\$ 3,916,312</u>

At June 30, 2021 and 2020, the Organization had \$4,577,480 and \$3,916,312, 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 ongoing basis to ensure they are adequate to meet its obligations.

# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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### 4. Grants Receivable

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

	<u>2021</u>	<u>2020</u>
Head Start	\$ 2,469,307	\$ 1,524,903
Child Care Program	153,254	-
Total grants receivable	<u>\$ 2,622,561</u>	<u>\$ 1,524,903</u>

OCHS has not accrued an allowance for uncollectible receivables as of June 30, 2021 and 2020, 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.

### 5. Property and Equipment

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

	<u>2021</u>	<u>2020</u>
Leasehold improvements	\$ 152,909	\$ 152,909
Less: accumulated depreciation	<u>(122,328)</u>	<u>(91,746)</u>
Property and equipment, net	<u>\$ 30,581</u>	<u>\$ 61,163</u>

Depreciation expense was \$30,582 for the years ended June 30, 2021 and 2020.

### 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. As of June 30, 2021 and 2020, 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 addition, donated parent and volunteer services were not recognized in the financial statements as they did not meet the criteria for recognition under FASB ASC 958.



# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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### 7. In-Kind Contributions, continued

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, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Contractual	\$ 1,181,148	\$ 2,559,101
Others	143,843	80
Occupancy	887,571	1,171,578
Supplies	<u>154,067</u>	<u>24,672</u>
Total reported on schedule of activities by grant	2,366,629	3,755,431
Additional in-kind contributions that meet federal guidelines but not recognized in financial statements	<u>133,035</u>	<u>1,553,351</u>
Total in-kind contributions reported on Head Start schedule of expenses compared to budget	<u>\$ 2,499,664</u>	<u>\$ 5,308,782</u>

### 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% of gross salaries of OCHS staff members into a tax-sheltered annuity program. For the years ended June 30, 2021 and 2020, OCHS's retirement contributions totaled \$1,379,799 and \$1,263,451, 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 leased its main headquarters in Santa Ana, California, under a seven-year noncancelable operating lease agreement, with an option to cancel after year five, 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 \$1,667,410 and \$1,453,264 for the years ended June 30, 2021 and 2020, respectively. In addition, OCHS received a total of \$887,571 and \$1,171,578 of in-kind rent for the years ended June 30, 2021 and 2020, respectively.

# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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### 9. Commitments, continued

OCHS also leases certain office equipment under leases classified as operating leases. For the years ended June 30, 2021 and 2020, OCHS incurred \$142,990 and \$106,577, respectively, in office equipment lease expense.

Total rent expense incurred was \$2,697,971 and \$2,731,419 for the years ended June 30, 2021 and 2020, respectively.

Future noncancelable minimum lease payments required under noncancelable operating leases having initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2021 are as follows:

	<u>Total</u>
For the year ending June 30:	
2022	\$ 1,575,147
2023	1,528,288
2024	1,599,158
2025	1,329,931
2026	1,189,944
Thereafter	<u>1,517,759</u>
	<u>\$ 8,740,227</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.

### 10. Subsequent Events

The Organization has evaluated subsequent events for recognition and disclosure through March 31, 2022, the date which these financial statements were available to be issued. Management concluded that no other material subsequent events have occurred since June 30, 2021 that would require recognition or disclosure in the financial statements.

## **SUPPLEMENTARY INFORMATION**

**ORANGE COUNTY HEAD START, INC.**  
**SUPPLEMENTAL SCHEDULE OF ACTIVITIES BY GRANT**  
For the year ended June 30, 2021

	Head Start			CACFP	Others	Total
	Grants	In-Kind	Total			
<b>Revenue:</b>						
Head Start grant	\$ 39,247,081	\$ -	\$ 39,247,081	\$ -	\$ -	\$ 39,247,081
In-kind contributions	-	2,366,629	2,366,629	-	-	2,366,629
Child Care Food Program	-	-	-	534,317	-	534,317
Other grants	-	-	-	-	166,330	166,330
<b>Total revenue</b>	<b>39,247,081</b>	<b>2,366,629</b>	<b>41,613,710</b>	<b>534,317</b>	<b>166,330</b>	<b>42,314,357</b>
<b>Expenses:</b>						
Personnel	21,179,525	-	21,179,525	34,272	110,905	21,324,702
Contractual	5,647,817	1,181,148	6,828,965	-	4,688	6,833,653
Fringe benefits	6,892,289	-	6,892,289	3,072	26,651	6,922,012
Other	4,174,108	1,031,414	5,205,522	-	104,340	5,309,862
Supplies	1,270,584	154,067	1,424,651	496,973	13,046	1,934,670
<b>Total expenses</b>	<b>39,164,323</b>	<b>2,366,629</b>	<b>41,530,952</b>	<b>534,317</b>	<b>259,630</b>	<b>42,324,899</b>
<b>Change in net assets</b>	<b>\$ 82,758</b>	<b>\$ -</b>	<b>\$ 82,758</b>	<b>\$ -</b>	<b>\$ (93,300)</b>	<b>\$ (10,542)</b>

**Note:**

In-kind contributions of volunteer services in the amount of \$133,035 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, 2021

	Personnel	Contractual	Fringe Benefits	Other	Supplies	Total
Administration expenses:						
Executive	\$ 213,979	\$ -	\$ 46,471	\$ 72,029	\$ 13,222	\$ 345,701
Quality systems	847,333	-	268,330	109,125	15,716	1,240,504
Human resources	178,088	38,406	75,607	100,586	2,067	394,754
Accounting/procurement	371,882	136,061	(105,132)	304,456	11,673	718,940
Administrative - miscellaneous	207,588	31,977	63,488	986,505	41,011	1,330,569
Total administration expenses	1,818,870	206,444	348,764	1,572,701	83,689	4,030,468
Program expenses:						
Facilities	90,658	-	34,476	285,504	2,381	413,019
Governance	38,908	-	14,161	3,359	-	56,428
Education	358,554	276,025	141,983	195,033	46,393	1,017,988
Disabilities	220,642	-	74,117	2,099	152	297,010
Health	390,744	-	130,614	456	705	522,519
Social services	1,378,638	-	476,762	2,775	2,054	1,860,229
Program services	494,933	-	87,317	211,645	3,880	797,775
Food services/nutrition	745,514	-	323,152	48,157	376,148	1,492,971
Grantee Head Start T&TA	-	75,226	49,990	17,447	1,045	143,708
Early Head Start	8,506,531	54,373	2,625,957	614,255	116,726	11,917,842
Total program expenses	12,225,122	405,624	3,958,529	1,380,730	549,484	18,519,489
Centers' expenses	7,135,533	295,400	2,584,996	1,220,677	637,411	11,874,017
Grantee in-kind contributions	-	24,032	-	887,571	154,067	1,065,670
Total grantee expenses	19,360,655	725,056	6,543,525	3,488,978	1,340,962	31,459,176
Delegate agency expenses:						
City of La Habra	-	490,422	-	-	-	490,422
Santa Ana Unified School District	-	4,249,927	-	-	-	4,249,927
Total delegate agency expenses	-	4,740,349	-	-	-	4,740,349
Delegate in-kind contributions	-	1,157,116	-	143,843	-	1,300,959
Total Head Start expenses	19,360,655	6,622,521	6,543,525	3,632,821	1,340,962	37,500,484
Total CACFP expenses	34,272	-	3,072	-	496,973	534,317
Heffernan Group Foundation	-	1,596	4,500	-	927	7,023
Fatherhood program	-	-	-	225	-	225
Miscellaneous donations	110,905	3,092	22,151	104,115	12,119	252,382
Total other grants	110,905	4,688	26,651	104,340	13,046	259,630
Total program expenses	19,505,832	6,627,209	6,573,248	3,737,161	1,850,981	38,294,431
Total expenses	\$ 21,324,702	\$ 6,833,653	\$ 6,922,012	\$ 5,309,862	\$ 1,934,670	\$ 42,324,899

**Note:**

In-kind contributions of volunteer services in the amount of \$133,035 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, 2021

	<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	\$ 45,003	\$ -	\$ 23,944	\$ 115	\$ 921	\$ 69,983
HS Home Base South	61,414	-	28,942	12	828	91,196
HS Home Base East	79,024	-	22,690	115	211	102,040
Placentia	268,737	-	96,677	67,892	8,333	441,639
Capo	286,620	-	86,434	35,391	11,806	420,251
D. L. Wood	329,990	-	97,563	61,299	11,810	500,662
Fullerton	260,699	-	86,135	70,155	8,658	425,647
Delhi	372,274	-	144,008	93,793	7,881	617,956
Brea	2,035	-	314	76,383	6,357	85,089
Buena Park	259,765	-	99,324	30,653	13,499	403,241
Baden Powell	374,644	-	133,880	34,422	14,708	557,654
Walter	246,326	-	88,414	27,707	5,542	367,989
Pleasant View	246,970	-	93,072	21,820	17,695	379,557
Evelyne Lobo Villegas	128,467	-	46,205	53,293	6,010	233,975
Centralia	345,990	-	137,711	54,114	11,377	549,192
Matt Kline	368,401	-	150,605	25,966	15,539	560,511
KIDS	281,515	-	102,577	84,642	14,329	483,063
Glenn L. Martin	290,228	-	97,329	16,413	11,680	415,650
Schweitzer	262,628	-	84,932	22,218	5,472	375,250
Topaz	266,836	-	107,586	22,507	13,703	410,632
Stanton	365,338	-	135,586	96,830	13,994	611,748
Hope Center	256,472	-	89,706	55,131	5,306	406,615
Andrews	143,672	-	47,933	39,789	5,801	237,195
Franklin	274,649	-	91,644	27,760	9,996	404,049
Carver	152,258	-	49,466	100	383	202,207
Lambert-La Habra	401,648	-	135,000	39,392	8,552	584,592
Oakcrest	176,316	-	54,381	64,896	29,430	325,023
Covid	11,175	295,400	13,795	37,457	360,554	718,381
California	-	-	5,956	-	-	5,956
Center	318,857	-	118,333	30,986	8,758	476,934
Handy	5,349	-	4,819	-	2,718	12,886
Hewes	241,682	-	88,169	29,426	5,560	364,837
Taft	7,540	-	11,180	-	-	18,720
West Orange	3,011	-	10,686	-	-	13,697
<b>Total</b>	<b>\$ 7,135,533</b>	<b>\$ 295,400</b>	<b>\$ 2,584,996</b>	<b>\$ 1,220,677</b>	<b>\$ 637,411</b>	<b>\$ 11,874,017</b>

## ORANGE COUNTY HEAD START, INC.

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

For the year ended June 30, 2021

	<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	\$ 45,003	\$ -	\$ 23,944	\$ 115	\$ 921	\$ 69,983
HS Home Base South	61,414	-	28,942	12	828	91,196
HS Home Base East	79,024	-	22,690	115	211	102,040
Placentia	268,737	-	96,677	67,892	8,333	441,639
Capo	286,620	-	86,434	35,391	11,806	420,251
D. L. Wood	329,990	-	97,563	61,299	11,810	500,662
Fullerton	260,699	-	86,135	70,155	8,658	425,647
Delhi	372,274	-	144,008	93,793	7,881	617,956
Brea	2,035	-	314	76,383	6,357	85,089
Buena Park	259,765	-	99,324	30,653	13,499	403,241
Baden Powell	374,644	-	133,880	34,422	14,708	557,654
Walter	246,326	-	88,414	27,707	5,542	367,989
Pleasant View	246,970	-	93,072	21,820	17,695	379,557
Evelyne Lobo Villegas	128,467	-	46,205	53,293	6,010	233,975
Centralia	345,990	-	137,711	54,114	11,377	549,192
Matt Kline	368,401	-	150,605	25,966	15,539	560,511
KIDS	281,515	-	102,577	84,642	14,329	483,063
Glenn L. Martin	290,228	-	97,329	16,413	11,680	415,650
Schweitzer	262,628	-	84,932	22,218	5,472	375,250
Topaz	266,836	-	107,586	22,507	13,703	410,632
Stanton	365,338	-	135,586	96,830	13,994	611,748
Hope Center	256,472	-	89,706	55,131	5,306	406,615
Andrews	143,672	-	47,933	39,789	5,801	237,195
Franklin	274,649	-	91,644	27,760	9,996	404,049
Carver	152,258	-	49,466	100	383	202,207
Lambert-La Habra	401,648	-	135,000	39,392	8,552	584,592
Oakcrest	176,316	-	54,381	64,896	29,430	325,023
Covid	11,175	295,400	13,795	37,457	360,554	718,381
California	-	-	5,956	-	-	5,956
Center	318,857	-	118,333	30,986	8,758	476,934
Handy	5,349	-	4,819	-	2,718	12,886
Hewes	241,682	-	88,169	29,426	5,560	364,837
Taft	7,540	-	11,180	-	-	18,720
West Orange	3,011	-	10,686	-	-	13,697
<b>Total</b>	<b>\$ 7,135,533</b>	<b>\$ 295,400</b>	<b>\$ 2,584,996</b>	<b>\$ 1,220,677</b>	<b>\$ 637,411</b>	<b>\$ 11,874,017</b>

**ORANGE COUNTY HEAD START, INC.**

**SUPPLEMENTAL SCHEDULE OF EXPENSES COMPARED TO BUDGET**

For the year ended June 30, 2021

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	<u>Budget</u>	<u>Actual</u>	Actual Over (Under) <u>Budget</u>
Expenses:			
Personnel	\$ 21,179,521	\$ 21,179,525	\$ 4
Contractual	5,771,462	5,647,817	(123,645)
Fringe benefits	6,975,336	6,892,289	(83,047)
Other	4,173,821	4,174,108	287
Supplies	<u>1,271,513</u>	<u>1,270,584</u>	<u>(929)</u>
 Total	 39,371,653	 39,164,323	 (207,330)
 In-kind match Head Start	 <u>1,586,870</u>	 <u>2,366,629</u>	 <u>779,759</u>
 Total expenses	 <u>\$ 40,958,523</u>	 <u>\$ 41,530,952</u>	 <u>\$ 572,429</u>

**Note:**

In-kind contributions of volunteer services in the amount of \$133,035 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-kind contributions.



**ORANGE COUNTY HEAD START, INC.**  
**SUPPLEMENTAL SCHEDULE OF REPORTED MEALS AND EARNED REIMBURSEMENT**  
For the period July 1, 2020 through June 30, 2021

Month	Breakfast	Rate	Total	Lunch	Rate	Total	Snacks	Rate	Total	Federal	Total
September 2020	2,625	\$ 1.89	\$ 4,961	2,838	\$ 3.51	\$ 9,961	2,337	\$ 0.96	\$ 2,244	\$ 17,166	7,800
October 2020	8,921	1.89	16,861	9,620	3.51	33,766	7,985	0.96	7,666	58,292	26,526
November 2020	6,854	1.89	12,954	7,530	3.51	26,430	6,187	0.96	5,940	45,324	20,571
December 2020	5,646	1.89	10,671	6,302	3.51	22,120	5,247	0.96	5,037	37,828	17,195
February 2021	9,807	1.89	18,535	10,724	3.51	37,641	8,877	0.96	8,522	64,698	29,408
March 2021	10,052	1.89	18,998	11,188	3.51	39,270	9,438	0.96	9,060	67,329	30,678
April 2021	11,361	1.89	21,472	12,538	3.51	44,008	10,483	0.96	10,064	75,544	34,382
May 2021	11,509	1.89	21,752	12,763	3.51	44,798	10,623	0.96	10,198	76,748	34,895
June 2021	10,487	1.89	19,820	11,762	3.51	41,285	9,783	0.96	9,392	70,497	32,032
Total Center meals	77,262			85,265			70,960				233,487
Total Federal			\$ 146,025			\$ 299,280			\$ 68,122	\$ 513,427	
Federal reimbursement										\$ 513,427	
Cash-in-lieu of commodities (lunch and supper meals)								0.2450	85,265	20,890	
										\$ 534,317	

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

**ORANGE COUNTY HEAD START, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the year ended June 30, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing (CFDA) Number	Grant Number	Passed Through To Subrecipients	Total Federal Expenditures
<b><u>Department of Health and Human Services</u></b>				
Head Start Cluster	93.600	09CH01114602	\$ 4,740,349	\$ 38,432,329
COVID-19 Head Start Cluster	93.600	09CH01114602C3	-	719,877
COVID-19 Head Start Cluster	93.660	09HE00031401C6	-	94,875
Total Head Start Cluster			4,740,349	39,247,081
<b><u>Department of Agriculture</u></b>				
Pass-through from State of California				
<b><i>Department of Education</i></b>				
Child Care Food Program	10.558	30-1453-OJ	-	534,317
Total expenditures of federal awards			<u>\$ 4,740,349</u>	<u>\$ 39,781,398</u>

# ORANGE COUNTY HEAD START, INC.

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2021

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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, 2021. 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 and/or OMB Circular A122, Cost Principles for Non-profit Organizations, 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 Uniform Guidance.

**INDEPENDENT AUDITORS' 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, 2021, 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 31, 2022.

### **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 31, 2022



## INDEPENDENT AUDITORS' 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, 2021. OCHS's major federal programs are identified in the summary of auditors' 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.

### Auditors' 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, 2021.

### 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 31, 2022

**ORANGE COUNTY HEAD START, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
June 30, 2021

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**Section I: Summary of Audit Results**

***Financial Statements***

- |    |   |               |
|----|---|---------------|
| 1. | Type of independent auditors' 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 auditors' 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   | Assistance Listing<br>(CFDA)<br>Number 93.600 |
| 8. | Dollar threshold used to distinguish between type A and type B programs:                               | \$1,193,442                                   |
| 9. | Auditee qualified as a low risk auditee?   | Yes   |



**ORANGE COUNTY HEAD START, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued**  
June 30, 2021

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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.