

ORANGE COUNTY HEAD START, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

June 30, 2022 and 2021



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

ORANGE COUNTY HEAD START, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Head Start, Inc.
Santa Ana, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Orange County Head Start, Inc. ("OCHS") (a nonprofit California corporation), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of OCHS as of June 30, 2022 and 2021, 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 ("U.S. GAAP").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of OCHS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about OCHS's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 OCHS's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about OCHS's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information – Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information such as the 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 U.S. GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Supplementary Information – 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, expenses by category, expenses by Head Start Centers, expenses compared to budget, and reported meals and earned reimbursement are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 U.S. GAAS. In our opinion, the information included on pages 18-23 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 29, 2023 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.

Handwritten signature in black ink that reads "BPM LLP". The letter "B" is stylized with a diagonal stroke.

Long Beach, California
March 29, 2023

ORANGE COUNTY HEAD START, INC.

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,867,290	\$ 1,951,784
Grants receivable	3,484,191	2,622,561
Other receivables	2,771	3,135
Prepaid expenses	88,103	-
	<u>5,442,355</u>	<u>4,577,480</u>
Total current assets	5,442,355	4,577,480
Property and equipment, net	-	30,581
Deposits	61,997	61,997
	<u>61,997</u>	<u>61,997</u>
Total assets	<u>\$ 5,504,352</u>	<u>\$ 4,670,058</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 773,583	\$ 1,146,045
Accrued expenses - other	3,050,181	1,972,574
Advances - other grants	216,521	25,407
Deferred rent	256,345	201,441
	<u>4,296,630</u>	<u>3,345,467</u>
Total current liabilities	4,296,630	3,345,467
Commitments (Note 10)		
Net assets:		
Without donor restrictions	1,207,722	1,324,591
	<u>1,207,722</u>	<u>1,324,591</u>
Total net assets	1,207,722	1,324,591
Total liabilities and net assets	<u>\$ 5,504,352</u>	<u>\$ 4,670,058</u>

ORANGE COUNTY HEAD START, INC.

STATEMENTS OF ACTIVITIES

For the years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Public support and revenue:		
Head Start grants	\$ 38,527,646	\$ 39,247,081
In-kind contributions	2,283,242	2,366,629
Child Care Food Program	1,234,776	534,317
Other grants	<u>47,938</u>	<u>166,330</u>
Total public support and revenue	<u>42,093,602</u>	<u>42,314,357</u>
Expenses:		
Program services:		
Head Start	36,040,153	37,500,484
Child Care Food Program	<u>1,234,776</u>	<u>534,317</u>
Total program services	37,274,929	38,034,801
Supporting services:		
Management and general	<u>4,935,542</u>	<u>4,290,098</u>
Total expenses	<u>42,210,471</u>	<u>42,324,899</u>
Decrease in net assets	(116,869)	(10,542)
Net assets, beginning of year	<u>1,324,591</u>	<u>1,335,133</u>
Net assets, end of year	<u>\$ 1,207,722</u>	<u>\$ 1,324,591</u>

ORANGE COUNTY HEAD START, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended June 30, 2022 and 2021

	2022					2021						
	Program Services			Supporting Services		Program Services			Supporting Services			
	Child Care		Food Program	Subtotal	Management and General		Child Care		Food Program	Subtotal	Management and General	
	Head Start				Total Expenses		Total Expenses	Head Start				Total Expenses
Personnel	\$ 17,950,211	\$ 32,310	\$ 17,982,521	\$ 1,361,285	\$ 19,343,806	\$ 19,360,655	\$ 34,272	\$ 19,394,927	\$ 1,929,775	\$ 21,324,702		
Contractual	6,740,804	-	6,740,804	147,119	6,887,923	6,622,521	-	6,622,521	211,132	6,833,653		
Fringe benefits	6,210,254	12,968	6,223,222	235,621	6,458,843	6,543,525	3,072	6,546,597	375,415	6,922,012		
Occupancy	3,390,513	-	3,390,513	1,595,536	4,986,049	3,094,252	-	3,094,252	1,456,118	4,550,370		
Supplies	1,241,045	1,178,369	2,419,414	1,276,850	3,696,264	1,340,962	496,973	1,837,935	96,735	1,934,670		
Other	507,326	11,129	518,455	319,131	837,586	538,569	-	538,569	220,923	759,492		
Total expenses	<u>\$ 36,040,153</u>	<u>\$ 1,234,776</u>	<u>\$ 37,274,929</u>	<u>\$ 4,935,542</u>	<u>\$ 42,210,471</u>	<u>\$ 37,500,484</u>	<u>\$ 534,317</u>	<u>\$ 38,034,801</u>	<u>\$ 4,290,098</u>	<u>\$ 42,324,899</u>		

ORANGE COUNTY HEAD START, INC.

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ (116,869)	\$ (10,542)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	30,581	30,582
(Increase) decrease in assets:		
Grants receivable	(861,630)	(1,097,658)
Other receivables	364	2,861
Prepaid expenses	(88,103)	1,000
Increase (decrease) in liabilities:		
Accounts payable	(372,462)	226,447
Accrued expenses - other	1,077,607	433,400
Advances - other grants	191,114	(96,553)
Deferred rent	54,904	76,834
	<u>(84,494)</u>	<u>(433,629)</u>
Net cash used in operating activities	<u>(84,494)</u>	<u>(433,629)</u>
Net decrease in cash and cash equivalents	(84,494)	(433,629)
Cash and cash equivalents, beginning of year	<u>1,951,784</u>	<u>2,385,413</u>
Cash and cash equivalents, end of year	<u>\$ 1,867,290</u>	<u>\$ 1,951,784</u>

ORANGE COUNTY HEAD START, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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.

Head Start 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 – 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 (the “Board”), 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, 2022 and 2021

2. Summary of Significant Accounting Policies, continued

Basis of Presentation

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 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.

Revenue from Contracts with Customers

OCHS revenue is recognized to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services.

ORANGE COUNTY HEAD START, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

2. Summary of Significant Accounting Policies, continued

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. 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, Net

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 as of June 30, 2022 and 2021 were \$6,242,533 and \$6,115,889, 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. OCHS did not purchase the assets with its own funds.

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, 2022 and 2021, the impairment charges recognized on property and equipment, acquired through Federal grant resources, was \$303,742 and \$516,765, 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).

ORANGE COUNTY HEAD START, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

2. Summary of Significant Accounting Policies, continued

Property and Equipment, Net, 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, 2022 and 2021.

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 U.S. Department of Health and Human Services (the “DHHS”) 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.

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.

Contributed Nonfinancial Assets

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise need to be purchased by the Organization. Additionally, a substantial number of volunteers have made significant contributions of their time to OCHS’s program and supporting services. The value of this contributed time is not reflected in the financial statements since it does not require a specialized skill.

Donations of space, equipment, and supplies are recorded as in-kind contributions at their estimated fair value as of the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose.

ORANGE COUNTY HEAD START, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

2. Summary of Significant Accounting Policies, continued

Contributed Nonfinancial Assets, continued

OCHS adopted ASU 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets* (“ASU 2020-07”). Pursuant to ASU 2020-07, contributed nonfinancial assets are presented as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. OCHS is required to disclose (a) a disaggregate 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, OCHS will disclose a description of the programs or other activities in which those assets were used; (ii) OCHS’s policy 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.

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 (the “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 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.

Risk Concentration

For the years ended June 30, 2022 and 2021, approximately 92% and 93%, respectively, of the funding for OCHS came from the DHHS. As of June 30, 2022 and 2021, amounts due from the DHHS in grants receivable were \$3,237,609 and \$2,469,307, respectively, which accounted for 93% and 94%, respectively, of total grants receivable.

In addition, amounts due from the State of California for the child care food program were \$246,582 and \$153,254 as of June 30, 2022 and 2021, respectively, which accounted for 7% and 6%, respectively, of total grants receivable.

ORANGE COUNTY HEAD START, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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, 2022 and 2021, the Organization maintained cash balances in excess of federally-insured limits of \$250,000.

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.

Recent Accounting Pronouncements

Accounting for Leases

The FASB issued ASU 2016-02, *Leases (Topic 842)*, which replaces existing lease accounting guidance. The new guidance is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet for all leases with the terms exceeding twelve months. The standard requires applying modified retrospective approach at the beginning of the earliest period presented with optional practical expedients. There will be an increase in assets and liabilities on the balance sheets of OCHS as a result of adoption to this standard due to recording of right-of-use assets and corresponding lease liabilities. The amount of that increase will depend on the lease portfolio at the time of the adoption. OCHS does not expect the adoption to have a material impact on net assets. ASU 2020-05, *Leases (Topic 842)*, issued on June 30, 2020, extended the effective date for this standard to fiscal year ending June 30, 2023.

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:

	2022	2021
Financial assets at year-end:		
Cash and cash equivalents	\$ 1,867,290	\$ 1,951,784
Grants receivable	3,484,191	2,622,561
Other receivable	2,771	3,135
	<u>5,354,252</u>	<u>4,577,480</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,354,252</u>	<u>\$ 4,577,480</u>

At June 30, 2022 and 2021, the Organization had \$5,354,252 and \$4,577,480, respectively, of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures.

ORANGE COUNTY HEAD START, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

3. Liquidity and Availability of Financial Assets, continued

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.

4. Grants Receivable

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

	2022	2021
Head Start	\$ 3,237,609	\$ 2,469,307
Child Care Program	246,582	153,254
Total grants receivable	<u>\$ 3,484,191</u>	<u>\$ 2,622,561</u>

OCHS has not accrued an allowance for uncollectible receivables as of June 30, 2022 and 2021, 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, Net

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

	2022	2021
Leasehold improvements	\$ 152,909	\$ 152,909
Less: accumulated depreciation	(152,909)	(122,327)
Property and equipment, net	<u>\$ -</u>	<u>\$ 30,582</u>

Depreciation expense was \$30,581 and \$30,582 for the years ended June 30, 2022 and 2021, 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. As of June 30, 2022 and 2021, there were no net assets subject to donor restrictions.

ORANGE COUNTY HEAD START, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

7. Accrued Expenses - Other

Accrued expenses – other consisted of the following as of June 30:

	2022	2021
Accrued payroll	\$ 757,852	\$ 702,512
Accrued vacation	548,698	627,958
Accrued expenses	1,743,631	642,104
Total accrued expenses - other	<u>\$ 3,050,181</u>	<u>\$ 1,972,574</u>

8. Contributed Nonfinancial Assets

Contributed nonfinancial assets recognized within the statements of activities included the following for the years ended June 30:

	2022	2021
Contractual	\$ 1,246,258	\$ 1,181,148
Others	156,139	143,843
Occupancy	546,869	887,571
Supplies	333,976	154,067
Total reported on schedule of activities by grant	2,283,242	2,366,629
Additional in-kind contributions that meet federal guidelines but not recognized in financial statements	<u>73,063</u>	<u>133,035</u>
Total in-kind contributions reported on Head Start schedule of expenses compared to budget	<u>\$ 2,356,305</u>	<u>\$ 2,499,664</u>

OCHS recognized contributed nonfinancial assets within revenue, including services, occupancy, supplies, and equipment. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions. Contributed services, occupancy, supplies, and equipment were utilized in the Head Start program. In valuing supplies and equipment, OCHS estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States. In valuing occupancy, OCHS estimated the fair value on the basis of recent appraisals in the area's real estate market. Contributed services are valued and are reported at the estimated fair value in the financial statements based on current rates for similar services.

ORANGE COUNTY HEAD START, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

9. 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, 2022 and 2021, OCHS's retirement contributions totaled \$1,246,047 and \$1,379,799, 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.

10. 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 \$1,644,497 and \$1,667,410 for the years ended June 30, 2022 and 2021, respectively. In addition, OCHS received a total of \$546,869 and \$887,571 of in-kind rent for the years ended June 30, 2022 and 2021, respectively.

OCHS also leases certain office equipment under leases classified as operating leases. For the years ended June 30, 2022 and 2021, OCHS incurred \$137,193 and \$142,990, respectively, in office equipment lease expense.

Total rent expense incurred was \$2,328,559 and \$2,697,971 for the years ended June 30, 2022 and 2021, 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, 2022 are as follows:

	Total
For the years ending June 30:	
2023	\$ 1,644,328
2024	1,660,397
2025	1,392,356
2026	1,253,616
2027	1,211,421
Thereafter	371,284
	<u>\$ 7,533,402</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.

ORANGE COUNTY HEAD START, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

11. Subsequent Events

In preparing these financial statements, OCHS evaluated the period from July 1, 2022 through March 29, 2023, the date that the financial statements were available to be issued, for subsequent events requiring recognition or disclosure in the accompanying financial statements. Management concluded that no material subsequent events have occurred since June 30, 2022 that require recognition or disclosure in such financial statements.

SUPPLEMENTARY INFORMATION

ORANGE COUNTY HEAD START, INC.
SUPPLEMENTAL SCHEDULE OF ACTIVITIES BY GRANT
For the year ended June 30, 2022

	Head Start			Child and Adult	Others	Total
	Grants	In-Kind	Total	Care Food Program		
Revenue:						
Head Start grant	\$ 38,527,646	\$ -	\$ 38,527,646	\$ -	\$ -	\$ 38,527,646
In-kind contributions	-	2,283,242	2,283,242	-	-	2,283,242
Child Care Food Program	-	-	-	1,234,776	-	1,234,776
Other grants	-	-	-	-	47,938	47,938
Total revenue	38,527,646	2,283,242	40,810,888	1,234,776	47,938	42,093,602
Expenses:						
Personnel	19,311,496	-	19,311,496	32,310	-	19,343,806
Contractual	5,640,218	1,246,258	6,886,476	-	1,447	6,887,923
Fringe benefits	6,445,848	-	6,445,848	12,968	27	6,458,843
Other	5,032,650	703,008	5,735,658	11,129	76,848	5,823,635
Supplies	2,180,324	333,976	2,514,300	1,178,369	3,595	3,696,264
Total expenses	38,610,536	2,283,242	40,893,778	1,234,776	81,917	42,210,471
Change in net assets	\$ (82,890)	\$ -	\$ (82,890)	\$ -	\$ (33,979)	\$ (116,869)

Note:

In-kind contributions of volunteer services in the amount of \$73,063 were not recorded in the financial statements because they did not meet the criteria for recognition.

ORANGE COUNTY HEAD START, INC.
SUPPLEMENTAL SCHEDULE OF EXPENSES BY CATEGORY
For the year ended June 30, 2022

	Personnel	Contractual	Fringe Benefits	Other	Supplies	Total
Administration expenses:						
Executive	\$ 217,810	\$ 6,750	\$ 41,061	\$ 93,252	\$ 13,373	\$ 372,246
Quality systems	387,963	-	104,857	126,523	12,739	632,082
Human resources	171,763	22,684	69,450	116,518	5,211	385,626
Accounting/procurement	373,745	92,387	(38,355)	592,875	1,183,137	2,203,789
Administrative - miscellaneous	210,004	23,851	58,581	908,651	58,795	1,259,882
Total administration expenses	<u>1,361,285</u>	<u>145,672</u>	<u>235,594</u>	<u>1,837,819</u>	<u>1,273,255</u>	<u>4,853,625</u>
Program expenses:						
Facilities	95,982	-	32,066	349,950	2,342	480,340
Governance	43,665	-	11,249	1,830	-	56,744
Education	349,301	151,204	149,203	159,173	53,067	861,948
Disabilities	437,418	-	70,139	906	1,584	510,047
Health	227,286	1,350	142,608	2,699	-	373,943
Social services	1,185,120	-	403,986	5,530	2,915	1,597,551
Program services	588,327	-	252,523	245,366	3,883	1,090,099
Food services/nutrition	762,523	-	292,937	59,970	212,236	1,327,666
Grantee Head Start T&TA	403,271	24,859	358,714	36,079	-	822,923
Early Head Start	7,250,777	9,152	2,274,835	629,596	189,087	10,353,447
Total program expenses	<u>11,343,670</u>	<u>186,565</u>	<u>3,988,260</u>	<u>1,491,099</u>	<u>465,114</u>	<u>17,474,708</u>
Centers' expenses	6,372,668	2,798	2,218,833	1,646,148	270,774	10,511,221
COVID-19 funds	233,873	668,403	3,161	57,584	171,181	1,134,202
Grantee in-kind contributions	-	40,138	-	529,689	290,359	860,186
Total grantee expenses	<u>17,950,211</u>	<u>897,904</u>	<u>6,210,254</u>	<u>3,724,520</u>	<u>1,197,428</u>	<u>29,980,317</u>
Delegate agency expenses:						
Boys & Girls Club	-	119,506	-	-	-	119,506
City of La Habra	-	424,600	-	-	-	424,600
Santa Ana Unified School District	-	4,092,674	-	-	-	4,092,674
Total delegate agency expenses	<u>-</u>	<u>4,636,780</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,636,780</u>
Delegate in-kind contributions	-	1,206,120	-	173,319	43,617	1,423,056
Total Head Start expenses	<u>17,950,211</u>	<u>6,740,804</u>	<u>6,210,254</u>	<u>3,897,839</u>	<u>1,241,045</u>	<u>36,040,153</u>
Total Child and Adult Care Food Program expenses	<u>32,310</u>	<u>-</u>	<u>12,968</u>	<u>11,129</u>	<u>1,178,369</u>	<u>1,234,776</u>
Miscellaneous donations	-	1,447	27	76,848	3,595	81,917
Total other grants	<u>-</u>	<u>1,447</u>	<u>27</u>	<u>76,848</u>	<u>3,595</u>	<u>81,917</u>
Total program expenses	<u>17,982,521</u>	<u>6,742,251</u>	<u>6,223,249</u>	<u>3,985,816</u>	<u>2,423,009</u>	<u>37,356,846</u>
Total expenses	<u>\$ 19,343,806</u>	<u>\$ 6,887,923</u>	<u>\$ 6,458,843</u>	<u>\$ 5,823,635</u>	<u>\$ 3,696,264</u>	<u>\$ 42,210,471</u>

Note:

In-kind contributions of volunteer services in the amount of \$73,063 were not recorded in the financial statements because they did not meet the criteria for recognition.

ORANGE COUNTY HEAD START, INC.
SUPPLEMENTAL SCHEDULE OF EXPENSES BY HEAD START CENTERS
For the year ended June 30, 2022

	Personnel	Contractual	Fringe Benefits	Other	Supplies	Total
Expenses by Center:						
Head Start:						
HS Home Base North	\$ 36,159	\$ -	\$ 8,748	\$ 656	\$ 671	\$ 46,234
HS Home Base South	46,169	-	10,468	424	519	57,580
HS Home Base East	44,765	-	13,806	720	34	59,325
Placentia	256,415	-	98,203	104,438	11,886	470,942
Capo	257,516	-	83,128	63,001	8,732	412,377
D. L. Wood	251,043	-	80,096	62,177	11,809	405,125
Fullerton	279,907	-	84,110	78,150	13,616	455,783
Delhi	366,309	-	143,757	103,196	12,084	625,346
Brea	2,251	-	335	234,615	271	237,472
Buena Park	244,867	-	96,404	45,859	11,510	398,640
Baden Powell	328,634	-	121,086	46,938	16,796	513,454
Walter	206,654	-	69,766	31,961	10,532	318,913
Pleasant View	233,260	-	76,543	27,968	12,204	349,975
Evelyne Lobo Villegas	132,034	-	33,222	54,243	6,708	226,207
Centralia	317,649	1,376	116,633	75,964	14,589	526,211
Matt Kline	261,522	-	105,236	30,158	13,168	410,084
KIDS	270,846	-	95,962	112,630	7,198	486,636
Glenn L. Martin	271,224	-	88,900	18,599	12,650	391,373
Schweitzer	168,717	-	51,199	23,854	4,969	248,739
Topaz	284,476	1,064	106,644	27,143	9,485	428,812
Stanton	267,849	-	93,332	167,869	10,736	539,786
Hope Center	254,180	-	81,466	62,245	7,266	405,157
Andrews	121,895	358	40,594	40,384	8,572	211,803
Franklin	207,680	-	72,781	24,158	9,040	313,659
Carver	124,966	-	41,880	426	5,214	172,486
Lambert-La Harbra	358,088	-	122,087	45,060	12,980	538,215
Oakcrest	238,810	-	80,914	58,264	16,043	394,031
Center	259,021	-	98,633	39,856	15,669	413,179
Hewes	279,762	-	102,900	65,192	5,823	453,677
Total	\$ 6,372,668	\$ 2,798	\$ 2,218,833	\$ 1,646,148	\$ 270,774	\$ 10,511,221

ORANGE COUNTY HEAD START, INC.

SUPPLEMENTAL SCHEDULE OF EXPENSES BY EARLY HEAD START CENTERS, Continued

For the year ended June 30, 2022

	Personnel	Contractual	Fringe Benefits	Other	Supplies	Total
Expenses by Center:						
Early Head Start:						
EHS-Allocations	\$ 1,138,938	\$ -	\$ 332,457	\$ 83,147	\$ 81,552	\$ 1,636,094
Home Base North EHS	189,880	-	61,350	3,829	105	255,164
Home Base South EHS	245,433	-	70,849	4,120	321	320,723
Home Base East EHS	258,082	-	84,788	4,233	900	348,003
Home Base West EHS	221,093	-	72,607	4,560	4,277	302,537
Buena Park EHS	347,681	-	118,600	65,910	13,087	545,278
Topaz EHS	584,970	1,008	204,372	22,909	7,271	820,530
KIDS EHS	575,706	-	195,460	64,835	12,699	848,700
Baden Powell EHS	136,563	-	47,490	5,731	237	190,021
Franklin EHS	148,379	-	30,732	5,099	6,024	190,234
Centralia EHS	137,644	165	44,562	8,319	1,771	192,461
Capo EHS	115,172	-	36,341	-	1,255	152,768
Fullerton EHS	207,017	-	66,291	27,865	1,962	303,135
Andrews EHS	255,955	301	65,271	34,511	4,586	360,624
Crescent EHS	515,539	2,552	174,555	118,913	16,748	828,307
4Th Street EHS	99,777	-	26,734	27,375	2,181	156,067
Evelyne Lobo Villeags EHS	123,337	-	38,613	25,330	19	187,299
Ruby Drive EHS	424,937	5,126	115,498	28,251	11,869	585,681
Matt Kline EHS	334,047	-	102,870	8,827	1,480	447,224
Pleasant View EHS	210,092	-	66,230	8,972	1,581	286,875
Schweitzer EHS	154,597	-	51,772	4,268	3,307	213,944
D. L. Wood EHS	101,429	-	33,426	-	-	134,855
Brea EHS	4,344	-	(4,474)	11,201	-	11,071
Placentia EHS	206,474	-	66,915	47,452	9,896	330,737
Walter EHS	130,425	-	45,355	8,085	598	184,463
Gled Martin EHS	107,345	-	39,121	193	2,255	148,914
Stanton EHS	68,001	-	19,546	-	695	88,242
Lambert-La Habra EHS	71,292	-	20,014	5,483	951	97,740
Center EHS	136,628	-	47,490	178	1,460	185,756
Total	\$ 7,250,777	\$ 9,152	\$ 2,274,835	\$ 629,596	\$ 189,087	\$ 10,353,447

ORANGE COUNTY HEAD START, INC.
SUPPLEMENTAL SCHEDULE OF EXPENSES COMPARED TO BUDGET
For the year ended June 30, 2022

	Budget	Actual	Actual Over (Under) Budget
Expenses:			
Personnel	\$ 19,110,568	\$ 19,077,623	\$ (32,945)
Contractual	4,764,645	4,971,815	207,170
Fringe benefits	6,593,344	6,442,687	(150,657)
Other	4,855,019	4,975,066	120,047
Supplies	2,069,868	2,009,143	(60,725)
Total	37,393,444	37,476,334	82,890
Covid-19 funds	1,134,202	1,134,202	-
In-kind match Head Start	1,248,361	2,283,242	1,034,881
Total expenses	<u>\$ 39,776,007</u>	<u>\$ 40,893,778</u>	<u>\$ 1,117,771</u>

Note:

In-kind contributions of volunteer services in the amount of \$73,063 were not recorded in the financial statements because they did not meet the criteria for recognition 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, 2021 through June 30, 2022

Month	Breakfast	Rate	Total	Lunch	Rate	Total	Snacks	Rate	Total	Total Federal	Total Meals
July 2021	3,872	\$ 1.97	\$ 7,628	4,287	\$ 3.66	\$ 15,690	3,625	\$ 1.00	\$ 3,625	\$ 26,943	11,784
August 2021	2,934	1.97	5,780	3,294	3.66	12,056	2,786	1.00	2,786	20,622	9,014
September 2021	11,690	1.97	23,029	13,297	3.66	48,667	9,684	1.00	9,684	81,380	34,671
October 2021	15,763	1.97	31,053	18,193	3.66	66,586	13,004	1.00	13,004	110,643	46,960
November 2021	12,403	1.97	24,434	14,325	3.66	52,430	10,085	1.00	10,085	86,948	36,813
December 2021	10,090	1.97	19,877	11,651	3.66	42,643	8,075	1.00	8,075	70,595	29,816
January 2022	6,541	1.97	12,886	7,371	3.66	26,978	5,524	1.00	5,524	45,388	19,436
February 2022	14,213	1.97	28,000	16,382	3.66	59,958	11,272	1.00	11,272	99,230	41,867
March 2022	18,256	1.97	35,964	21,422	3.66	78,405	14,993	1.00	14,993	129,362	54,671
April 2022	13,465	1.97	26,526	15,679	3.66	57,385	10,908	1.00	10,908	94,819	40,052
May 2022	17,657	1.97	34,784	20,528	3.66	75,132	14,339	1.00	14,339	124,256	52,524
June 2022	14,036	1.97	27,651	16,405	3.66	60,042	12,314	1.00	12,314	100,007	42,755
Total center meals	<u>140,920</u>			<u>162,834</u>			<u>116,609</u>				<u>420,363</u>
Total federal			<u>\$ 277,612</u>			<u>\$ 595,972</u>			<u>\$ 116,609</u>	<u>\$ 990,194</u>	
Federal reimbursement										\$ 990,194	
Cash-in-lieu of Commodities (lunch and supper meals)								0.2600	162,834	42,337	
State reimbursement (breakfast and lunch)								0.1853	303,754	56,286	
ECR funds								205,959.47	(60,000)	<u>145,959</u>	
										<u>\$ 1,234,776</u>	

ORANGE COUNTY HEAD START, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing (CFDA) Number	Grant Number	Passed Through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services				
Head Start Cluster	93.600	09CH01114603	\$ 4,636,780	\$ 37,393,444
COVID-19 Head Start Cluster	93.660	09HE00031401C6	-	1,134,202
Total Head Start Cluster			4,636,780	38,527,646
Department of Agriculture				
Pass-through from State of California				
Department of Education				
Child Care Food Program	10.558	30-1453-OJ	-	1,178,490
Total expenditures of federal awards			<u>\$ 4,636,780</u>	<u>\$ 39,706,136</u>

ORANGE COUNTY HEAD START, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2022

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, 2022. The information in the 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.



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**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, 2022, 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 29, 2023.

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 procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCHS's internal control. Accordingly, we do not express an opinion on the effectiveness of OCHS's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature in black ink that reads "BPM LLP". The letter "B" is stylized with a diagonal stroke.

Long Beach, California
March 29, 2023



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

Opinion on Each Major Federal Program

We have audited Orange County Head Start, Inc.'s ("OCHS") compliance with the types of compliance requirements identified as subject to audit 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, 2022. OCHS's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

In our opinion, OCHS complied, in all material respects, with the 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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of OCHS and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of OCHS's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to OCHS's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on OCHS's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about OCHS's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with U.S. GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding OCHS's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of OCHS's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 OCHS's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Handwritten signature in black ink that reads "BPM LLP". The "B" is stylized with a diagonal slash.

Long Beach, California
March 29, 2023

ORANGE COUNTY HEAD START, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2022

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
Number 93.600 |
| Child Care Food | Assistance Listing
Number 10.558 |
| 8. Dollar threshold used to distinguish between type A and type B programs: | \$1,191,184 |
| 9. Auditee qualified as a low risk auditee? | Yes |

Section II: Financial Statement Findings

No matters were reported.

Section III: Federal Award Findings and Questioned Costs

No matters were reported.

Section IV: Status of Prior Year Findings

No matters were reported.