

ORANGE COUNTY HEAD START, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

June 30, 2023 and 2022



**Orange County
Head Start, Inc.**

Brilliant Beginnings. Bright Futures.

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, 2023 and 2022, 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, 2023 and 2022, 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 judgment 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' 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' 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 – 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 by Early 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.

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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2024 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.

BPM LLP

Long Beach, California
March 28, 2024

ORANGE COUNTY HEAD START, INC.

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,785,546	\$ 1,867,290
Restricted cash	15,000	-
Grants receivable	2,085,782	3,484,191
Other receivables	10,205	2,771
Prepaid expenses	926	88,103
Total current assets	<u>4,897,459</u>	<u>5,442,355</u>
Other assets:		
Right-of-use asset - operating leases, net	5,497,588	-
Deposits	66,997	61,997
Total other assets	<u>5,564,585</u>	<u>61,997</u>
Total assets	<u>\$ 10,462,044</u>	<u>\$ 5,504,352</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 37,987	\$ 773,583
Accrued expenses - other	3,324,757	3,050,181
Advances - other grants	158,321	216,521
Deferred rent	-	256,345
Short-term lease liability - operating	1,607,203	-
Total current liabilities	<u>5,128,268</u>	<u>4,296,630</u>
Long-term liabilities:		
Long-term lease liability - operating	4,272,011	-
Total long-term liabilities	<u>4,272,011</u>	<u>-</u>
Total liabilities	<u>9,400,279</u>	<u>4,296,630</u>
Commitments and contingencies		
Net assets:		
Without donor restrictions	1,061,765	1,207,722
Total net assets	<u>1,061,765</u>	<u>1,207,722</u>
Total liabilities and net assets	<u>\$ 10,462,044</u>	<u>\$ 5,504,352</u>

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

ORANGE COUNTY HEAD START, INC.

STATEMENTS OF ACTIVITIES

For the years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Public support and revenue:		
Head Start grants	\$ 36,267,453	\$ 38,527,646
In-kind contributions	3,265,664	2,283,242
Child Care Food Program	1,220,754	1,234,776
Other grants	<u>32,541</u>	<u>47,938</u>
Total public support and revenue	<u>40,786,412</u>	<u>42,093,602</u>
Expenses:		
Program services:		
Head Start	35,893,691	36,040,153
Child Care Food Program	<u>1,220,754</u>	<u>1,234,776</u>
Total program services	37,114,445	37,274,929
Supporting services:		
Management and general	<u>3,817,924</u>	<u>4,935,542</u>
Total expenses	<u>40,932,369</u>	<u>42,210,471</u>
Decrease in net assets	(145,957)	(116,869)
Net assets, beginning of year	<u>1,207,722</u>	<u>1,324,591</u>
Net assets, end of year	<u>\$ 1,061,765</u>	<u>\$ 1,207,722</u>

ORANGE COUNTY HEAD START, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended June 30, 2023 and 2022

	2023					2022				
	Program Services		Supporting Services		Total Expenses	Program Services		Supporting Services		Total Expenses
	Head Start	Child Care Food Program	Subtotal	Management and General		Head Start	Child Care Food Program	Subtotal	Management and General	
Personnel	\$ 18,258,556	\$ 64,341	\$ 18,322,897	\$ 1,600,718	\$ 19,923,615	\$ 17,950,211	\$ 32,310	\$ 17,982,521	\$ 1,361,285	\$ 19,343,806
Occupancy	5,763,045	-	5,763,045	569,972	6,333,017	3,390,513	-	3,390,513	1,595,536	4,986,049
Fringe benefits	5,670,498	20,983	5,691,481	464,607	6,156,088	6,210,254	12,968	6,223,222	235,621	6,458,843
Contractual	4,051,502	-	4,051,502	56,992	4,108,494	6,740,804	-	6,740,804	147,119	6,887,923
Supplies	1,896,182	1,115,272	3,011,454	448,570	3,460,024	1,241,045	1,178,369	2,419,414	1,276,850	3,696,264
Other	253,908	20,158	274,066	677,065	951,131	507,326	11,129	518,455	319,131	837,586
Total expenses	\$ 35,893,691	\$ 1,220,754	\$ 37,114,445	\$ 3,817,924	\$ 40,932,369	\$ 36,040,153	\$ 1,234,776	\$ 37,274,929	\$ 4,935,542	\$ 42,210,471

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

ORANGE COUNTY HEAD START, INC.

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ (145,957)	\$ (116,869)
Adjustments to reconcile change in net assets to net cash provided (used in) operating activities:		
Depreciation	-	30,581
Operating lease right-of-use asset amortization	1,540,936	-
(Increase) decrease in assets:		
Grants receivable	1,398,409	(861,630)
Other receivables	(7,434)	364
Prepaid expenses	87,177	(88,103)
Deposits	(5,000)	-
Increase (decrease) in liabilities:		
Accounts payable	(735,596)	(372,462)
Accrued expenses - other	274,576	1,077,607
Advances - other grants	(58,200)	191,114
Deferred rent	(256,345)	54,904
Operating lease liability	(1,159,310)	-
Net cash provided by (used in) operating activities	<u>933,256</u>	<u>(84,494)</u>
Net change in cash and cash equivalents	933,256	(84,494)
Cash and cash equivalents, beginning of year	<u>1,867,290</u>	<u>1,951,784</u>
Cash, restricted cash and cash equivalents, end of year	<u>\$ 2,800,546</u>	<u>\$ 1,867,290</u>
The following table provides a reconciliation of cash and restricted cash reported within the statements of financial position that sum to the total of such amounts shown above:		
Cash and cash equivalents	\$ 2,785,546	\$ 1,867,290
Restricted cash	<u>15,000</u>	<u>-</u>
	<u>\$ 2,800,546</u>	<u>\$ 1,867,290</u>

ORANGE COUNTY HEAD START, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

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 provides training and technical assistance to OCHS's program staff.

Child Care Food Program Services

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

2. Summary of Significant Accounting Policies

Accounting Principles

OCHS's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), using the accrual basis of accounting.

ORANGE COUNTY HEAD START, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

2. Summary of Significant Accounting Policies, continued

Financial Statement 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 that 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 statements 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 statements 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. At June 30, 2021, gross grants receivable and other receivable were \$2,622,561 and \$3,135, respectively.

Revenue from Contracts with Customers

OCHS revenue is recognized to depict the transfer of goods or services to customers at an amount that the Organization expects to be entitled to in exchange for those goods or services. To accomplish that core principle, the Organization utilizes a five-step process as follows: (i) identifies the contract, or contracts, with a customer; (ii) identifies of the performance obligations in the contract; (iii) determines the transaction price; (iv) allocates the transaction price to the performance obligations in the contract, and (v) recognizes revenue when, or as, it satisfies a performance obligation. The Organization had no revenue from contracts with customers for the years ended June 30, 2023 and 2022.

ORANGE COUNTY HEAD START, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

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 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.

Restricted Cash

As of June 30, 2023, the Organization had \$15,000 in restricted cash and accounts payable. The Organization entered into a sponsorship to write a grant for an unrelated non-profit organization, to receive and hold grant funds awarded, and to disburse the funds based on the approved projects to the unrelated non-profit organization.

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. As of June 30, 2023 and 2022, the total cost of fixed assets acquired through federal grant resources and on hand was \$5,587,788 and \$6,242,533, respectively.

OCHS follows Title 2 in the U.S. 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.

ORANGE COUNTY HEAD START, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

2. Summary of Significant Accounting Policies, continued

Property and Equipment, Net, continued

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, 2023 and 2022, the impairment charges recognized on property and equipment, acquired through federal grant resources, were \$650,992 and \$303,742, 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 statements 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, 2023 and 2022.

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 United States of America ("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.

ORANGE COUNTY HEAD START, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

2. Summary of Significant Accounting Policies, continued

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 be purchased by the Organization. Volunteer services are not recognized as contributions in the financial statements since the recognition criteria were not met. Contributed nonfinancial assets are presented as a separate line item in the statements of activities, apart from contributions of cash and other financial assets. OCHS is required to disclose (a) a disaggregation of the amount of contributed nonfinancial assets recognized within the statements of activities by category that depicts the type of contributed nonfinancial assets and (b) for each category of contributed nonfinancial assets recognized, (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 non-financial 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 statements 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, 2023 and 2022, approximately 89% and 92%, respectively, of the funding for OCHS came from the DHHS. As of June 30, 2023 and 2022, amounts due from the DHHS in grants receivable were \$1,806,019 and \$3,237,609, respectively, which accounted for 87% and 93%, respectively, of total grants receivable.

In addition, as of June 30, 2023 and 2022, amounts due from the State of California for the child care food program were \$279,763 and \$246,582, respectively, which accounted for 13% and 7%, respectively, of total grants receivable.

ORANGE COUNTY HEAD START, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

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, 2023 and 2022, 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.

Recently Adopted Accounting Pronouncements - Leases

Effective July 1, 2022, the Organization adopted FASB ASC 842, *Leases* ("ASC 842"), which establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability on the statement of financial position for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. Leases with a term of less than 12 months will not record a ROU asset and lease liability and the payments will be recognized in the change in net assets on a straight-line basis over the lease term.

The Organization elected to adopt ASC 842 using the optional transition method that allows the Organization to initially apply ASC 842 at the adoption date and recognize a cumulative effect adjustment to the opening balance of net assets in the period of adoption. As a result, the Organization reporting for the comparative period presented in the financial statements is in accordance with FASB ASC 840. The Organization elected to adopt the package of practical expedients available under the transition guidance with ASC 842. This package includes the following relief from determination of lease contracts included in existing or expiring leases at the point of adoption, relief from having to reevaluate the classification of leases in effect at the point of adoption, and relief from reevaluation of existing leases that have initial direct costs associated with the execution of the lease contract. The Organization also elected to adopt the practical expedient to use hindsight to determine the lease term and assess the impairment of the ROU assets.

Adoption of ASC 842 resulted in the recording of ROU asset – operating leases of \$7,038,524 and lease liability – operating leases of \$7,294,869 as of July 1, 2022. The difference in ROU asset and lease liability was the result in the elimination of the deferred rent account from the statements of financial position.

Recent Accounting Pronouncements

Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in ASU 2016-13 replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for fiscal year beginning after December 15, 2022. Early adoption is permitted. Management is currently evaluating the impact of the pending adoption of ASU 2016-13 on the Organization's financial statements and disclosures.

ORANGE COUNTY HEAD START, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

3. Liquidity and Availability of Financial Assets

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

	<u>2023</u>	<u>2022</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 2,785,546	\$ 1,867,290
Grants receivable	2,085,782	3,484,191
Other receivable	<u>10,205</u>	<u>2,771</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,881,533</u>	<u>\$ 5,354,252</u>

As of June 30, 2023 and 2022, the Organization had \$4,881,533 and \$5,354,252, respectively, of financial assets available within one year of the statement of financial position 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.

4. Grants Receivable

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

	<u>2023</u>	<u>2022</u>
Head Start	\$ 1,806,019	\$ 3,237,609
Child Care Food Program	<u>279,763</u>	<u>246,582</u>
Total grants receivable	<u>\$ 2,085,782</u>	<u>\$ 3,484,191</u>

OCHS has not accrued an allowance for uncollectible receivables as of June 30, 2023 and 2022, since it is the opinion of management that it is highly probable that all receivables will be collected within one year. Furthermore, OCHS has not experienced any significant write-offs in past years, as all grant receivables are owed by governmental agencies with committed funding arrangements.

ORANGE COUNTY HEAD START, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

5. Property and Equipment, Net

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

	<u>2023</u>	<u>2022</u>
Leasehold improvements	\$ 152,909	\$ 152,909
Less: accumulated depreciation	<u>(152,909)</u>	<u>(152,909)</u>
Property and equipment, net	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense was \$0 and \$30,581 for the years ended June 30, 2023 and 2022, respectively.

6. Accrued Expenses - Other

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

	<u>2023</u>	<u>2022</u>
Accrued payroll	\$ 790,331	\$ 757,852
Accrued vacation	512,823	548,698
Accrued expenses - state food	185,303	-
Accrued expenses	<u>1,836,300</u>	<u>1,743,631</u>
Total accrued expenses - other	<u>\$ 3,324,757</u>	<u>\$ 3,050,181</u>

7. 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, 2023 and 2022, OCHS's retirement contributions totaled \$1,256,210 and \$1,246,047, 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.

ORANGE COUNTY HEAD START, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

8. Contributed Nonfinancial Assets

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

	2023	2022
Personnel	\$ 191,755	\$ -
Contractual	1,397,522	1,246,258
Others	19,264	156,139
Occupancy	1,409,194	546,869
Supplies	247,929	333,976
Total reported on schedule of activities by grant	3,265,664	2,283,242
Additional in-kind contributions that meet federal guidelines but not recognized in financial statements	110,367	73,063
Total in-kind contributions reported on Head Start schedule of expenses compared to budget	\$ 3,376,031	\$ 2,356,305

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 U.S. 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.

9. 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. 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.

OCHS also leases certain office equipment under leases classified as operating leases.

ORANGE COUNTY HEAD START, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

9. Leases, continued

Supplemental statement of financial position information related to leases as of June 30, 2023:

Right-of-use asset - operating	\$ 7,038,524
Right-of-use asset - operating, accumulated amortization	<u>(1,540,936)</u>
Right-of-use asset - operating lease, net	<u>\$ 5,497,588</u>
Short-term lease liability - operating	\$ 1,607,203
Long-term lease liability - operating	<u>4,272,011</u>
Total lease liabilities - operating	<u>\$ 5,879,214</u>

Supplemental cash flow information related to leases as of June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	<u>\$ 1,574,321</u>
Lease assets obtained in exchange for lease obligations:	
Operating lease	<u>\$ 7,294,869</u>

Other information related to leases as of June 30, 2023:

Operating leases:	
Weighted-average remaining lease term (in years):	3.91
Weighted-average discount rate:	2.46%

Future maturities of lease liabilities are presented in the following table:

For the years ending June 30:	
2024	\$ 1,698,547
2025	1,419,951
2026	1,238,830
2027	1,184,400
2028	523,276
Thereafter	<u>120,000</u>
Total lease payments	6,185,004
Less: Interest and discount	<u>(305,790)</u>
Present value of lease liabilities	<u>\$ 5,879,214</u>

10. Subsequent Events

In preparing these financial statements, OCHS evaluated the period from July 1, 2023 through March 28, 2024, 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, 2023 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, 2023

	Head Start		Child Care Food Program	Others	Total
	Grants	In-Kind			
Revenue:					
Head Start grant	\$ 36,267,453	\$ -	\$ 36,267,453	\$ -	\$ 36,267,453
In-kind contributions	-	3,265,664	3,265,664	-	3,265,664
Child Care Food Program	-	-	-	1,220,754	1,220,754
Other grants	-	-	-	32,541	32,541
Total revenue	36,267,453	3,265,664	39,533,117	1,220,754	40,786,412
Expenses:					
Personnel	19,666,859	191,755	19,858,614	64,341	19,923,615
Contractual	2,694,056	1,397,522	4,091,578	-	4,108,494
Fringe benefits	6,134,641	-	6,134,641	20,983	6,156,088
Other	5,801,571	1,428,458	7,230,029	20,158	7,284,148
Supplies	2,095,615	247,929	2,343,544	1,115,272	3,460,024
Total expenses	36,392,742	3,265,664	39,658,406	1,220,754	40,932,369
Change in net assets	\$ (125,289)	\$ -	\$ (125,289)	\$ -	\$ (20,668)
	\$ (145,957)				\$ (145,957)

Note:

In-kind contributions of volunteer services in the amount of \$110,367 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, 2023

	Personnel	Contractual	Fringe Benefits	Other	Supplies	Total
Administration expenses:						
Executive	\$ 227,844	\$ 3,219	\$ 50,102	\$ 90,738	\$ 3,441	\$ 375,344
Quality systems	613,355	93	174,012	140,370	20,260	948,090
Human resources	167,320	14,504	69,458	123,971	3,854	379,107
Accounting/procurement	385,703	63,866	115,951	370,514	29,010	965,044
Administrative - miscellaneous	206,496	(24,690)	55,084	521,444	392,005	1,150,339
Total administration expenses	1,600,718	56,992	464,607	1,247,037	448,570	3,817,924
Program expenses:						
Facilities	63,167	-	13,861	506,640	2,733	586,401
Governance	31,090	-	4,454	3,034	103	38,681
Education	564,709	270,929	130,104	655,950	232,077	1,853,769
Disabilities	209,457	-	58,034	7,877	415	275,783
Health	346,247	-	99,850	5,049	7,555	458,701
Social services	957,671	-	318,187	8,917	7,578	1,292,353
Program services	459,883	-	126,624	263,435	9,054	858,996
Food services/nutrition	590,183	-	215,394	49,209	450,372	1,305,158
Grantee Head Start T&TA	83,729	100,117	206,946	52,272	1,458	444,522
Early Head Start	6,732,234	664,499	2,147,848	1,242,138	253,924	11,040,643
Total program expenses	10,038,370	1,035,545	3,321,302	2,794,521	965,269	18,155,007
Centers' expenses	5,890,164	990	2,031,931	1,585,896	306,779	9,815,760
COVID-19 funds	2,137,607	1,508,194	316,801	174,117	374,997	4,511,716
Grantee in-kind contributions	-	1,395,458	-	1,407,625	243,981	3,047,064
Total grantee expenses	18,066,141	3,940,187	5,670,034	5,962,159	1,891,026	35,529,547
Delegate agency expenses:						
Boys & Girls Club	-	92,335	-	-	-	92,335
Total delegate agency expenses	-	92,335	-	-	-	92,335
Delegate in-kind contributions	191,755	2,064	-	20,833	3,948	218,600
Total Head Start expenses	18,257,896	4,034,586	5,670,034	5,982,992	1,894,974	35,840,482
Total Child Care Food Program expenses	64,341	-	20,983	20,158	1,115,272	1,220,754
Miscellaneous donations	660	16,916	464	33,961	1,208	53,209
Total other grants	660	16,916	464	33,961	1,208	53,209
Total program expenses	18,322,897	4,051,502	5,691,481	6,037,111	3,011,454	37,114,445
Total expenses	\$ 19,923,615	\$ 4,108,494	\$ 6,156,088	\$ 7,284,148	\$ 3,460,024	\$ 40,932,369

Note:

In-kind contributions of volunteer services in the amount of \$110,367 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, 2023

	Personnel	Contractual	Fringe Benefits	Other	Supplies	Total
Expenses by Center:						
Head Start:						
HS Home Base North	\$ 19,841	\$ -	\$ 8,301	\$ 144	\$ 1,127	\$ 29,413
HS Home Base South	9,629	-	6,253	886	132	16,900
HS Home Base West	-	-	2,368	126	2,186	4,680
HS Home Base East	(1,191)	-	(6,437)	-	-	(7,628)
HS Home Base Central	-	-	-	1,153	-	1,153
Placentia	255,317	-	78,769	109,948	11,661	455,695
Capo	212,649	-	77,674	53,317	10,896	354,536
D. L. Wood	294,818	-	87,016	61,223	9,671	452,728
Fullerton	247,555	-	67,650	91,619	14,585	421,409
Delhi	306,275	-	119,053	130,346	11,899	567,573
Bewley	-	-	-	37,761	-	37,761
Brea	7,159	-	3,317	75,074	1	85,551
Broadway	-	-	-	22,362	-	22,362
Buena Park	260,600	-	90,202	45,098	3,979	399,879
Baden Powell	361,931	-	127,783	34,018	24,886	548,618
Walter	227,277	-	60,033	32,783	4,304	324,397
Pleasant View	220,640	-	80,662	42,209	18,607	362,118
Evelyne Lobo Villegas	144,074	-	42,224	56,420	7,341	250,059
Centralia	276,322	-	101,159	67,718	14,742	459,941
Matt Kline	255,157	-	92,716	33,115	17,787	398,775
KIDS	296,286	-	109,330	168,389	14,220	588,225
Glenn L. Martin	120,461	990	47,118	20,261	9,718	198,548
Schweitzer	90,424	-	30,696	23,200	6,588	150,908
Topaz	245,200	-	87,608	25,564	30,034	388,406
Stanton	245,149	-	91,206	105,556	16,371	458,282
Hope Center	191,406	-	62,801	68,250	10,406	332,863
Andrews	99,528	-	43,473	40,008	11,523	194,532
Franklin	192,695	-	62,017	28,824	11,858	295,394
Carver	141,573	-	50,013	126	2,975	194,687
Lambert-La Harbra	323,054	-	113,514	43,720	12,496	492,784
Oakcrest	178,519	-	59,384	58,027	5,184	301,114
California	-	-	-	-	-	-
Center	368,065	-	127,017	66,182	13,093	574,357
Handy	-	-	-	-	-	-
Hewes	299,751	-	109,011	42,469	8,509	459,740
Taft	-	-	-	-	-	-
West Orange	-	-	-	-	-	-
Total	\$ 5,890,164	\$ 990	\$ 2,031,931	\$ 1,585,896	\$ 306,779	\$ 9,815,760

ORANGE COUNTY HEAD START, INC.
SUPPLEMENTAL SCHEDULE OF EXPENSES BY EARLY HEAD START CENTERS
For the year ended June 30, 2023

	Personnel	Contractual	Fringe Benefits	Other	Supplies	Total
Expenses by Center:						
Early Head Start:						
EHS-Allocations	\$ 1,932,053	\$ 664,499	\$ 619,816	\$ 702,631	\$ 88,286	\$ 4,007,285
Home Base North EHS	211,931	-	76,471	5,579	271	294,252
Home Base South EHS	152,737	-	61,920	7,619	417	222,693
Home Base East EHS	45,296	-	12,665	440	272	58,673
Home Base Central EHS	147,031	-	51,393	5,402	-	203,826
Home Base West EHS	72,931	-	18,064	2,205	800	94,000
Buena Park EHS	277,925	-	90,444	73,779	7,625	449,773
Topaz EHS	446,479	-	159,763	19,914	6,549	632,705
KIDS EHS	528,410	-	171,998	76,044	15,914	792,366
Baden Powell EHS	83,077	-	30,108	6,486	340	120,011
Franklin EHS	153,457	-	44,928	4,247	(994)	201,638
Centralia EHS	52,286	-	9,518	8,624	28,411	98,839
Capo EHS	143,273	-	40,882	28	59	184,242
Fullerton EHS	113,228	-	34,538	28,325	2,669	178,760
Andrews EHS	197,921	-	52,757	45,714	4,422	300,814
Crescent EHS	411,713	-	126,523	119,708	19,401	677,345
4Th Street EHS	-	-	-	-	-	-
Evelyn Lobo Villeags EHS	127,863	-	34,116	26,040	2,912	190,931
Hope EHS	-	-	-	1,028	-	1,028
Ruby Drive EHS	363,397	-	106,324	26,094	27,653	523,468
Matt Kline EHS	408,397	-	122,972	12,427	1,309	545,105
Pleasant View EHS	166,282	-	51,120	10,432	(235)	227,599
Schweitzer EHS	58,498	-	20,154	3,916	76	82,644
Bewley EHS	-	-	-	30,000	-	30,000
D. L. Wood EHS	68,475	-	20,626	-	-	89,101
Brea EHS	-	-	677	-	-	677
Placentia EHS	131,238	-	43,946	8,856	1,133	185,173
Walter EHS	58,698	-	23,515	10,636	-	92,849
Gled Martin EHS	140,094	-	49,467	103	44,264	233,928
Stanton EHS	99,580	-	33,555	-	159	133,294
Lambert-La Habra EHS	109,967	-	30,704	5,813	2,211	148,695
Center EHS	29,997	-	8,884	48	-	38,929
Total	\$ 6,732,234	\$ 664,499	\$ 2,147,848	\$ 1,242,138	\$ 253,924	\$ 11,040,643

ORANGE COUNTY HEAD START, INC.
SUPPLEMENTAL SCHEDULE OF EXPENSES COMPARED TO BUDGET
For the year ended June 30, 2023

	<u>Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Expenses:			
Personnel	\$ 17,620,230	\$ 17,529,252	\$ (90,978)
Contractual	883,264	1,185,862	302,598
Fringe benefits	5,887,309	5,817,840	(69,469)
Other	5,836,540	5,627,454	(209,086)
Supplies	1,791,153	1,720,618	(70,535)
Total	32,018,496	31,881,026	(137,470)
In-kind match Head Start	2,929,324	3,265,664	336,340
Total expenses	<u>\$ 34,947,820</u>	<u>\$ 35,146,690</u>	<u>\$ 198,870</u>

Note:

In-kind contributions of volunteer services in the amount of \$110,367 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, 2022 through June 30, 2023

Month	Breakfast		Lunch		Snacks		Rate	Total	Total	
	Breakfast	Rate	Lunch	Rate	Snacks	Rate			Federal	Meals
July 2022	3,320	\$ 2.21	3,811	\$ 4.03	3,167	\$ 1.18	\$ 15,358	\$ 3,737	\$ 26,433	10,298
August 2022	2,817	2.21	3,231	4.03	2,678	1.18	13,021	3,160	22,407	8,726
September 2022	11,072	2.21	11,782	4.03	9,159	1.18	47,481	10,808	82,758	32,013
October 2022	12,987	2.21	13,982	4.03	10,998	1.18	56,347	12,978	98,026	37,967
November 2022	10,488	2.21	11,306	4.03	8,840	1.18	45,563	10,431	79,173	30,634
December 2022	10,358	2.21	11,395	4.03	8,843	1.18	45,922	10,435	79,248	30,596
January 2023	11,953	2.21	12,986	4.03	9,984	1.18	52,334	11,781	90,531	34,923
February 2023	14,195	2.21	15,385	4.03	12,044	1.18	62,002	14,212	107,584	41,624
March 2023	16,431	2.21	18,186	4.03	14,173	1.18	73,290	16,724	126,326	48,790
April 2023	11,738	2.21	13,016	4.03	10,211	1.18	52,454	12,049	90,444	34,965
May 2023	17,722	2.21	19,587	4.03	15,519	1.18	78,936	18,312	136,414	52,828
June 2023	15,244	2.21	17,026	4.03	13,830	1.18	68,615	16,319	118,623	46,100
Total center meals	138,325		151,693		119,446		\$ 611,323	\$ 140,946	\$ 1,057,967	409,464
Total federal										
Federal reimbursement										
Cash-in-lieu of Commodities (lunch and supper meals)						0.3000		151,693	\$ 45,508	
State reimbursement (breakfast and lunch)						0.1975		290,018	57,279	
ECR funds									60,000	
									\$ 1,220,754	

ORANGE COUNTY HEAD START, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2023

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Federal Award Identification Number	Passed Through to Subrecipients	Federal Expenditures
Department of Health and Human Services				
Head Start Cluster	93.600	09CH011146	\$ 92,335	\$ 31,755,736
COVID-19 Head Start Cluster	93.600	09CH011146	-	1,711,818
COVID-19 Head Start Cluster	93.600	09HE000314	-	2,799,899
Total Head Start Cluster			92,335	36,267,453
Department of Agriculture				
Pass-through from State of California				
Department of Education				
Child Care Food Program	10.558	30-1453-OJ	-	1,163,475
Total expenditures of federal awards			<u>\$ 92,335</u>	<u>\$ 37,430,928</u>

ORANGE COUNTY HEAD START, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2023

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, 2023. 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") (a nonprofit California Corporation), which comprise the statement of financial position as of June 30, 2023, 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 28, 2024.

Report 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 or significant deficiencies may exist that were not identified.

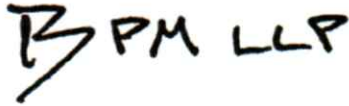
Report on Compliance and Other Matters

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*.

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 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 long, sweeping tail that extends downwards and to the left.

Long Beach, California
March 28, 2024



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, 2023. 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, 2023.

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.

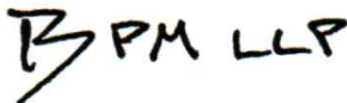
Report on Internal Control Over Compliance

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 through it.

Long Beach, California
March 28, 2024

ORANGE COUNTY HEAD START, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2023

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: | |
| Federal Assistance | |
| Listing Numbers Name of Federal Program or Cluster | |
| 93.600 Head Start Cluster | |
| 8. Dollar threshold used to distinguish between type A and type B programs: | \$1,122,928 |
| 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.