

**ORANGE COUNTY HEAD START, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

June 30, 2024 and 2023



# ORANGE COUNTY HEAD START, INC.

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

---

	Page(s)
Independent Auditors' Report	1–3
Financial Statements:	
Statements of Financial Position	4
Statements of Activities	5
Statements of Functional Expenses	6
Statements of Cash Flows	7
Notes to Financial Statements	8–18
Supplementary Information – Other Information:	
Supplemental Schedule of Activities by Grant for the year ended June 30, 2024	19
Supplemental Schedule of Expenses by Category for the year ended June 30, 2024	20
Supplemental Schedule of Expenses by Head Start Centers for the year ended June 30, 2024	21
Supplemental Schedule of Expenses by Early Head Start Centers for the year ended June 30, 2024	22
Supplemental Schedule of Head Start Expenses Compared to Budget for the year ended June 30, 2024	23
Supplemental Schedule of Reported Meals and Earned Reimbursement for the period July 1, 2023 through June 30, 2024	24
Supplementary Information – Schedule of Expenditures of Federal Awards:	
Schedule of Expenditures of Federal Awards for the year ended June 30, 2024	25
Notes to Schedule of Expenditures of Federal Awards for the year ended June 30, 2024	26
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27–28
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	29–30
Schedule of Findings and Questioned Costs as of and for the year ended June 30, 2024	31–33



3800 Kilroy Airport Way, Suite 250, Long Beach, CA 90806

Phone 562-420-3100 | Fax 562-420-3232 | [bpm@bpm.com](mailto:bpm@bpm.com)

## **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"), which comprise the statements of financial position as of June 30, 2024 and 2023, 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, 2024 and 2023, 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'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 – 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 19-25 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 May 13, 2025 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.

A handwritten signature in black ink that reads "BPM LLP". The "B" is stylized with a long horizontal stroke extending to the left.

Long Beach, California  
May 13, 2025

# ORANGE COUNTY HEAD START, INC.

## STATEMENTS OF FINANCIAL POSITION

As of June 30, 2024 and 2023

	2024	2023
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,169,189	\$ 2,785,546
Restricted cash	-	15,000
Grants receivable	3,111,388	2,085,782
Other receivables	3,362	10,205
Prepaid expenses	373,577	926
Total current assets	6,657,516	4,897,459
Other assets:		
Right-of-use asset - operating leases, net	5,078,105	5,497,588
Deposits	78,672	66,997
Total other assets	5,156,777	5,564,585
Total assets	\$ 11,814,293	\$ 10,462,044
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 54,065	\$ 37,987
Accrued expenses - other	5,301,758	3,324,757
Advances - other grants	173,321	158,321
Short-term lease liability - operating	1,553,184	1,607,203
Total current liabilities	7,082,328	5,128,268
Long-term liabilities:		
Long-term lease liability - operating	3,934,272	4,272,011
Total long-term liabilities	3,934,272	4,272,011
Total liabilities	11,016,600	9,400,279
Commitments and contingencies (Note 2)		
Net assets:		
Without donor restrictions	797,693	1,061,765
Total net assets	797,693	1,061,765
Total liabilities and net assets	\$ 11,814,293	\$ 10,462,044

# ORANGE COUNTY HEAD START, INC.

## STATEMENTS OF ACTIVITIES

For the years ended June 30, 2024 and 2023

	2024	2023
Public support and revenue:		
Head Start grants	\$ 42,211,645	\$ 36,267,453
In-kind contributions	3,869,937	3,265,664
Child Care Food Program	1,261,183	1,220,754
Other grants	14,100	32,541
Total public support and revenue	47,356,865	40,786,412
Expenses:		
Program services:		
Head Start	41,610,572	35,893,691
Child Care Food Program	1,261,183	1,220,754
Total program services	42,871,755	37,114,445
Supporting services:		
Management and general	4,749,182	3,817,924
Total expenses	47,620,937	40,932,369
Decrease in net assets	(264,072)	(145,957)
Net assets, beginning of year	1,061,765	1,207,722
Net assets, end of year	\$ 797,693	\$ 1,061,765

# ORANGE COUNTY HEAD START, INC.

## STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended June 30, 2024 and 2023

	2024					2023				
	Program Services			Supporting Services		Program Services			Supporting Services	
	Head Start	Child Care Food Program	Subtotal	Management and General	Total Expenses	Head Start	Child Care Food Program	Subtotal	Management and General	Total Expenses
Personnel	\$ 18,711,714	\$ 65,918	\$ 18,777,632	\$ 2,176,883	\$ 20,954,515	\$ 18,258,556	\$ 64,341	\$ 18,322,897	\$ 1,600,718	\$ 19,923,615
Occupancy	6,805,159	-	6,805,159	673,038	7,478,197	5,763,045	-	5,763,045	569,972	6,333,017
Fringe benefits	6,158,558	22,129	6,180,687	631,220	6,811,907	5,670,498	20,983	5,691,481	464,607	6,156,088
Contractual	6,143,666	-	6,143,666	412,813	6,556,479	4,051,502	-	4,051,502	56,992	4,108,494
Supplies	2,797,634	1,170,603	3,968,237	227,164	4,195,401	1,896,182	1,115,272	3,011,454	448,570	3,460,024
Other	993,841	2,533	996,374	628,064	1,624,438	253,908	20,158	274,066	677,065	951,131
Total expenses	<u>\$ 41,610,572</u>	<u>\$ 1,261,183</u>	<u>\$ 42,871,755</u>	<u>\$ 4,749,182</u>	<u>\$ 47,620,937</u>	<u>\$ 35,893,691</u>	<u>\$ 1,220,754</u>	<u>\$ 37,114,445</u>	<u>\$ 3,817,924</u>	<u>\$ 40,932,369</u>



# ORANGE COUNTY HEAD START, INC.

## STATEMENTS OF CASH FLOWS

For the years ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ (264,072)	\$ (145,957)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Operating lease right-of-use asset amortization	1,519,318	1,540,936
(Increase) decrease in assets:		
Grants receivable	(1,025,606)	1,398,409
Other receivables	6,843	(7,434)
Prepaid expenses	(372,651)	87,177
Deposits	(11,675)	(5,000)
Increase (decrease) in liabilities:		
Accounts payable	16,078	(735,596)
Accrued expenses - other	1,977,001	274,576
Advances - other grants	15,000	(58,200)
Deferred rent	-	(256,345)
Operating lease liability	(1,491,593)	(1,159,310)
Net cash provided by operating activities	368,643	933,256
Net change in cash and cash equivalents	368,643	933,256
Cash and cash equivalents, beginning of year	2,800,546	1,867,290
Cash, restricted cash and cash equivalents, end of year	\$ 3,169,189	\$ 2,800,546
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	\$ 3,169,189	\$ 2,785,546
Restricted cash	-	15,000
	\$ 3,169,189	\$ 2,800,546

# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

---

### 1. Organization and Purpose

The Head Start Program, administered by Orange County Head Start, Inc. ("OCHS," "Head Start," 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, 2024 and 2023

---

### 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 but 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 as a credit to the valuation allowance based on its assessment of the current expected credit loss of individual accounts. Balances outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and credit to grants or other receivable. As of June 30, 2024, gross grants receivable and other receivable were \$3,111,388 and \$3,362, respectively. As of June 30, 2023, gross grants receivable and other receivable were \$2,085,782 and \$10,205, 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, 2024 and 2023.

# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

---

### 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 fiscal 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. The unrelated non-profit organization no longer needed the grant funds. OCHS awaited an approval from the grantor to expend the grant funds to the Head Start programs. At June 30, 2024, OCHS reported the grant funds to advance other grants. There was no restricted cash at June 30, 2024.

#### ***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, 2024 and 2023, the total cost of fixed assets acquired through federal grant resources and on hand was \$5,550,163 and \$5,587,788, 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, 2024 and 2023

---

### 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, 2024 and 2023, the impairment charges recognized on property and equipment, acquired through federal grant resources, were \$186,453 and \$650,992, 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. The 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 on the statements of activities.

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, 2024 and 2023.

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, 2024 and 2023

---

### 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 non-financial 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, 2024 and 2023, approximately 89% of the funding for OCHS came from the DHHS. As of June 30, 2024 and 2023, amounts due from the DHHS in grants receivable were \$2,850,661 and \$1,806,019, respectively, which accounted for 92% and 87%, respectively, of total grants receivable.

In addition, as of June 30, 2024 and 2023, amounts due from the State of California for the child care food program were \$260,727 and \$279,763, respectively, which accounted for 8% and 13%, respectively, of total grants receivable.

# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

---

### 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, 2024 and 2023, 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.

#### ***Leases***

OCHS adheres to Financial Accounting Standards Board ASC 842, *Leases*, which establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability on the statements 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 statements 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.

#### ***Current Expected Credit Loss***

On July 1, 2023, the Organization adopted Accounting Standards Update ("ASU") 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), and all related subsequent amendments ("ASC 326"), which replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial assets using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Similar financial assets are grouped into separate pools based on unique financial characteristics, and an allowance is calculated for each pool. The Organization adopted ASC 326 using the modified retrospective approach for all financial assets measured at amortized cost and as a result, there was no impact to the Organization's beginning net assets.

The Organization has elected to use the loss rate method to calculate the allowance for current expected credit losses. The Organization believes that the historical loss information it has compiled is a reasonable base on which to determine current expected credit losses from grants and accounts receivable held as of June 30, 2024. This is because the composition of the grants and other receivables at that date is consistent with that used in developing the historical credit loss percentage (i.e., the similar risk characteristics of its customers and its lending practices have not changed significantly over time). The Organization has applied these loss percentage calculations to each of the separate pools of unique financial assets.

It is the Organization's policy to charge off uncollectible grants and accounts receivable when, based on current information and events, it is probable that the Organization will be unable to collect amounts due according to the original grant terms of the receivable agreement, without regard to any subsequent restructuring. The Organization's management has determined that an allowance for current expected credit loss was not necessary as of June 30, 2024.



# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

### 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:

	2024	2023
Financial assets at year-end:		
Cash and cash equivalents	\$ 3,169,189	\$ 2,785,546
Grants receivable	3,111,388	2,085,782
Other receivable	3,362	10,205
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,283,939</u>	<u>\$ 4,881,533</u>

As of June 30, 2024 and 2023, the Organization had \$6,283,939 and \$4,881,533, 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:

	2024	2023
Head Start	\$ 2,850,661	\$ 1,806,019
Child Care Food Program	260,727	279,763
Total grants receivable	<u>\$ 3,111,388</u>	<u>\$ 2,085,782</u>

OCHS has not accrued an allowance for expected credit losses as of June 30, 2024 and 2023, 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, 2024 and 2023

### 4. Grants Receivable, continued

On June 7, 2024, the Office of Head Start authorized to carry over \$15,015,245 of unspent fiscal year 2024 grant, to be spent by June 29, 2025. Management has designed these unspent funds for the purposes of acquiring the following:

Vehicles	\$	1,800,000
Program supplies		814,000
Capital improvements		750,000
		<hr/>
Subtotal		3,364,000
Remaining carried over grant		11,651,245
		<hr/>
Total	\$	15,015,245

### 5. Accrued Expenses - Other

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

	2024	2023
Accrued expenses	\$ 2,919,348	\$ 1,836,300
Accrued payroll	1,643,144	790,331
Accrued vacation	739,266	512,823
Accrued expenses - state food	-	185,303
	<hr/>	<hr/>
Total accrued expenses - other	5,301,758	\$ 3,324,757

### 6. Advances – Other Grants

Advances – other grants consisted of the following as of June 30:

	2024	2023
Advances - other grants at beginning of year	\$ 158,321	\$ 3,304
Increase in advances - other grants	15,000	155,017
Amounts recognized to revenue	-	-
	<hr/>	<hr/>
Advances - other grants at end of year	\$ 173,321	\$ 158,321

# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

### 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 11.1% of gross salaries of OCHS staff members into a tax-sheltered annuity program. For the years ended June 30, 2024 and 2023, OCHS's retirement contributions totaled \$1,917,128 and \$1,256,210, 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.

### 8. Contributed Nonfinancial Assets

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

	2024	2023
Contractual	\$ 1,730,495	\$ 1,397,522
Occupancy	1,614,965	1,409,194
Supplies	312,071	247,929
Personnel	144,990	191,755
Others	67,416	19,264
Total reported on schedule of activities by grant	3,869,937	3,265,664
Additional in-kind contributions that meet federal guidelines but not recognized in financial statements	147,108	110,367
Total in-kind contributions reported on Head Start schedule of expenses compared to budget	<u>\$ 4,017,045</u>	<u>\$ 3,376,031</u>

OCHS recognized contributed non-financial 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 years.

# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

### 9. Leases, continued

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

Supplemental statement of financial position information related to leases as of June 30, 2024:

ROU asset - operating	\$ 6,597,423
ROU asset - operating, accumulated amortization	<u>(1,519,318)</u>
ROU asset - operating lease, net	<u>\$ 5,078,105</u>
Short-term lease liability - operating	\$ 1,553,184
Long-term lease liability - operating	<u>3,934,272</u>
Total lease liabilities - operating	<u>\$ 5,487,456</u>

Supplemental cash flow information related to leases as of June 30, 2024:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	<u>\$ 1,655,456</u>
Lease assets obtained in exchange for lease obligations:	
Operating lease	<u>\$ 6,975,006</u>

Other information related to leases as of June 30, 2024:

Operating leases:	
Weighted-average remaining lease term (in years)	3.52
Weighted-average discount rate	2.97%

As of June 30, 2024, future maturities of lease liabilities are presented in the following tab:

For the years ending June 30:	
2025	\$ 1,696,372
2026	1,576,535
2027	1,533,528
2028	666,953
2029	190,905
Thereafter	<u>147,000</u>
Total lease payments	5,811,293
Less: interest and discount	<u>(323,837)</u>
Present value of lease liabilities	<u>\$ 5,487,456</u>

# ORANGE COUNTY HEAD START, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

---

### 10. Subsequent Events

In preparing these financial statements, OCHS evaluated the period from July 1, 2024 through May 13, 2025, 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, 2024 that require recognition or disclosure in such financial statements except as noted below.

On September 23, 2024, the Office of Head Start authorized to carry over \$9,262,261 from the unspent fiscal year 2024 grant award, for the purposes of acquiring real property. The carry-over grant was restructured as a conditional grant where OCHS is required to find and acquire real property by June 29, 2025. Management intends to meet the condition and recognize the grant revenue in fiscal year 2025.

## **SUPPLEMENTARY INFORMATION**

**ORANGE COUNTY HEAD START, INC.**  
**SUPPLEMENTAL SCHEDULE OF ACTIVITIES BY GRANT**  
For the year ended June 30, 2024

	Head Start			Child Care Food Program	Others	Total
	Grants	In-Kind	Total			
Revenue:						
Head Start grant	\$ 42,211,645	\$ -	\$ 42,211,645	\$ -	\$ -	\$ 42,211,645
In-kind contributions	-	3,869,937	3,869,937	-	-	3,869,937
Child Care Food Program	-	-	-	1,261,183	-	1,261,183
Other grants	-	-	-	-	14,100	14,100
Total revenue	42,211,645	3,869,937	46,081,582	1,261,183	14,100	47,356,865
Expenses:						
Personnel	20,743,607	144,990	20,888,597	65,918	-	20,954,515
Fringe benefits	6,789,440	-	6,789,440	22,129	337	6,811,906
Contractual	4,595,905	1,730,495	6,326,400	-	230,079	6,556,479
Supplies	2,709,620	312,071	3,021,691	1,170,603	3,107	4,195,401
Other	7,400,800	1,682,381	9,083,181	2,533	16,922	9,102,636
Total expenses	42,239,372	3,869,937	46,109,309	1,261,183	250,445	47,620,937
Change in net assets	\$ (27,727)	\$ -	\$ (27,727)	\$ -	\$ (236,345)	\$ (264,072)

**Note:**

In-kind contributions of volunteer services in the amount of \$147,108 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, 2024

	Personnel	Fringe Benefits	Contractual	Supplies	Other	Total
Administration expenses:						
Executive	\$ 337,723	\$ 82,506	\$ 175,707	\$ 31,393	\$ 112,342	\$ 739,671
Quality systems	824,761	253,704	-	15,997	160,932	1,255,394
Human resources	237,834	95,349	28,670	1,445	176,177	539,475
Accounting/procurement	466,314	105,122	123,980	34,891	656,320	1,386,627
Facilities	16,765	5,311	401	778	16,923	40,178
Governance	37,021	6,035	-	788	24,182	68,026
Administrative - miscellaneous	256,465	83,192	84,056	141,871	154,226	719,810
Total administration expenses	2,176,883	631,219	412,814	227,163	1,301,102	4,749,181
Program expenses:						
Facilities	150,883	47,803	3,607	7,002	180,030	389,325
Education	445,185	142,670	1,532,808	1,323,892	1,649,917	5,094,472
Disabilities	344,773	106,521	2,120	1,040	9,652	464,106
Health	546,362	155,227	-	3,798	5,548	710,935
Social services	1,646,988	527,906	-	5,507	10,428	2,190,829
Program services	614,893	192,602	-	2,972	361,359	1,171,826
Food services/nutrition	943,786	329,980	40	391,665	103,290	1,768,761
Grantee Head Start T&TA	-	-	223,794	10,881	307,450	542,125
Early Head Start	7,596,583	2,492,989	2,215,382	185,472	965,335	13,455,761
Total program expenses	12,289,453	3,995,698	3,977,751	1,932,229	3,593,009	25,788,140
Centers' expenses	6,277,271	2,162,523	-	550,228	2,506,689	11,496,711
Grantee in-kind contributions	-	-	1,730,495	307,513	1,657,790	3,695,798
Total grantee expenses	18,566,724	6,158,221	5,708,246	2,789,970	7,757,488	40,980,649
Delegate agency expenses:						
Boys & Girls Club	-	-	205,340	-	-	205,340
Total delegate agency expenses	-	-	205,340	-	-	205,340
Delegate in-kind contributions	144,990	-	-	4,558	24,591	174,139
Total Head Start expenses	18,711,714	6,158,221	5,913,586	2,794,528	7,782,079	41,360,128
Total Child Care Food Program expenses	65,918	22,129	-	1,170,603	2,533	1,261,183
Miscellaneous donations	-	337	230,079	3,107	16,922	250,445
Total other grants	-	337	230,079	3,107	16,922	250,445
Total program expenses	18,777,632	6,180,687	6,143,665	3,968,238	7,801,534	42,871,756
Total expenses	\$20,954,515	\$ 6,811,906	\$ 6,556,479	\$ 4,195,401	\$ 9,102,636	\$47,620,937

**Note:**

In-kind contributions of volunteer services in the amount of \$147,108 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, 2024

	Personnel	Fringe Benefits	Contractual	Supplies	Other	Total
Expenses by Center:						
Head Start:						
HS Home Base North	\$ 49,603	\$ 8,023	\$ -	\$ 1,304	\$ 3,382	\$ 62,312
HS Home Base South	58,139	10,024	-	103	2,419	70,685
Placentia	323,209	97,977	-	56,474	119,214	596,874
Capo	153,996	60,465	-	20,457	61,527	296,445
D. L. Wood	382,492	123,720	-	32,991	67,859	607,062
Fullerton	348,359	101,237	-	23,437	91,844	564,877
Delhi	345,298	128,960	-	23,068	119,665	616,991
Bewley	-	-	-	-	146,572	146,572
Brea	-	-	-	-	69,160	69,160
Broadway	-	-	-	-	54,204	54,204
Buena Park	264,895	97,576	-	46,553	124,382	533,406
Baden Powell	385,123	135,382	-	27,167	129,410	677,082
Walter	410,984	110,042	-	21,307	38,005	580,338
Jeanne Hardy	294,035	104,878	-	53,727	51,782	504,422
Evelyn Lobo Villegas	141,197	36,430	-	28,901	65,244	271,772
Centralia	334,207	97,620	-	14,009	85,336	531,172
Matt Kline	314,937	112,403	-	21,813	127,970	577,123
KIDS	339,831	128,056	-	16,508	297,663	782,058
Glenn L. Martin	156,638	56,658	-	16,228	60,427	289,951
Schweitzer	4,117	12,603	-	-	25,079	41,799
Topaz	243,303	83,984	-	7,898	169,631	504,816
Stanton	291,035	105,828	-	27,276	116,484	540,623
Hope Center	7,925	18,479	-	-	53,153	79,557
Andrews	105,948	37,028	-	10,855	167,955	321,786
Franklin	276,120	84,735	-	20,543	33,410	414,808
Carver	32,091	15,299	-	-	64	47,454
Lambert-La Harbra	351,433	118,470	-	20,360	56,486	546,749
Oakcrest	6,643	35,902	-	-	54,115	96,660
Center	362,556	128,343	-	26,036	55,429	572,364
Hewes	293,157	112,401	-	33,213	58,818	497,589
Total	<u>\$ 6,277,271</u>	<u>\$ 2,162,523</u>	<u>\$ -</u>	<u>\$ 550,228</u>	<u>\$ 2,506,689</u>	<u>\$ 11,496,711</u>



# ORANGE COUNTY HEAD START, INC.

## SUPPLEMENTAL SCHEDULE OF EXPENSES BY EARLY HEAD START CENTERS

For the year ended June 30, 2024

	Personnel	Fringe Benefits	Contractual	Supplies	Other	Total
Expenses by Center:						
Early Head Start:						
EHS-Allocations	\$ 2,034,344	\$ 642,803	\$ 2,215,382	\$ 18,492	\$ 337,044	\$ 5,248,065
Home Base North EHS	305,797	135,047	-	3,908	6,901	451,653
Home Base South EHS	220,037	66,961	-	2,327	6,260	295,585
Buena Park EHS	492,330	158,352	-	25,707	70,635	747,024
Topaz EHS	516,730	169,327	-	38,074	21,171	745,302
KIDS EHS	525,108	195,507	-	14,637	80,074	815,326
Baden Powell EHS	134,414	40,112	-	1,279	6,384	182,189
Franklin EHS	50,221	22,862	-	640	4,625	78,348
Centralia EHS	133,234	31,313	-	1,685	8,742	174,974
Capo EHS	100,369	30,097	-	20	894	131,380
Fullerton EHS	12,220	16,032	-	20	28,622	56,894
Andrews EHS	337,919	100,111	-	3,972	34,690	476,692
Crescent EHS	419,297	143,316	-	22,773	209,411	794,797
Evelyn Lobo Villeags EHS	153,370	46,704	-	1,395	26,740	228,209
Ruby Drive EHS	463,641	166,721	-	26,043	33,209	689,614
Matt Kline EHS	527,793	177,529	-	6,808	14,996	727,126
Pleasant View EHS	253,455	84,596	-	-	13,010	351,061
Schweitzer EHS	32,193	10,472	-	-	3,711	46,376
D.L. Wood EHS	84,101	27,459	-	-	350	111,910
Bewley EHS	-	-	-	-	30,850	30,850
Placentia EHS	124,997	38,693	-	4,221	9,656	177,567
Walter EHS	85,562	29,302	-	2,361	11,326	128,551
Gled Martin EHS	265,816	70,830	-	3,701	266	340,613
Stanton EHS	132,561	40,790	-	779	-	174,130
Lambert-La Habra EHS	106,293	30,762	-	6,493	5,768	149,316
Center EHS	84,781	17,291	-	137	-	102,209
Total	<u>\$ 7,596,583</u>	<u>\$ 2,492,989</u>	<u>\$ 2,215,382</u>	<u>\$ 185,472</u>	<u>\$ 965,335</u>	<u>\$ 13,455,761</u>

# ORANGE COUNTY HEAD START, INC.

## SUPPLEMENTAL SCHEDULE OF HEAD START EXPENSES COMPARED TO BUDGET

For the year ended June 30, 2024

	Budget	Actual	Actual Over (Under) Budget
Expenses:			
Personnel	\$ 24,753,211	\$ 20,743,607	\$ (4,009,604)
Fringe benefits	12,415,122	6,789,440	(5,625,682)
Contractual	8,721,839	4,595,905	(4,125,934)
Supplies	3,529,245	2,709,620	(819,625)
Other	22,170,657	7,400,800	(14,769,857)
Total	71,590,074	42,239,372	(29,350,702)
In-kind match Head Start	3,900,000	3,869,937	(30,063)
Total expenses	<u>\$ 75,490,074</u>	<u>\$ 46,109,309</u>	<u>\$ (29,380,765)</u>

**Note:**

In-kind contributions of volunteer services in the amount of \$147,108 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, 2023 through June 30, 2024

Month	Breakfast	Rate	Total	Lunch	Rate	Total	Snacks	Rate	Total	Total Federal	Total Meals
July 2023	4,183	\$ 2.28	\$ 9,537	4,652	\$ 4.55	\$ 21,143	3,915	\$ 1.17	\$ 4,581	\$ 35,261	12,750
August 2023	3,186	2.28	7,264	3,525	4.55	16,021	2,981	1.17	3,488	26,773	9,692
September 2023	12,656	2.28	28,856	13,362	4.55	60,730	10,063	1.17	11,774	101,360	36,081
October 2023	16,173	2.28	36,874	17,318	4.55	78,710	13,156	1.17	15,393	130,977	46,647
November 2023	12,614	2.28	28,760	13,460	4.55	61,176	10,291	1.17	12,040	101,976	36,365
December 2023	11,178	2.28	25,486	12,060	4.55	54,813	9,194	1.17	10,757	91,056	32,432
January 2024	12,892	2.28	29,394	14,053	4.55	63,871	10,867	1.17	12,714	105,979	37,812
February 2024	14,698	2.28	33,511	16,039	4.55	72,897	12,384	1.17	14,489	120,898	43,121
March 2024	15,146	2.28	34,533	16,791	4.55	76,315	13,132	1.17	15,364	126,212	45,069
April 2024	13,009	2.28	29,661	14,332	4.55	65,139	11,214	1.17	13,120	107,920	38,555
May 2024	16,659	2.28	37,983	18,488	4.55	84,028	14,517	1.17	16,985	138,995	49,664
June 2024	12,972	2.28	29,576	14,504	4.55	65,921	11,389	1.17	13,325	108,822	38,865
Total center meals	<u>\$ 145,366</u>			<u>\$ 158,584</u>			<u>\$ 123,103</u>				<u>\$ 427,053</u>
Total federal			<u>\$ 331,434</u>			<u>\$ 720,764</u>			<u>\$ 144,031</u>	<u>\$ 1,196,229</u>	
Federal reimbursement										\$ 1,149,447	
Cash-in-lieu of commodities (lunch and supper meals)								0.2950	158,584	46,782	
State reimbursement (breakfast and lunch)								0.2137	303,950	64,954	
										<u>\$ 1,261,183</u>	

**ORANGE COUNTY HEAD START, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2024

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Federal Award Identification Number	Passed Through to Subrecipients	Federal Expenditures
<b>Department of Health and Human Services</b>				
Head Start Cluster	93.600	09CH01114605	\$ 205,340	\$ 42,211,645
<b>Department of Agriculture</b>				
Pass-through from State of California				
<b>Department of Education</b>				
Child Care Food Program	10.558	30-1453-OJ	-	1,261,183
Total expenditures of federal awards			<u>\$ 205,340</u>	<u>\$ 43,472,828</u>

# ORANGE COUNTY HEAD START, INC.

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2024

---

### 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, 2024. 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.



3800 Kilroy Airport Way, Suite 250, Long Beach, CA 90806

Phone 562-420-3100 | Fax 562-420-3232 | [bpm@bpm.com](mailto:bpm@bpm.com)

**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, 2024, 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 May 13, 2025.

**Report on 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 opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

*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 and therefore material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2024-001 that we consider to be material weaknesses.

**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*.

### **OCHS's Response to Findings**

OCHS's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. OCHS's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

### **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.

A handwritten signature in black ink that reads "BPM LLP". The "B" is stylized with a long, sweeping horizontal stroke that extends to the left.

Long Beach, California  
May 13, 2025



3800 Kilroy Airport Way, Suite 250, Long Beach, CA 90806  
Phone 562-420-3100 | Fax 562-420-3232 | [bpm@bpm.com](mailto:bpm@bpm.com)

## **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, 2024. 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, 2024.

#### ***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**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

*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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2024-002, to be significant deficiencies.

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. *Government Auditing Standards* requires the auditor to perform limited procedures on OCHS's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. OCHS's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.



Long Beach, California  
May 13, 2025

**ORANGE COUNTY HEAD START, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
June 30, 2024

---

**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?                         | 2024-001      |
|    | • 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?  | None reported |
|    | • Significant deficiencies identified?   | 2024-002      |
| 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)? | 2024-002      |
| 7. | Identification of major programs:  |               |

Federal Assistance

Listing Numbers	Name of Federal Program or Cluster
93.600	Head Start Cluster
10.558	Child Care Food Program

- |    |   |             |
|----|---|-------------|
| 8. | Dollar threshold used to distinguish between type A and type B programs | \$1,679,744 |
| 9. | Auditee qualified as a low risk auditee?                                | Yes         |

**ORANGE COUNTY HEAD START, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
June 30, 2024

---

**Section II: Financial Statements Findings**

Finding 2024-001

Criteria: Organizations are required to maintain internal controls over financial reporting that are designed and implemented to enable management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. These controls should ensure that financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Condition: During the course of the audit of the Organization's financial statements for the fiscal year ended June 30, 2024, we found several instances of expenses being incorrectly recorded in different periods. This error led to material adjustments to the financial statements for the year ending June 30, 2024, and indicated a material weakness in internal controls over financial reporting.

Cause: The material misstatement occurred because the Organization received an extension to carry over unspent fiscal year 2024 grant funds until June 29, 2025. As a result, the Organization recorded expenses and liabilities for purchases and acquisitions made after the fiscal year end date of June 30, 2024. This led to a material misstatement of the Organization's financial statements as of and for the fiscal year ended June 30, 2024, by approximately \$12.4 million. The expenses are allowable under the extended grant. However, the purchases or expenses occurred after June 30, 2024 and should be reported in the following periods.

Effect: The financial statements for the audited period contained material misstatements. While management corrected the misstatement and it did not affect federal awards or compliance, the absence of effective internal controls over financial reporting raises the risk of misstatements in future financial periods.

Recommendation: We recommend implementing year-end closing procedures to ensure an accurate expense cutoff. This should include a comprehensive review of accounting policies to ensure proper recording of all revenue and expense transactions in the appropriate period. The award period extension did not grant the Organization to record subsequent purchases or expenses to the current fiscal year.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the finding and recommendation. See the Corrective Action Plan.

**ORANGE COUNTY HEAD START, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
June 30, 2024

---

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

Finding 2024-002

AL Number: 93.600

Sponsoring Agency: Department of Health and Human Services

Cluster: Head Start

Award Year: 2024

Type of Finding: Significant deficiency

Compliance Requirement: Reporting

Criteria: The Organization is subject to compliance requirements under Uniform Administrative Requirements *Regulation 2 CFR 200 Subpart F – Audit Requirements* (“2 CFR 200”). The reporting requirements as defined in the Uniform Administrative Requirements state a specific due date for the annual audit. The compliance audit is due nine months after the Organization’s fiscal year-end, or March 31.

Condition: Single Audit Report was not submitted within 9 months after the year-end.

Cause: Due to accounting staff turnover and shortage, the Organization was unable to close its books and records for the identified award year in time to be in compliance with the 9 months after the year-end requirement to file its Single Audit Report.

Effect: As a result, the Organization was not able to submit its audit report under Uniform Guidance in a timely manner.

Recommendation: We recommend that the Organization should focus on adjusting the financial records and having documents available for audit in a timely manner to meet the filing deadline.

Views of Responsible Officials and Planned Corrective Actions: The Organization concurs with the finding. The Organization has now put the appropriate staff in place to prepare the SEFA and assist with their accounting records. Please refer to the corrective action plan.

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

None reported.



# Orange County Head Start, Inc.

Brilliant Beginnings. Bright Futures.

2501 S. Pullman Street, Suite 100  
Santa Ana, CA 92705

714.241.8920

[www.ochsinc.org](http://www.ochsinc.org)

**Audit Finding Reference:** 2024-001

## **Planned Corrective Action:**

Management understands the finding that expenses were incorrectly recorded in different periods. We also understand that recording expenses and liabilities for purchases and acquisitions made after the fiscal year-end date of June 30, 2024, could have been a misstatement of the financial statements.

The error occurred due to a misunderstanding of the implications of the grant no-cost extension. While the expenses are allowable under the extended grant, we recognize that the timing of the purchases and expenses should also align with U.S. GAAP principles.

To correct this, OCHS will implement the following corrective actions:

- **Year-End Closing Procedures:** We will revise and enforce rigorous OCHS year-end closing procedures to ensure accurate expense cut-off. This will include a detailed review and reconciliation of all transactions occurring near the fiscal year-end, especially when carry-forwards and no-cost extensions are approved.
- **GAAP Compliance:** OCHS commits to adhering to U.S. GAAP principles for all financial reporting, regardless of grant funding guidance, to ensure the accuracy and reliability of our financial statements.

We believe these actions will strengthen our internal controls over financial reporting and prevent similar misstatements in the future.

## **Person Responsible:**

Loyal Sharp, Division Director of Finance and Administration

## **Anticipated Completion Date:**

The corrective action has been successfully implemented within the fiscal year ending on June 30, 2025. Management is confident that the addition of accounting staff will alleviate the burden of excessive responsibilities for any member of the accounting team and will enable the Organization to regain compliance with the reporting rule outlined in the Uniform Guidance. Ongoing monitoring and review processes will persist as integral components of our internal control framework.





# Orange County Head Start, Inc.

Brilliant Beginnings. Bright Futures.

2501 S. Pullman Street, Suite 100  
Santa Ana, CA 92705

714.241.8920

[www.ochsinc.org](http://www.ochsinc.org)

**Audit Finding Reference:** 2024-002

**Planned Corrective Action:**

The Organization acknowledges the significance of maintaining adequate staffing in the accounting department to prevent overburdening individuals with excessive responsibilities during the year-end closing process. In light of this, we have taken the following corrective action:

- We have hired additional accounting staff during the fiscal year ending June 30, 2025.
- We have designated a high-level accounting manager to closely monitor and oversee the accounting function.

**Person Responsible:**

**Loyal Sharp, Division Director of Finance and Administration**

**Anticipated Completion Date:**

The corrective action has been successfully implemented within the fiscal year ending on June 30, 2025. Management is confident that the addition of accounting staff will alleviate the burden of excessive responsibilities for any member of the accounting team and will enable the Organization to regain compliance with the reporting rule outlined in the Uniform Guidance.

