

KNOX COUNTY HEAD START, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

Years Ended July 31, 2016 and 2015

 **DRAFT**

**Laura J. MacDonald, CPA, Inc.
135 North Broadway
Medina, Ohio 44256**

**KNOX COUNTY HEAD START, INC.
 FINANCIAL STATEMENTS AND
 SUPPLEMENTARY INFORMATION
 Years Ended July 31, 2016 and 2015**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Knox County Head Start, Inc.
Mt. Vernon, Ohio
Employer Identification No.: 31-0724689

Report on the Financial Statements

I have audited the accompanying financial statements of Knox County Head Start, Inc. (a non-profit organization) which comprise the Statements of Financial Position as of July 31, 2016 and 2015, and the related Statements of Activities, Functional Expenses and Cash Flows for the years then ended, and the related Notes to the Financial Statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Knox County Head Start, Inc. as of July 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Knox County Head Start, Inc.
Mount Vernon, Ohio

Emphasis of Matter

In my audit report dated November 17, 2015, my opinion on Knox County Head Start, Inc.'s audited financial statements for the year ended July 31, 2015 was qualified because Knox County Head Start, Inc.'s policy during its fiscal year ended July 31, 2015 was to expense certain property and equipment costs, in accordance with the reporting requirements of its Federal Head Start grants. During fiscal 2016, Knox County Head Start, Inc. changed this policy and is capitalizing and depreciating all property and equipment in accordance with generally accepted accounting principles. Accordingly, the financial statements for the year ended July 31, 2015 have been restated to reflect his change.

Other Matters

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements of Knox County Head Start, Inc. taken as a whole. The accompanying Schedule of Federal Awards Expenditures for the year ended July 31, 2016, as required by Title 2 U.S. *Code of Federal Regulations CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued a report dated November 20, 2016, on my consideration of Knox County Head Start, Inc.'s internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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 Knox County Head Start, Inc.'s internal control over financial reporting and compliance.

Medina, Ohio
November 20, 2016

KNOX COUNTY HEAD START, INC.
STATEMENTS OF FINANCIAL POSITION
July 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 206,203	\$ 117,869
Grants and reimbursement contracts receivable	310,182	310,333
Unconditional promises to give	181,053	215,133
Prepaid expenses	-	1,696
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	697,438	645,031
PROPERTY		
Land	57,822	57,822
Buildings and building improvements	226,078	195,418
Playgrounds and playground equipment	401,407	375,422
Vehicles	175,148	175,148
Other equipment	7,250	7,250
	<hr/>	<hr/>
	867,705	811,060
Less accumulated depreciation	(508,850)	(415,868)
	<hr/>	<hr/>
	358,855	395,192
Improvement projects in process	87,226	56,645
	<hr/>	<hr/>
	446,081	451,837
OTHER ASSETS		
Intangible assets (net of amortization)	1,468	1,715
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 1,144,987</u>	<u>\$ 1,098,583</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Trade accounts payable	\$ 207,229	\$ 184,060
Accrued salaries, payroll taxes and withholdings	81,014	91,833
Mortgage note payable - current portion	8,700	9,411
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	296,943	285,304
LONG-TERM LIABILITIES		
Mortgage note payable - less current portion	28,264	36,374
NET ASSETS		
Unrestricted	382,961	304,669
Temporarily restricted	436,819	472,236
Permanently restricted	-	-
	<hr/>	<hr/>
TOTAL NET ASSETS	819,780	776,905
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,144,987</u>	<u>\$ 1,098,583</u>

Please refer to accompanying notes.

KNOX COUNTY HEAD START, INC.
STATEMENTS OF ACTIVITIES
Years Ended July 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CHANGES IN UNRESTRICTED NET ASSETS		
UNRESTRICTED SUPPORT AND REVENUE		
Child Care revenue	\$ 696,430	\$ 707,668
Interest income	2	13
Other revenue	49,159	54,350
In-kind contributions	<u>680,000</u>	<u>730,873</u>
	1,425,591	1,492,904
NET ASSETS RELEASED FROM RESTRICTIONS		
Satisfaction of program restrictions		
Federal grant revenue	2,982,081	2,893,530
State and local grant revenue	21,973	24,048
Federal Step Up to Quality Awards	62,950	47,100
United Way revenue	<u>148,895</u>	<u>143,876</u>
	<u>3,215,899</u>	<u>3,108,554</u>
	4,641,490	4,601,458
UNRESTRICTED EXPENSES		
PROGRAM EXPENSES		
Federal Head Start Programs	1,947,658	2,096,078
Early Head Start Programs	1,251,719	946,616
Child and Adult Care Food Program	140,140	158,101
Child Care Program	611,778	752,599
Corporate Activity	<u>260,394</u>	<u>311,334</u>
	4,211,689	4,264,728
MANAGEMENT AND GENERAL EXPENSES	<u>351,509</u>	<u>338,569</u>
	<u>4,563,198</u>	<u>4,603,297</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	78,292	(1,839)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Federal grant revenue	2,982,839	2,870,485
State and local grant revenue	21,973	17,291
Federal Step Up to Quality Awards	43,550	31,100
United Way Revenue	132,120	146,800
Net change in net book value of federally funded property	758	(23,045)
Federal grant revenue released from restrictions	(2,982,839)	(2,870,485)
State and local grant revenue released from restrictions	(21,973)	(24,048)
Federal Step Up to Quality Awards released from restrictions	(62,950)	(47,100)
United Way revenue released from restrictions	<u>(148,895)</u>	<u>(143,876)</u>
	(35,417)	(42,878)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>(35,417)</u>	<u>(42,878)</u>
INCREASE (DECREASE) IN NET ASSETS	42,875	(44,717)
NET ASSETS AT BEGINNING OF YEAR	<u>776,905</u>	<u>821,622</u>
NET ASSETS AT END OF YEAR	<u>\$ 819,780</u>	<u>\$ 776,905</u>

Please refer to accompanying notes.

KNOX COUNTY HEAD START, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended July 31, 2016

	FEDERAL HEAD START PROGRAMS	EARLY HEAD START PROGRAMS	CHILD AND ADULT CARE FOOD PROGRAM
Salaries and wages	\$ 973,016	\$ 482,957	\$ 49,528
Fringe benefits	214,478	145,789	10,278
Supplies	35,270	103,437	14,598
Space	79,882	134,266	-
Contractual	49,962	116,503	610
Food	31,012	15,754	65,044
Travel	19,174	21,488	-
Staff training	27,744	17,239	-
Bus operations	(1,053)	1,990	-
Depreciation and amortization	-	-	-
Other	34,604	15,865	82
In-kind expenses	483,569	196,431	-
	<u>\$ 1,947,658</u>	<u>\$ 1,251,719</u>	<u>\$ 140,140</u>

Please refer to accompanying notes.

<u>CHILD CARE PROGRAM</u>	<u>CORPORATE ACTIVITY</u>	<u>TOTAL PROGRAM SERVICES</u>	<u>MANAGE- MENT AND GENERAL</u>	<u>AGENCY TOTALS</u>
\$ 408,568	\$ 101,850	\$ 2,015,919	\$ 246,535	\$ 2,262,454
115,807	13,061	499,413	75,155	574,568
17,721	38,213	209,239	6,835	216,074
12,622	(79,206)	147,564	5,561	153,125
22,065	-	189,140	4,091	193,231
22,641	8,000	142,451	-	142,451
3,338	3,231	47,231	9,335	56,566
1,194	1,128	47,305	1,473	48,778
440	8,131	9,508	-	9,508
-	93,229	93,229	-	93,229
7,382	72,757	130,690	2,524	133,214
-	-	680,000	-	680,000
<u>\$ 611,778</u>	<u>\$ 260,394</u>	<u>\$ 4,211,689</u>	<u>\$ 351,509</u>	<u>\$ 4,563,198</u>

KNOX COUNTY HEAD START, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended July 31, 2015

	<u>FEDERAL HEAD START PROGRAMS</u>	<u>EARLY HEAD START PROGRAMS</u>	<u>CHILD AND ADULT CARE FOOD PROGRAM</u>
Salaries and wages	\$ 985,355	\$ 437,735	\$ 32,163
Fringe benefits	200,045	122,185	16,214
Supplies	72,206	34,596	11,837
Space	131,322	60,074	-
Contractual	47,387	33,668	-
Food	20,653	12,436	97,233
Travel	35,827	27,911	-
Staff training	31,186	24,305	-
Bus operations	18,457	1,447	654
Depreciation and amortization	-	-	-
Other	38,029	13,751	-
In-kind expenses	515,611	178,508	-
	<u>\$ 2,096,078</u>	<u>\$ 946,616</u>	<u>\$ 158,101</u>

Please refer to accompanying notes.

CHILD CARE PROGRAM	CORPORATE ACTIVITY	TOTAL PROGRAM SERVICES	MANAGE- MENT AND GENERAL	AGENCY TOTALS
\$ 507,085	\$ 105,716	\$ 2,068,054	\$ 207,255	\$ 2,275,309
129,538	10,502	478,484	72,861	551,345
15,862	22,929	157,430	916	158,346
15,839	1,156	208,391	5,811	214,202
18,746	542	100,343	6,465	106,808
16,324	6,000	152,646	-	152,646
1,491	10,385	75,614	11,627	87,241
1,771	7,282	64,544	23,469	88,013
461	20,531	41,550	-	41,550
-	86,450	86,450	-	86,450
8,728	39,841	100,349	10,165	110,514
36,754	-	730,873	-	730,873
<u>\$ 752,599</u>	<u>\$ 311,334</u>	<u>\$ 4,264,728</u>	<u>\$ 338,569</u>	<u>\$ 4,603,297</u>

KNOX COUNTY HEAD START, INC.
STATEMENTS OF CASH FLOWS
Years Ended July 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 42,875	\$ (44,717)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation of property and equipment	92,982	86,204
Amortization of intangible assets	247	246
(Increase) decrease in assets:		
Grants and reimbursement contracts receivable	151	(125,027)
Unconditional promises to give	34,080	2,405
Prepaid expenses	1,696	189
Increase (decrease) in liabilities:		
Trade accounts payable	23,169	98,369
Accrued salaries, payroll taxes and withholdings	(10,819)	18,455
	<u>184,381</u>	<u>36,124</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	184,381	36,124
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(87,226)	(56,645)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of long-term debt	(8,821)	(8,971)
	<u>88,334</u>	<u>(29,492)</u>
NET INCREASE (DECREASE) IN CASH	88,334	(29,492)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>117,869</u>	<u>147,361</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 206,203</u>	<u>\$ 117,869</u>

Please refer to accompanying notes.

KNOX COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS
July 31, 2016 and 2015

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Knox County Head Start, Inc. (the Agency) was formed on April 22, 1965 as a private, non-profit corporation for the purpose of operating a Federal Head Start Program. This program provides comprehensive health, educational, nutritional, social and other services to economically disadvantaged young children and their families. Additionally, the Agency operates an Early Head Start Program and provides child care services. Federal grant revenue represents the Agency's most significant source of funding and accounted for 64% and 63% of total revenues during each of the years ended July 31, 2016 and 2015, respectively.

Accounting Basis

The accompanying financial statements have been prepared in accordance with the requirements of the Agency's various funding sources. These requirements conform with accounting principles generally accepted in the United States of America. The following information summarizes the accounting basis:

Financial Statement Presentation

Knox County Head Start, Inc. classifies net assets, revenues, gains and other support and expenses based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported in three categories, as follows:

Unrestricted Net Assets

Unrestricted net assets are either not subject to donor-imposed stipulations or are subject to such restrictions but those restrictions have been met in the same fiscal period that the revenue is recorded.

Temporarily Restricted Net Assets

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of the Agency and/or the passage of time. Temporarily restricted net assets totaled \$436,819 and \$472,236 as of July 31, 2016 and 2015, respectively.

Permanently Restricted Net Assets

Permanently restricted net assets are subject to donor-imposed stipulations that must be maintained permanently by the Agency. There were no permanently restricted net assets as of July 31, 2016 and 2015.

Property and Equipment

Property and equipment is recorded at cost. Renewals and betterments are capitalized. The costs of maintenance and repairs are charged to expense as incurred. Gains and losses on asset retirements or dispositions are reflected in the Statements of Activities. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and building improvements	7 – 30 years
Playgrounds and playground equipment	7 years
Vehicles	7 years
Other equipment	7 years

**KNOX COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS
July 31, 2016 and 2015**

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Property and Equipment (Continued)

Property acquired with Federal grant funds is owned by the Agency while used in the program for which it was purchased or in other future authorized programs. The funding sources, however, have a reversionary interest in the equipment purchased with grant funds; therefore, their disposition, as well as the ownership of any sale proceeds there from, is subject to funding source regulations.

Unconditional Promises to Give

Contributions are recognized when a donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by a donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Agency uses the allowance method to determine uncollectible, unconditional promises receivable. The allowance is based on management's analysis of specific promises to give. Management has determined that no allowance is necessary as of July 31, 2016 and 2015.

Support and Revenue

The funds due from various funding sources under grants and reimbursement contracts are recognized as revenue in the accounting period when the expenditures are incurred and the grant funds are earned.

Grants and Reimbursement Contracts Receivable

Grants and reimbursement contracts receivable represents expended grant award funds not yet received. Such receivables are considered to be fully collectible; accordingly, no allowance for doubtful accounts is required.

Intangible Assets

Intangible assets include professional fees and service charges associated with obtaining a loan. These fees are being amortized over 10 years beginning in July, 2012, using the straight-line method. Amortization expense for the years ended July 31, 2016 and 2015, totaled \$247 and \$246, respectively.

Refundable Advances

Refundable advances represent unexpended grant award funds received. All refundable advances have been approved for use in ongoing programs.

KNOX COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS
July 31, 2016 and 2015

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Allocation of Joint Costs

The Agency has adopted a comprehensive cost-allocation plan which is used to allocate joint costs benefiting more than one program. This plan allocates these costs based on the number of children served in each program and is weighted according to the days of services provided and/or the time expended in service to each program. Time expended in service to each program is documented by payroll allocation reports.

In-Kind Contributions

The Organization recognizes in-kind contributions of space, supplies and services in accordance with the guidelines outlined in FASB ASC 958-605. These in-kind contributions are used by the Agency to satisfy the cost-sharing requirements of its Federal and Early Head Start Programs.

In accordance with FASB ASC 958-605, in-kind contributions of services are recognized as revenue in the financial statements if the services received (a) create or enhance non-financial assets (primarily property or other tangible or intangible assets) or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services that do not meet this criteria, and promises to give such services, are not recognized.

In-kind contributions of services, which have not been recognized amounted to \$65,064 for the year ended July 31, 2016, and \$25,451 for the year ended July 31, 2015.

Disclosure of Subsequent Events

The Agency is required to disclose the date through which subsequent events have been evaluated, in accordance with the requirements of FASB ASC Paragraph 855-10-50-1. The Agency has evaluated all events that occurred from August 1, 2016 through the date the accompanying financial statements for fiscal 2016 and 2015 were available to be issued (November 20, 2016) for proper accounting and disclosure in the accompanying financial statements.

Income Taxes

The Agency is a private non-profit corporation and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. None of the Agency's present or anticipated future activities are subject to taxation as unrelated business income. Therefore, no provision for income taxes has been made in the accompanying financial statements.

The Agency has adopted the provisions of FASB ASC 740-10-25 which requires the disclosure of uncertain tax positions. There have been no interest or penalties recognized in the accompanying Statements of Financial Position or in the Statements of Activities relating to uncertain tax positions. Additionally, no tax positions exist for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease during the next 12 months. The Agency evaluates uncertain tax positions, if any, on a continual basis. The Agency's Federal tax returns are generally subject to examination by the IRS for three years after they are filed.

**KNOX COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS
July 31, 2016 and 2015**

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Statements of Cash Flows

The Agency considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash payments for interest totalled \$2,546 and \$3,343 for the years ended July 31, 2016 and 2015, respectively. There were no cash payments for income taxes during the years ended July 31, 2016 and 2015.

Use of Accounting Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Actual results could vary from the estimates that were used.

Compensated Absences

Employees of the Agency are entitled to paid vacation, sick and personal days off, depending on their job classifications. None of these benefits vest and vacation leave is expensed as incurred.

NOTE 2 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give totaled \$181,053 as of July 31, 2016, and \$215,133 as of July 31, 2015. The balance as of July 31, 2016 consists of United Way funding pledged for the period from September 2016 through December, 2017, totaling \$181,053. The balance as of July 31, 2015 consists of United Way funding pledged for the period from August, 2015 through December, 2016, totaling \$195,733 and Step Up to Quality funding for fiscal 2015 (receivable in fiscal 2016), totaling \$19,400.

NOTE 3 – GRANTS AND REIMBURSEMENT CONTRACTS RECEIVABLE

The grants and reimbursement contracts receivable balance consists of the following as of July 31, 2016 and 2015:

<u>Program</u>	<u>2016</u>	<u>2015</u>
Federal Head Start: Full-Year, Part-Day, Handicapped, Training and Technical Assistance	\$47,099	\$130,603
Early Head Start Program	44,396	97,734
Early Head Start Child Care Partnership	139,290	15,566
Child Care Program	42,303	37,545
Child and Adult Care Food Program	22,562	14,968
Center for Excellence in Early Childhood Education Program	-	13,917
TANF Behavioral Health Partnership	<u>14,532</u>	-
	<u>\$310,182</u>	<u>\$310,333</u>

KNOX COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS
July 31, 2016 and 2015

NOTE 4 – IMPROVEMENT PROJECTS IN PROCESS

Improvement projects in process totaled \$87,226 and \$56,645 as of July 31, 2016 and 2015, respectively. The balance as of July 31, 2016 consists of building improvements at the Agency’s Northgate facility. The balance at July 31, 2015 consists of a variety of building improvements and playground improvements at various locations.

NOTE 5 – LONG-TERM DEBT

Long-term debt consists of the following as of July 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Commercial mortgage note payable to bank in monthly installments of \$948, including interest at a rate of 6% per annum, through December, 2022, secured by related property.	\$36,964	\$47,785
Less current portion	<u>(8,700)</u>	<u>(9,411)</u>
Long-term portion	<u>\$28,264</u>	<u>\$36,374</u>

Future maturities of long-tem debt are as follows:

<u>Year Ended July 31,</u>	<u>Amount</u>
2017	\$8,700
2018	9,991
2019	10,607
2020	7,666
Thereafter	-

NOTE 6 – LEASES

The Agency leases certain equipment. All leases are properly accounted for as operating leases. Future minimum payments under noncancellable operating leases with an initial term of one year or more are as follows at July 31, 2016:

<u>Year Ended July 31,</u>	<u>Amount</u>
2017	\$12,192
2018	12,192
2019	12,192
2020	8,128
Thereafter	-

Rent expense for the years ended July 31, 2016 and 2015 totaled \$43,752 and \$43,802 for the years ended July 31, 2016 and 2015, respectively.

NOTE 7 - IN-KIND MATCHING CONTRIBUTIONS

The Federal Head Start Programs are funded by the Federal Department of Health and Human Services which requires non-federal funding equal to 20% of the total funding received.

KNOX COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS
July 31, 2016 and 2015

NOTE 7 - IN-KIND MATCHING CONTRIBUTIONS (Continued)

For the fiscal years ended July 31, 2016 and 2015, the non-federal share earned was as follows:

	<u>Applicable Head Start Expenditures</u>	<u>Non-Federal Funds Required</u>	<u>Non-Federal Funds Received</u>
<u>Year Ended July 31, 2016</u>			
Federal and Early Head Start Programs	\$3,152,900	\$630,580	\$720,455
Center of Excellence Program	<u>45,182</u>	<u>9,036</u>	<u>-*</u>
	<u>\$3,198,082</u>	<u>\$639,616</u>	<u>\$720,455</u>
<u>Year Ended July 31, 2015</u>			
Federal and Early Head Start Programs	\$3,087,451	\$611,871	\$639,966
Center of Excellence Programs	<u>251,981</u>	<u>50,000</u>	<u>66,169</u>
	<u>\$3,339,432</u>	<u>\$661,871</u>	<u>\$906,135</u>
<u>Eighteen Months Ended July 31, 2016</u>			
Early Head Start Child Care Partnership	<u>\$477,780</u>	<u>\$97,251</u> *	<u>\$33,080</u> *

*The Center of Excellence program ended in September, 2015. The Agency met its in-kind requirement for the grant year ended September 30, 2015.

** The Agency received an in-kind waiver in October, 2016 for the Early Head Start Child Care Partnership grant covering the 18 month grant period ending July 31, 2016. This waiver totaled \$90,251.

Knox County Head Start, Inc. met the non-federal funding requirements for its Federal and Early Head Start Programs and for its Center of Excellence Programs for the fiscal years ended July 31, 2016 and 2015.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following periods:

<u>Description</u>	<u>2016</u>	<u>2015</u>
United Way Allocations:		
Year-ended December 31, 2017	\$132,120	\$ -
Year-ended December 31, 2016	61,074	146,800
Year-ended December 31, 2015	-	63,169
Step Up to Quality Program	-	19,400
Net book value of property/equipment purchased with Federal grant funds	<u>243,625</u>	<u>242,867</u>
	<u>\$436,819</u>	<u>\$472,236</u>

NOTE 9 – CONCENTRATIONS OF RISK

Grants and reimbursement contracts receivable totaled \$310,182 and \$310,333 as of July 31, 2016 and 2015, respectively, and are due from governmental agencies.

The Agency's Federal grants accounted for approximately 64% and 63% of total revenues during the years-ended July 31, 2016 and 2015, respectively.

NOTE 10 – RETIREMENT BENEFITS

The Agency has a defined contribution retirement plan which qualifies under Section 401(k) of the Internal Revenue Code. Employees may make voluntary annual contributions to the Plan up to the maximum allowed by the Internal Revenue Code. The Agency matches each employee's contribution, up

**KNOX COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS
July 31, 2016 and 2015**

NOTE 10 – RETIREMENT BENEFITS (Continued)

to a maximum of 3 percent of each employee’s annual salary. Retirement Plan expense totaled \$19,861 and \$21,538 for the years ended July 31, 2016 and 2015, respectively.

NOTE 11 – RESTATEMENT OF PROPERTY AND EQUIPMENT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The audited financial statements issued on November 17, 2015 for this Agency’s fiscal year ended July 31, 2015 were qualified because Knox County Head Start, Inc.’s policy during fiscal 2015 was to expense certain property and equipment costs, in accordance with the reporting requirements of its Head Start grants. During fiscal 2016, the Agency has changed its policy and is now capitalizing and depreciating property and equipment purchased with Head Start grant funds in accordance with generally accepted accounting principles. Accordingly, the financial statements for the year ended July 31, 2015 have been restated to reflect this change.

The previously reported balances and the restated balances as of July 31, 2015 and for the year then ended are as follows:

	2015	2015	
	(As Restated)	(Previously Reported)	Difference
Playgrounds and playground equipment	375,422	-	375,422
Vehicles	175,148	-	175,148
Other equipment	7,250	-	7,250
Accumulated depreciation	(415,868)	(44,270)	<u>(371,598)</u>
	\$141,952	(\$44,270)	\$186,222
Construction in process	\$56,645	-	<u>56,645</u>
NET ASSETS	776,905	534,038	<u>\$242,867</u>

The net book value of property and equipment purchased with Federal grant funds totaled \$242,867 as of July 31, 2015 and has been reflected as a temporarily restricted net asset as of July 31, 2015. This will be released from restriction as the related property is depreciated.

SUPPLEMENTARY INFORMATION



135 North Broadway • Medina, Ohio 44256
330.722.1944 • Fax 330.241.5090

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION**

To The Board of Directors
Knox County Head Start, Inc.
Mount Vernon, Ohio
Employer Identification No.: 31-0724689

I have audited the financial statements of Knox County Head Start, Inc. as of and for the years ended July 31, 2016 and 2015, and have issued my report thereon dated November 20, 2016. My audits were performed for the purpose of forming an opinion on the financial statements as a whole. The Combining Schedules of Activities by Program for the years ended July 31, 2016 and 2015, and the Combining Statements of Revenues and Expenses for the Federal and Early Head Start Programs, for the year ended July 31, 2016, 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 auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Medina, Ohio
November 20, 2016

KNOX COUNTY HEAD START, INC.
COMBINING SCHEDULE OF ACTIVITIES
BY PROGRAM
Year Ended July 31, 2016

	FEDERAL HEAD START PROGRAMS	EARLY HEAD START PROGRAMS	CHILD AND ADULT CARE FOOD PROGRAMS
CHANGES IN UNRESTRICTED NET ASSETS			
UNRESTRICTED SUPPORT AND REVENUE			
Child Care revenue	\$ -	\$ -	\$ -
Interest income	-	-	-
Other revenue	1,156	-	-
In-kind contributions	483,569	196,431	-
	<u>484,725</u>	<u>196,431</u>	<u>-</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of program restrictions			
Federal grant revenue	1,669,412	1,173,287	140,140
State and local grant revenue	-	-	-
Federal Step Up to Quality Awards	-	-	-
United Way revenue	-	-	-
	<u>1,669,412</u>	<u>1,173,287</u>	<u>140,140</u>
	2,154,137	1,369,718	140,140
UNRESTRICTED EXPENSES			
Salaries and wages	1,130,463	563,006	49,528
Fringe benefits	247,681	174,887	10,278
Supplies	38,607	105,122	14,598
Space	83,194	135,947	-
Contractual	52,108	117,628	610
Food	31,012	15,754	65,044
Travel	24,362	24,934	-
Staff training	28,539	17,617	-
Bus operations	(1,053)	1,990	-
Depreciation and amortization	-	-	-
Other	35,655	16,402	82
In-kind expenses	483,569	196,431	-
	<u>2,154,137</u>	<u>1,369,718</u>	<u>140,140</u>
	-	-	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS			
	-	-	-
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Federal grant revenue	1,669,412	1,173,287	140,140
State and local grant revenue	-	-	-
Federal Step Up to Quality Awards	-	-	-
United Way Revenue	-	-	-
Net change in book value of Fed. funded property	-	-	-
Federal grant revenue released from restrictions	(1,669,412)	(1,173,287)	(140,140)
State and local grant revenue released from restrictions	-	-	-
Federal Step Up to Quality Awards released from restrictions	-	-	-
United Way revenue released from restrictions	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS			
	-	-	-
INCREASE (DECREASE) IN NET ASSETS			
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Please refer to Auditor's Report on Supplementary Information.

<u>CHILD CARE PROGRAM</u>	<u>CORPORATE ACTIVITY</u>	<u>AGENCY TOTAL</u>
\$ 696,430	\$ -	\$ 696,430
-	2	2
32,369	15,634	49,159
-	-	680,000
<u>728,799</u>	<u>15,636</u>	<u>1,425,591</u>
-	(758)	2,982,081
-	21,973	21,973
-	62,950	62,950
-	148,895	148,895
-	<u>233,060</u>	<u>3,215,899</u>
<u>728,799</u>	<u>248,696</u>	<u>4,641,490</u>
417,607	101,850	2,262,454
128,609	13,113	574,568
18,860	38,887	216,074
13,190	(79,206)	153,125
22,885		193,231
22,641	8,000	142,451
3,338	3,932	56,566
1,495	1,127	48,778
440	8,131	9,508
-	93,229	93,229
8,317	72,758	133,214
-	-	680,000
<u>637,382</u>	<u>261,821</u>	<u>4,563,198</u>
91,417	(13,125)	78,292
-	-	2,982,839
-	21,973	21,973
-	43,550	43,550
-	132,120	132,120
-	758	758
-	-	(2,982,839)
-	(21,973)	(21,973)
-	(62,950)	(62,950)
-	<u>(148,895)</u>	<u>(148,895)</u>
-	<u>(35,417)</u>	<u>(35,417)</u>
<u>\$ 91,417</u>	<u>\$ (48,542)</u>	<u>\$ 42,875</u>

KNOX COUNTY HEAD START, INC.
COMBINING SCHEDULE OF ACTIVITIES
BY PROGRAM
Year Ended July 31, 2015

	<u>FEDERAL HEAD START PROGRAMS</u>	<u>EARLY HEAD START PROGRAMS</u>	<u>CHILD AND ADULT CARE FOOD PROGRAMS</u>
CHANGES IN UNRESTRICTED NET ASSETS			
UNRESTRICTED SUPPORT AND REVENUE			
Child Care revenue	\$ -	\$ -	\$ -
Interest income	-	-	-
Other revenue	4,873	-	-
In-kind contributions	515,611	178,508	-
	<u>520,484</u>	<u>178,508</u>	<u>-</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of program restrictions			
Federal grant revenue	1,810,042	902,343	158,100
State and local grant revenue	-	-	-
Federal Step Up to Quality Awards	-	-	-
United Way revenue	-	-	-
	<u>1,810,042</u>	<u>902,343</u>	<u>158,100</u>
	2,330,526	1,080,851	158,100
UNRESTRICTED EXPENSES			
Salaries and wages	1,125,898	501,999	32,163
Fringe benefits	236,757	146,229	16,213
Supplies	72,728	34,805	11,837
Space	134,590	61,466	-
Contractual	50,974	35,279	-
Food	20,653	12,436	97,233
Travel	44,521	30,570	-
Staff training	44,310	30,855	-
Bus operations	18,457	1,447	654
Depreciation and amortization	-	-	-
Other	43,367	15,944	-
In-kind expenses	515,611	178,508	-
	<u>2,307,866</u>	<u>1,049,538</u>	<u>158,100</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	22,660	31,313	-
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Federal grant revenue	1,810,042	902,343	158,100
State and local grant revenue	-	-	-
Federal Step Up to Quality Awards	-	-	-
United Way Revenue	-	-	-
Net change in book value of Fed. funded property	-	-	-
Federal grant revenue released from restrictions	(1,810,042)	(902,343)	(158,100)
State and local grant revenue released from restrictions	-	-	-
Federal Step Up to Quality Awards released from restrictions	-	-	-
United Way revenue released from restrictions	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	-	-	-
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 22,660</u>	<u>\$ 31,313</u>	<u>\$ -</u>

Please refer to Auditor's Report on Supplementary Information.

<u>CHILD CARE PROGRAM</u>	<u>CORPORATE ACTIVITY</u>	<u>AGENCY TOTAL</u>
\$ 707,668	\$ -	\$ 707,668
-	13	13
37,180	12,297	54,350
36,754	-	730,873
<u>781,602</u>	<u>12,310</u>	<u>1,492,904</u>
-	23,045	2,893,530
-	24,048	24,048
-	47,100	47,100
-	143,876	143,876
<u>-</u>	<u>238,069</u>	<u>3,108,554</u>
<u>781,602</u>	<u>250,379</u>	<u>4,601,458</u>
507,084	108,165	2,275,309
141,437	10,709	551,345
16,047	22,929	158,346
16,990	1,156	214,202
20,013	542	106,808
16,324	6,000	152,646
2,354	9,796	87,241
5,566	7,282	88,013
461	20,531	41,550
-	86,450	86,450
10,610	40,593	110,514
36,754	-	730,873
<u>773,640</u>	<u>314,153</u>	<u>4,603,297</u>
7,962	(63,774)	(1,839)
-	-	2,870,485
-	17,291	17,291
-	31,100	31,100
-	146,800	146,800
-	(23,045)	(23,045)
-	-	(2,870,485)
-	(24,048)	(24,048)
-	(47,100)	(47,100)
<u>-</u>	<u>(143,876)</u>	<u>(143,876)</u>
-	(42,878)	(42,878)
<u>\$ 7,962</u>	<u>\$ (106,652)</u>	<u>\$ (44,717)</u>

**KNOX COUNTY HEAD START, INC.
 COMBINING STATEMENT OF REVENUES
 AND EXPENSES BY GRANTS
 FEDERAL HEAD START PROGRAMS
 Year Ended July 31, 2016**

	FEDERAL HEAD START PROGRAM (8/01/15 - 7/31/16) #05CH8474/02	CENTER OF EXCELLENCE PROGRAM (9/30/15 - 9/29/16) #90YX0004/05	TOTAL
REVENUES			
Federal grant revenue	\$ 1,624,230	\$ 45,182	\$ 1,669,412
Other revenue	-	1,156	1,156
In-kind contributions	483,569	-	483,569
	<u>2,107,799</u>	<u>46,338</u>	<u>2,154,137</u>
EXPENSES			
Salaries and wages	1,098,448	32,015	1,130,463
Fringe benefits	242,426	5,255	247,681
Supplies	38,549	58	38,607
Space	82,316	878	83,194
Contractual	52,377	(269)	52,108
Food	31,012	-	31,012
Travel	23,482	880	24,362
Staff training	21,018	7,521	28,539
Bus operations	(1,053)	-	(1,053)
Other	35,655	-	35,655
In-kind expenses	483,569	-	483,569
	<u>2,107,799</u>	<u>46,338</u>	<u>2,154,137</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	-	-	-
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Federal grant revenue	1,624,230	45,182	1,669,412
Federal grant revenue released from restrictions	(1,624,230)	(45,182)	(1,669,412)
	<u>-</u>	<u>-</u>	<u>-</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	-	-	-
INCREASE IN NET ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Please refer to Auditor's Report on Supplementary Information.

KNOX COUNTY HEAD START, INC.
COMBINING STATEMENT OF REVENUES
AND EXPENSES
EARLY HEAD START PROGRAMS
Year Ended July 31, 2016

	EARLY HEAD START PROGRAM (8/01/15 - 7/31/16) # 05CH8474/02	EHS CHILDCARE PARTNERSHIP (2/01/16 - 7/31/16) # 05HP0025/01	TOTAL
REVENUES			
Federal grant revenue	\$ 808,215	\$ 365,072	\$ 1,173,287
In-kind contributions	172,197	24,234	196,431
	<u>980,412</u>	<u>389,306</u>	<u>1,369,718</u>
EXPENSES			
Salaries and wages	495,294	67,712	563,006
Fringe benefits	156,958	17,929	174,887
Supplies	41,983	63,139	105,122
Space	33,765	102,182	135,947
Contractual	19,094	98,534	117,628
Food	15,754	-	15,754
Travel	14,519	10,415	24,934
Staff training	14,628	2,989	17,617
Bus operations	1,990	-	1,990
Other	14,230	2,172	16,402
In-kind expenses	172,197	24,234	196,431
	<u>980,412</u>	<u>389,306</u>	<u>1,369,718</u>
INCREASE (DECREASE) IN NET ASSETS			
	-	-	-
NET ASSETS, BEGINNING OF YEAR			
	-	-	-
NET ASSETS, END OF YEAR			
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Please refer to Auditor's Report on Supplementary Information.

KNOX COUNTY HEAD START, INC.
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
Year Ended July 31, 2016

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>GRANT NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
U.S. Department of Health and Human Services:			
Direct Awards:			
Head Start Cluster:			
Head Start	93.600	#05CH8474/02	\$ 1,624,230
Early Head Start	93.600	#05CH8474/02	808,215
Early Head Start Child Care Partnership	93.600	#05HP0025/01	365,072
Center of Excellence in Early Childhood Program (9/30/14 - 9/29/15)	93.600	#90YX0004/05	<u>45,182</u>
	SUBTOTAL, CFDA #93.600		2,842,699 *
Pass-through from Ohio Child Care Resource and Referral Association:			
Child Care Development Fund	93.575	N/A	<u>43,550</u>
	TOTAL, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		2,886,249
U.S. Department of Agriculture:			
Pass-through from Ohio Department of Education, Division of School Food Service:			
Child and Adult Care Food Program	10.558	N/A	<u>140,140</u>
	TOTAL FEDERAL EXPENDITURES		<u>\$ 3,026,389</u>

BASIS OF PRESENTATION

The accompanying Schedule of Federal Awards Expenditures includes the Federal grant activity of Knox County Head Start, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, used in the preparation of the basic financial statements.



Specializing in Audits
of Non-Profit Agencies

LAURA J. MACDONALD
CPA, INC.

135 North Broadway • Medina, Ohio 44256
330.722.1944 • Fax 330.241.5090

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Knox County Head Start, Inc.
Mount Vernon, Ohio
Employer Identification No.: 31-0724689

I 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 Knox County Head Start, Inc. (a non-profit organization) which comprise the Statement of Financial Position as of July 31, 2016, 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 I have issued my report thereon dated November 20, 2016.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Knox County Head Start, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Knox County Head Start, Inc.'s internal control. Accordingly, I do not express an opinion on the effectiveness of Knox County Head Start, Inc.'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.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Board of Directors
Knox County Head Start, Inc.
Mount Vernon, Ohio

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Knox County Head Start, Inc.'s financial statements are free from material misstatement, I 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Knox County Head Start, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Medina, Ohio
November 20, 2016



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of Non-Profit Agencies

LAURA J. MACDONALD
CPA, INC.

135 North Broadway • Medina, Ohio 44256
330.722.1944 • Fax 330.241.5090

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Knox County Head Start, Inc.
Mount Vernon, Ohio
Employer Identification No.: 31-0724689

Report on Compliance for Each Major Program

I have audited Knox County Head Start, Inc.'s compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on Knox County Head Start, Inc.'s major Federal program for the year ended July 31, 2016. Knox County Head Start, Inc.'s major Federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its Federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance of Knox County Head Start, Inc.'s major Federal program based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Knox County Head Start, Inc.'s compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for this Organization's major Federal program. However, my audit does not provide a legal determination of Knox County Head Start, Inc.'s compliance.

Opinion on Each Major Federal Program

In my opinion, Knox County Head Start, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended.

The Board of Directors
Knox County Head Start, Inc.
Mount Vernon, Ohio

Report on Internal Control Over Compliance

The management of Knox County Head Start, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Knox County Head Start, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on its major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program, and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Knox County Head Start, Inc.'s internal control over compliance.

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my 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.

Medina, Ohio
November 20, 2016

KNOX COUNTY HEAD START, INC.
SCHEDULE OF FINDINGS
Year Ended July 31, 2016

I. SUMMARY OF AUDITOR'S RESULTS

Type of Financial Statement Opinion	Unmodified
Were there any significant deficiencies in internal control reported at the financial statement level (Generally Accepted Government Auditing Standards)?	No
Were there any material weakness conditions reported at the financial statement level (Generally Accepted Government Auditing Standards)?	No
Was there any material reported noncompliance at the financial statement level (Government Auditing Standards)?	No
Were there any significant deficiencies in internal control reported for major federal programs?	No
Were there any material weakness conditions reported for major federal programs?	No
Type of Major Programs' Compliance Opinion	Unmodified
Are there any findings relating to major programs under Section 510 (a) of OMB Circular A-133?	No
Major Programs:	Federal Head Start Program - Head Start Cluster CFDA No.: 93.600
Dollar Threshold: Type A\B Programs	Type A: > \$750,000 Type B: All others
Low Risk Auditee?	Yes

II. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

NONE

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE