

KNOX COUNTY HEAD START, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

Years Ended July 31, 2017 and 2016

**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, 2017 and 2016**

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135 North Broadway • Medina, Ohio 44256
330-722-1944 • Fax 330-241-5090

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, 2017 and 2016, 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, 2017 and 2016, 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

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, 2017, 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 December 4, 2017, 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
December 4, 2017

KNOX COUNTY HEAD START, INC.
STATEMENTS OF FINANCIAL POSITION
July 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 496,361	\$ 206,203
Grants and reimbursement contracts receivable	273,562	310,182
Unconditional promises to give	<u>181,390</u>	<u>181,053</u>
TOTAL CURRENT ASSETS	951,313	697,438
PROPERTY		
Land	57,822	57,822
Buildings and building improvements	319,364	226,078
Playgrounds and playground equipment	407,707	401,407
Vehicles	175,148	175,148
Other equipment	<u>7,250</u>	<u>7,250</u>
	967,291	867,705
Less accumulated depreciation	<u>(597,535)</u>	<u>(508,850)</u>
	369,756	358,855
Improvement projects in process	<u>-</u>	<u>87,226</u>
	369,756	446,081
OTHER ASSETS		
Intangible assets (net of amortization)	<u>-</u>	<u>1,468</u>
TOTAL ASSETS	<u>\$ 1,321,069</u>	<u>\$ 1,144,987</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Trade accounts payable	\$ 117,659	\$ 207,229
Accrued salaries, payroll taxes and withholdings	105,045	81,014
Refundable advances	165,225	-
Mortgage note payable - current portion	<u>-</u>	<u>8,700</u>
TOTAL CURRENT LIABILITIES	387,929	296,943
LONG-TERM LIABILITIES		
Mortgage note payable - less current portion	-	28,264
NET ASSETS		
Unrestricted	556,405	382,961
Temporarily restricted	376,735	436,819
Permanently restricted	<u>-</u>	<u>-</u>
TOTAL NET ASSETS	<u>933,140</u>	<u>819,780</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,321,069</u>	<u>\$ 1,144,987</u>

Please refer to accompanying notes.

KNOX COUNTY HEAD START, INC.
 STATEMENTS OF ACTIVITIES
 Years Ended July 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CHANGES IN UNRESTRICTED NET ASSETS		
UNRESTRICTED SUPPORT AND REVENUE		
Child Care revenue	\$ 798,005	\$ 696,430
Interest income	-	2
Other revenue	39,699	49,159
In-kind contributions	705,133	680,000
	<u>1,542,837</u>	<u>1,425,591</u>
NET ASSETS RELEASED FROM RESTRICTIONS		
Satisfaction of program restrictions		
Federal grant revenue	2,846,392	2,982,081
State and local grant revenue	80,271	21,973
Federal Step Up to Quality Awards	29,611	62,950
Federal Property released from restrictions	69,811	-
United Way revenue	127,623	148,895
	<u>3,153,708</u>	<u>3,215,899</u>
	4,696,545	4,641,490
UNRESTRICTED EXPENSES		
PROGRAM EXPENSES		
Federal Head Start Programs	1,910,193	1,947,658
Early Head Start Programs	1,170,816	1,251,719
Child and Adult Care Food Program	128,398	140,140
Child Care Program	565,384	611,778
Corporate Activity	325,772	260,394
	<u>4,100,563</u>	<u>4,211,689</u>
MANAGEMENT AND GENERAL EXPENSES	<u>422,538</u>	<u>351,509</u>
	4,523,101	4,563,198
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	173,444	78,292
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Federal grant revenue	2,846,392	2,982,839
State and local grant revenue	80,271	21,973
Federal Step Up to Quality Awards	29,611	43,550
United Way Revenue	137,350	132,120
Net change in net book value of federally funded property	(69,811)	758
Federal grant revenue released from restrictions	(2,846,392)	(2,982,839)
State and local grant revenue released from restrictions	(80,271)	(21,973)
Federal Step Up to Quality Awards released from restrictions	(29,611)	(62,950)
United Way revenue released from restrictions	(127,623)	(148,895)
	<u>(60,084)</u>	<u>(35,417)</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(60,084)	(35,417)
INCREASE (DECREASE) IN NET ASSETS	113,360	42,875
NET ASSETS AT BEGINNING OF YEAR	<u>819,780</u>	<u>776,905</u>
NET ASSETS AT END OF YEAR	<u>\$ 933,140</u>	<u>\$ 819,780</u>

Please refer to accompanying notes.

KNOX COUNTY HEAD START, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended July 31, 2017

	<u>FEDERAL HEAD START PROGRAMS</u>	<u>EARLY HEAD START PROGRAMS</u>	<u>CHILD AND ADULT CARE FOOD PROGRAM</u>
Salaries and wages	\$ 855,488	\$ 545,092	\$ 47,696
Fringe benefits	180,074	150,923	10,394
Supplies	96,407	68,764	13,606
Space	88,345	36,262	-
Contractual	43,153	80,724	798
Food	42,439	23,259	55,904
Travel	19,297	28,476	-
Staff training	16,792	29,692	-
Bus operations	4,404	1,280	-
Depreciation and amortization	-	-	-
Other	48,960	16,045	-
In-kind expenses	514,834	190,299	-
	<u>\$ 1,910,193</u>	<u>\$ 1,170,816</u>	<u>\$ 128,398</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>
\$ 368,173	\$ 84,686	\$ 1,901,135	\$ 313,484	\$ 2,214,619
90,279	10,042	441,712	74,155	515,867
38,415	27,180	244,372	163	244,535
17,137	(3,425)	138,319	7,535	145,854
19,497	(69)	144,103	6,479	150,582
17,674	4,776	144,052	-	144,052
2,997	4,797	55,567	6,197	61,764
2,529	43,716	92,729	1,804	94,533
452	5,443	11,579	-	11,579
-	90,153	90,153	-	90,153
8,231	58,473	131,709	12,721	144,430
-	-	705,133	-	705,133
<u>\$ 565,384</u>	<u>\$ 325,772</u>	<u>\$ 4,100,563</u>	<u>\$ 422,538</u>	<u>\$ 4,523,101</u>

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

	<u>FEDERAL HEAD START PROGRAMS</u>	<u>EARLY HEAD START PROGRAMS</u>	<u>CHILD AND ADULT CARE FOOD PROGRAM</u>
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	<u>483,569</u>	<u>196,431</u>	<u>-</u>
	<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.
STATEMENTS OF CASH FLOWS
Years Ended July 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 113,360	\$ 42,875
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation of property and equipment	88,685	92,982
Amortization of intangible assets	1,468	247
(Increase) decrease in assets:		
Grants and reimbursement contracts receivable	36,620	151
Unconditional promises to give	(337)	34,080
Prepaid expenses	-	1,696
Increase (decrease) in liabilities:		
Trade accounts payable	(89,570)	23,169
Accrued salaries, payroll taxes and withholdings	24,031	(10,819)
Refundable advances	165,225	-
	<u>339,482</u>	<u>184,381</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	339,482	184,381
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(12,360)	(87,226)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of long-term debt	<u>(36,964)</u>	<u>(8,821)</u>
NET INCREASE (DECREASE) IN CASH	290,158	88,334
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>206,203</u>	<u>117,869</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 496,361</u></u>	<u><u>\$ 206,203</u></u>

Please refer to accompanying notes.

KNOX COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS
July 31, 2017 and 2016

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 62% and 66% of total revenues during each of the years ended July 31, 2017 and 2016, 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 \$376,735 and \$436,819 as of July 31, 2017 and 2016, 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, 2017 and 2016.

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, 2017 and 2016**

**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. Accordingly, when grant funding for the purchase of property and equipment is received, it is reflected as an increase in temporarily restricted net assets. As the related property and equipment is depreciated, it is transferred from temporarily restricted net assets to unrestricted net assets and is reported in the Statements of Activities as “Net Assets Released From Restrictions”. The net book value of property and equipment purchased with grant funds totaled \$173,814 as of July 31, 2017 and \$243,625 as of July 31, 2016.

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, 2017 and 2016.

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/Refundable Advances

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

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, 2017 and 2016, totaled \$1,468 and \$247, respectively. This loan was paid off in July, 2017.

KNOX COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS
July 31, 2017 and 2016

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 \$150,919 for the year ended July 31, 2017, and \$65,064 for the year ended July 31, 2016.

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, 2017 through the date the accompanying financial statements for fiscal 2017 and 2016 were available to be issued (December 4, 2017) 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, 2017 and 2016**

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 \$2,003 and \$2,546 for the years ended July 31, 2017 and 2016, respectively. There were no cash payments for income taxes during the years ended July 31, 2017 and 2016.

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 \$181,390 as of July 31, 2017, and \$181,053 as of July 31, 2016. The balance as of July 31, 2017 consists of United Way funding pledged for the period from September 2017 through December, 2018. The balance as of July 31, 2016 consists of United Way funding pledged for the period from September 2016 through December, 2017.

NOTE 3 – GRANTS AND REIMBURSEMENT CONTRACTS RECEIVABLE

The grants and reimbursement contracts receivable balance consists of the following as of July 31, 2017 and 2016:

<u>Program</u>	<u>2017</u>	<u>2016</u>
Federal Head Start: Full-Year, Part-Day, Handicapped, Training and Technical Assistance	\$106,820	\$47,099
Early Head Start Program	64,860	44,396
Early Head Start Child Care Partnership	21,584	139,290
Child Care Program	50,107	42,303
Child and Adult Care Food Program	27,640	22,562
Other Programs	<u>2,551</u>	<u>14,532</u>
	<u>\$273,562</u>	<u>\$310,182</u>

KNOX COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS
July 31, 2017 and 2016

NOTE 4 – IMPROVEMENT PROJECTS IN PROCESS

Improvement projects in process totaled \$87,226 as of July 31, 2016 and consisted of building improvements at the Agency’s Northgate facility. This project was completed during the Agency’s fiscal year ending July 31, 2017.

NOTE 5 – REFUNDABLE ADVANCES

Refundable advances totaled \$165,225 as of July 31, 2017 and represents unspent private foundation grant funds received for the purpose of completing specific program objectives. There were no refundable advances as of July 31, 2016.

NOTE 6 – LONG-TERM DEBT

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

	<u>2016</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
Less current portion	<u>(8,700)</u>
Long-term portion	<u>\$28,264</u>

This mortgage note was paid in full in July, 2017.

NOTE 7 – 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, 2017:

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

Rent expense for the years ended July 31, 2017 and 2016 totaled \$43,120 and \$43,752 for the years ended July 31, 2017 and 2016, respectively.

NOTE 8 - 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. For the fiscal years ended July 31, 2017 and 2016, 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>
Year Ended July 31, 2017			
Federal and Early Head Start Programs	\$3,278,291	\$655,658	\$837,871
EHS Child Care Partnership Program	<u>251,436</u>	<u>62,859</u>	<u>18,181*</u>
	<u>\$3,529,727</u>	<u>\$718,517</u>	<u>\$856,052</u>

** The Agency received an in-kind waiver on December 4, 2017 which reduced the in-kind requirement for this program from \$82,300 to \$18,181.

KNOX COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS
July 31, 2017 and 2016

NOTE 8 - IN-KIND MATCHING CONTRIBUTIONS (Continued)

	<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>

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

Knox County Head Start, Inc. met the non-federal funding requirements for its Federal and Early Head Start Programs and for its Early Head Start Child Care Partnership Program for the fiscal year ended July 31, 2017.

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 year ended July 31, 2016.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following periods:

<u>Description</u>	<u>2017</u>		<u>2016</u>
United Way Allocations:			
Year-ended December 31, 2018	\$137,350		
Year-ended December 31, 2017	65,571	\$	132,120
Year-ended December 31, 2016	-		61,074
Net book value of property/equipment purchased with Federal grant funds	<u>173,814</u>		<u>243,625</u>
	<u>\$376,735</u>		<u>\$436,819</u>

NOTE 10 – CONCENTRATIONS OF RISK

Grants and reimbursement contracts receivable totaled \$273,562 and \$310,182 as of July 31, 2017 and 2016, respectively, and are due from governmental agencies.

The Agency's Federal grants accounted for approximately 62% and 66% of total revenues during the years-ended July 31, 2017 and 2016, respectively.

The Agency maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. These deposits are held by reputable financial institutions and management believes the risk associated with uninsured deposits is low.

NOTE 11 – 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 to a maximum of 3 percent of each employee's annual salary. Retirement Plan expense totaled \$22,070 and \$19,861 for the years ended July 31, 2017 and 2016, respectively.

SUPPLEMENTARY INFORMATION



*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 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, 2017 and 2016, and have issued my report thereon dated December 4, 2017. 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, 2017 and 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
December 4, 2017

KNOX COUNTY HEAD START, INC.
 COMBINING SCHEDULE OF ACTIVITIES
 BY PROGRAM
 Year Ended July 31, 2017

	<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	-	-	-
In-kind contributions	514,834	190,299	-
	<u>514,834</u>	<u>190,299</u>	<u>-</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of program restrictions			
Federal grant revenue	1,617,375	1,074,481	128,398
State and local grant revenue	-	-	-
Federal Step Up to Quality Awards	-	-	-
Federal property released from restrictions	-	-	-
United Way revenue	-	-	-
	<u>1,617,375</u>	<u>1,074,481</u>	<u>128,398</u>
	2,132,209	1,264,780	128,398
UNRESTRICTED EXPENSES			
Salaries and wages	1,027,520	611,081	47,696
Fringe benefits	210,869	171,149	10,394
Supplies	96,496	68,799	13,606
Space	92,473	37,862	-
Contractual	46,706	82,116	798
Food	42,438	23,258	55,904
Travel	23,360	29,863	-
Staff training	18,047	30,115	-
Bus operations	4,404	1,280	-
Depreciation and amortization	-	-	-
Other	55,062	18,958	-
In-kind expenses	514,834	190,299	-
	<u>2,132,209</u>	<u>1,264,780</u>	<u>128,398</u>
	-	-	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS			
	-	-	-
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Federal grant revenue	1,617,375	1,074,481	128,398
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	(1,617,375)	(1,074,481)	(128,398)
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 accompanying notes.

<u>CHILD CARE PROGRAM</u>	<u>CORPORATE ACTIVITY</u>	<u>AGENCY TOTAL</u>
\$ 798,005	\$ -	\$ 798,005
-	-	-
28,906	10,793	39,699
-	-	705,133
<u>826,911</u>	<u>10,793</u>	<u>1,542,837</u>
-	26,138	2,846,392
-	80,271	80,271
-	29,611	29,611
-	69,811	69,811
-	<u>127,623</u>	<u>127,623</u>
-	<u>333,454</u>	<u>3,153,708</u>
<u>826,911</u>	<u>344,247</u>	<u>4,696,545</u>
427,482	100,840	2,214,619
108,384	15,071	515,867
38,447	27,187	244,535
18,555	(3,036)	145,854
20,693	269	150,582
17,674	4,778	144,052
3,398	5,143	61,764
2,552	43,819	94,533
452	5,443	11,579
-	90,153	90,153
10,762	59,648	144,430
-	-	705,133
<u>648,399</u>	<u>349,315</u>	<u>4,523,101</u>
178,512	(5,068)	173,444
-	26,138	2,846,392
-	80,271	80,271
-	29,611	29,611
-	137,350	137,350
-	(69,811)	(69,811)
-	(26,138)	(2,846,392)
-	(80,271)	(80,271)
-	(29,611)	(29,611)
-	<u>(127,623)</u>	<u>(127,623)</u>
-	<u>(60,084)</u>	<u>(60,084)</u>
<u>\$ 178,512</u>	<u>\$ (65,152)</u>	<u>\$ 113,360</u>

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

	<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	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 accompanying notes.

<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>-</u>	<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)
-	(148,895)	(148,895)
<u>-</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.
 SCHEDULE OF FEDERAL AWARDS EXPENDITURES
 Year Ended July 31, 2017

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	GRANT NUMBER	FEDERAL EXPENDITURES
U.S. Department of Health and Human Services:			
Direct Awards:			
Head Start Cluster:			
Head Start	93.600	#05CH8474/03	\$ 1,617,375
Early Head Start	93.600	#05CH8474/03	823,045
Early Head Start Child Care Partnership	93.600	#05HP0025/02	<u>251,436</u>
	SUBTOTAL, CFDA #93.600		2,691,856 *
Pass-through from Ohio Department of Job and Family Services, through Knox County Department of Job and Family Services Temporary Assistance for Needy Families	93.558	N/A	26,138
Pass-through from Ohio Child Care Resource and Referral Association: Child Care Development Fund	93.575	N/A	<u>29,611</u>
	TOTAL, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		2,747,605
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>128,398</u>
	TOTAL FEDERAL EXPENDITURES		<u>\$ 2,876,003</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, or used in the preparation of, the basic financial statements.

* Denotes a major program

**Knox County Head Start, Inc. has elected not to use the 10% de minimis cost rate as allowed under the Uniform Guidance.

*** Knox County Head Start, Inc. has no subrecipients.



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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, 2017, 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 December 4, 2017.

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.

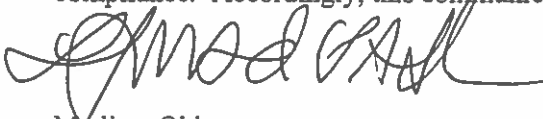
The Board of Directors
Knox County Head Start, Inc.
Mount Vernon, Ohio

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.

A handwritten signature in black ink, appearing to read "James A. Hill", is written over the printed name "James A. Hill".

James A. Hill
Medina, Ohio
December 4, 2017



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 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, 2017. 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 July 31, 2017.

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

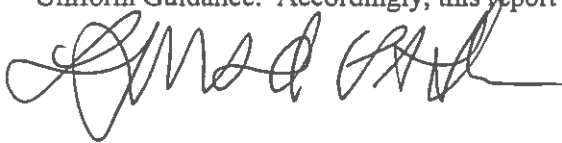
Report on Internal Control Over Compliance

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
December 4, 2017

KNOX COUNTY HEAD START, INC.
SCHEDULE OF FINDINGS
Year Ended July 31, 2017

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