

KNOX COUNTY HEAD START, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

Years Ended July 31, 2020 and 2019

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**KNOX COUNTY HEAD START, INC.
 FINANCIAL STATEMENTS AND
 SUPPLEMENTARY INFORMATION
 Years Ended July 31, 2020 and 2019**

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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, 2020 and 2019, 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, 2020 and 2019, 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

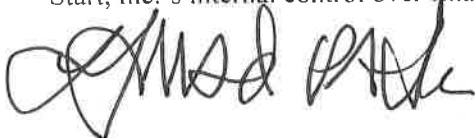
Other Matters

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, 2020, 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 February 19, 2021, 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 solely 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 effectiveness of 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
February 19, 2021

KNOX COUNTY HEAD START, INC.
STATEMENTS OF FINANCIAL POSITION
July 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 620,443	\$ 493,948
Grants and reimbursement contracts receivable	275,400	320,764
Accounts receivable - parent fees	7,549	23,562
Unconditional promises to give	47,767	191,067
Prepaid expenses	<u>36,201</u>	<u>34,455</u>
TOTAL CURRENT ASSETS	987,360	1,063,796
PROPERTY		
Land	57,822	57,822
Buildings and building improvements	638,127	638,127
Playgrounds and playground equipment	443,967	407,707
Vehicles	199,328	199,328
Other equipment	<u>94,110</u>	<u>22,779</u>
	1,433,354	1,325,763
Less accumulated depreciation	<u>(716,569)</u>	<u>(682,243)</u>
	<u>716,785</u>	<u>643,520</u>
TOTAL ASSETS	<u>\$ 1,704,145</u>	<u>\$ 1,707,316</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Trade accounts payable	\$ 207,881	\$ 137,907
Accrued salaries, payroll taxes and withholdings	61,419	130,140
Refundable advances	<u>53,724</u>	<u>78,502</u>
TOTAL CURRENT LIABILITIES	323,024	346,549
NET ASSETS		
Without donor restrictions	1,333,354	1,095,061
With donor restrictions	<u>47,767</u>	<u>265,706</u>
TOTAL NET ASSETS	<u>1,381,121</u>	<u>1,360,767</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,704,145</u>	<u>\$ 1,707,316</u>

Please refer to accompanying notes.

KNOX COUNTY HEAD START, INC.
STATEMENTS OF ACTIVITIES
Years Ended July 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CHANGES IN UNRESTRICTED NET ASSETS		
UNRESTRICTED SUPPORT AND REVENUE		
Child Care revenue	\$ 838,989	\$ 874,327
Other revenue	114,304	119,115
In-kind contributions	705,188	728,599
	<u>1,658,481</u>	<u>1,722,041</u>
NET ASSETS RELEASED FROM RESTRICTIONS		
Satisfaction of program restrictions		
Federal grant revenue	3,256,816	3,153,892
State and local grant revenue	336,354	100,308
United Way revenue	143,300	141,337
Payroll Protection Program Funds	175,000	-
	<u>3,911,470</u>	<u>3,395,537</u>
	5,569,951	5,117,578
UNRESTRICTED EXPENSES		
PROGRAM EXPENSES		
Federal Head Start Programs	3,363,914	3,341,979
Child and Adult Care Food Program	138,788	146,297
Child Care Program	713,062	844,919
Corporate Activity	600,826	306,655
	<u>4,816,590</u>	<u>4,639,850</u>
MANAGEMENT AND GENERAL EXPENSES	515,068	473,604
	<u>5,331,658</u>	<u>5,113,454</u>
INCREASE IN UNRESTRICTED NET ASSETS	238,293	4,124
CHANGES IN DONOR RESTRICTED NET ASSETS		
Federal grant revenue	3,256,816	3,153,892
State and local grant revenue	261,715	174,947
United Way Revenue	-	143,321
Payroll Protection Program Funds	175,000	-
Federal grant revenue released from restrictions	(3,256,816)	(3,153,892)
State and local grant revenue released from restrictions	(336,354)	(100,308)
United Way revenue released from restrictions	(143,300)	(141,337)
Payroll Protection Program Funds released from restrictions	(175,000)	-
	<u>(217,939)</u>	<u>76,623</u>
INCREASE (DECREASE) IN DONOR RESTRICTED NET ASSETS	(217,939)	76,623
INCREASE (DECREASE) IN NET ASSETS	20,354	80,747
NET ASSETS AT BEGINNING OF YEAR	<u>1,360,767</u>	<u>1,280,020</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,381,121</u>	<u>\$ 1,360,767</u>

Please refer to accompanying notes.

KNOX COUNTY HEAD START, INC.
 STATEMENT OF FUNCTIONAL EXPENSES
 Year Ended July 31, 2020

	FEDERAL HEAD START PROGRAMS	CHILD AND ADULT CARE FOOD PROGRAM	CHILD CARE PROGRAM	CORPORATE ACTIVITY	TOTAL PROGRAM SERVICES	MANAGE- MENT AND GENERAL	AGENCY TOTALS
Salaries and wages	\$ 1,611,298	\$ 83,893	\$ 441,771	\$ 263,594	\$ 2,400,556	\$ 372,243	\$ 2,772,799
Fringe benefits	392,342	20,056	115,842	66,287	594,527	72,623	667,150
Supplies	204,916	13,803	71,543	18,715	308,977	716	309,693
Space	139,198	-	19,769	4,913	163,880	5,739	169,619
Contractual	169,194	-	23,968	36,507	229,669	38,345	268,014
Food	59,311	21,036	24,350	12,317	117,014	-	117,014
Travel	16,986	-	733	6,479	24,198	5,905	30,103
Staff training	28,935	-	4,589	42,898	76,422	6,011	82,433
Bus operations	-	-	805	9,254	10,059	-	10,059
Depreciation	-	-	-	34,326	34,326	-	34,326
Other	36,546	-	9,692	105,536	151,774	13,486	165,260
In-kind expenses	705,188	-	-	-	705,188	-	705,188
	<u>\$ 3,363,914</u>	<u>\$ 138,788</u>	<u>\$ 713,062</u>	<u>\$ 600,826</u>	<u>\$ 4,816,590</u>	<u>\$ 515,068</u>	<u>\$ 5,331,658</u>

Please refer to accompanying notes.

KNOX COUNTY HEAD START, INC.
 STATEMENT OF FUNCTIONAL EXPENSES
 Year Ended July 31, 2019

	FEDERAL HEAD START PROGRAMS	CHILD AND ADULT CARE FOOD PROGRAM	CHILD CARE PROGRAM	CORPORATE ACTIVITY	TOTAL PROGRAM SERVICES	MANAGE- MENT AND GENERAL	AGENCY TOTALS
Salaries and wages	\$ 1,549,130	\$ 80,420	\$ 540,690	\$ 103,164	\$ 2,273,404	\$ 364,186	\$ 2,637,590
Fringe benefits	390,207	20,156	139,143	18,904	568,410	64,638	633,048
Supplies	163,041	18,388	42,763	536	224,728	187	224,915
Space	143,396	-	26,198	611	170,205	7,278	177,483
Contractual	170,114	998	32,177	(32)	203,257	9,409	212,666
Food	75,806	26,335	40,390	7,750	150,281	-	150,281
Equipment/renovations	-	-	2,502	-	2,502	-	2,502
Travel	41,119	-	4,427	7,142	52,688	8,717	61,405
Staff training	39,232	-	4,107	33,443	76,782	3,729	80,511
Bus operations	3,436	-	3,037	5,678	12,151	-	12,151
Depreciation	-	-	-	39,628	39,628	-	39,628
Other	37,899	-	9,485	89,831	137,215	15,460	152,675
In-kind expenses	728,599	-	-	-	728,599	-	728,599
	<u>\$ 3,341,979</u>	<u>\$ 146,297</u>	<u>\$ 844,919</u>	<u>\$ 306,655</u>	<u>\$ 4,639,850</u>	<u>\$ 473,604</u>	<u>\$ 5,113,454</u>

Please refer to accompanying notes.

KNOX COUNTY HEAD START, INC.
STATEMENTS OF CASH FLOWS
Years Ended July 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 20,354	\$ 80,747
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation of property and equipment	34,326	39,628
(Increase) decrease in assets:		
Grants/reimbursement contracts and accounts receivable	61,377	129,540
Unconditional promises to give	143,300	(1,984)
Prepaid expenses	(1,746)	(9,570)
Increase (decrease) in liabilities:		
Trade accounts payable	69,974	(177,586)
Accrued salaries, payroll taxes and withholdings	(68,721)	20,116
Refundable advances	(24,778)	(22,340)
	<u>234,086</u>	<u>58,551</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	234,086	58,551
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(107,591)</u>	<u>-</u>
	126,495	58,551
NET INCREASE (DECREASE) IN CASH	126,495	58,551
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>493,948</u>	<u>435,397</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 620,443</u>	<u>\$ 493,948</u>

Please refer to accompanying notes.

**KNOX COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS
July 31, 2020 and 2019**

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 61% and 63% of total revenues during each of the years ended July 31, 2020 and 2019, respectively.

Accounting Basis

The Agency maintains its financial statements on the accrual basis of accounting, in accordance with generally accepted accounting principles.

Financial Statement Presentation

In accordance with accounting guidance for non-profit organizations, the accompanying financial statements for Knox County Head Start, Inc. have been prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America, as prescribed in FASB Accounting Standards Codification (ASC) 958, *Not For Profit Entities* and the provisions of Accounting Standards Update (ASU) 2016-14. Knox County Head Start, Inc. has adopted ASU 2016-14 in 2019. ASU 2016-14 requires the Agency to report information regarding its financial position and activities in two categories of net assets, as described below:

Net Assets Without Donor Restrictions

Net Assets Without Donor Restrictions 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.

Net Assets With Donor Restrictions

Net Assets With Donor Restrictions are subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. Under ASU 2016-14, Net Assets With Donor Restrictions totaled \$47,767 as of July 31, 2020 and \$265,706 as of July 31, 2019.

Property and Equipment

Property and equipment is recorded at cost. Renewals and betterments over \$5,000 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, 2020 and 2019

**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 property and 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. In accordance with the provisions of ASU 2016-14, when grant funding for the purchase of property and equipment is received, it is reflected as an increase in Net Assets with Donor Restrictions. As the related property and equipment is placed in service, it is transferred from Net Assets With Donor Restrictions to Net Assets Without Donor Restrictions, and is reported in the Statements of Activities as “Net Assets Released from Donor Restrictions”. The net book value of property and equipment purchased with grant funds totaled \$648,136 as of July 31, 2020 and \$573,438 as of July 31, 2019.

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 donor restricted net assets. When a restriction expires, donor restricted net assets are reclassified to net assets without donor restrictions.

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, 2020 and 2019.

Support and Revenue

In accordance with Financial Accounting Standards Board (FASB) ASC 958-205, expended grant revenues recognized as exchange transactions are reflected as unrestricted support in the accompanying Statements of Activities.

Grants and Reimbursement Contracts Receivable/Refundable Advances

Grants and reimbursement contracts receivable represents expended grant award funds or contractual reimbursements 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 for grants classified as exchange transactions under ASC 958-205. All refundable advances have been approved for use in ongoing programs.

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.

**KNOX COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS
July 31, 2020 and 2019**

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

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 Head Start 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 \$46,367 for the year ended July 31, 2020, and \$44,581 for the year ended July 31, 2019.

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.

Functional Allocation of Expenses

The costs of operating a Head Start Program and other child care related activities have been summarized on a functional basis in the Statements of Functional Expenses. The Statements of Functional Expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated between program expenses and management and general expenses using various allocation methods which attempt to allocate the costs equitably in relation to the benefits provided.

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, 2020 through the date the accompanying financial statements for fiscal 2020 and 2019 were available to be issued (February 19, 2021) 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, 2020 and 2019

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. There were no cash payments for interest or income taxes during the years ended July 31, 2020 and 2019. As of July 31, 2020, \$450,293 in cash equivalents was held in an Insured Cash Sweep Service Account (ICS) and this entire amount was covered by FDIC insurance, along with other cash deposits held in a checking account (of \$170,150).

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.

Impairment of Long-Lived Assets

The Agency reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of assets carrying value to its future undiscounted net cash flows. Impaired assets are recognized at the lower of fair value or carrying amount. No impaired assets were identified during the years ended July 31, 2020 and 2019.

Credit Risk

Financial instruments, which could potentially subject Knox County Head Start, Inc. to concentration of credit risk include cash and cash equivalents and grant/reimbursement contracts and accounts receivables. These financial instruments are all carried at their approximate fair value. The Organization's policy is to limit credit exposure on financial instruments and place its cash and cash equivalents with financial institutions that are credit worthy. Concentration of credit risk with respect to receivables is limited because receivables are primarily due from the Federal Government.

Reclassifications

Certain balances in the July 31, 2019 financial statements have been reclassified to conform with the 2020 presentation.

NOTE 2 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give totaled \$47,767 as of July 31, 2020, and \$191,067 as of July 31, 2019. The balance as of July 31, 2020 consists of United Way funding pledged for the period from September 2020 through December, 2020. The balance as of July 31, 2019 consists of United Way funding pledged for the period from September 2019 through December, 2020.

NOTE 3 – GRANTS AND REIMBURSEMENT CONTRACTS RECEIVABLE

The grants and reimbursement contracts receivable balance consists of the following as of July 31, 2020 and 2019:

KNOX COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS
July 31, 2020 and 2019

NOTE 3 – GRANTS AND REIMBURSEMENT CONTRACTS RECEIVABLE (Continued)

<u>Program</u>	<u>2020</u>	<u>2019</u>
Federal/Early Head Start Program	\$202,626	\$244,143
Child Care Program	16,022	24,642
Child and Adult Care Food Program	23,602	28,566
TAN-F/BHP Program	1,274	12,254
OCCRA Funds	31,876	-
Other Programs	-	11,159
	<u>\$275,400</u>	<u>\$320,764</u>

NOTE 4 – REFUNDABLE ADVANCES

Refundable advances totaled \$53,724 and \$78,502 as of July 31, 2020 and 2019 and represents unspent private foundation grant funds received for the purpose of completing specific program objectives under an exchange type grant agreement.

NOTE 5 – PAYROLL PROTECTION PROGRAM LOAN

In April, 2020, the Organization received \$175,000 in Payroll Protection Program Loan funding under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Under the terms of this agreement, the loan proceeds are forgiven if used for qualifying expenditures (including salaries, wages and benefits) with some limitations. On December 30, 2020, the Organization received notification from the Small Business Administration that the entire \$175,000 in funding received had been forgiven. Management believes all funding received under this program had been disbursed for qualifying expenditures as of July 31, 2020, and accordingly, the entire \$175,000 has been reflected as net assets released from restrictions during the fiscal year ending July 31, 2020.

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, 2020:

<u>Year Ended July 31,</u>	<u>Amount</u>
2021	\$23,160
2022	23,160
2023	23,160
2024	5,790
Thereafter	-

Rent expense for the years ended July 31, 2020 and 2019 totaled \$44,119 and \$44,612 for the years ended July 31, 2020 and 2019, respectively.

KNOX COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS
July 31, 2020 and 2019

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 as detailed in the related grant agreements. The non-federal share earned for both the Federal/Early Head Start Programs, and the Early Head Start Child Care Partnership Program 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, 2020</u>			
Federal Head Start/Early Head Start Programs	\$2,834,325	\$688,752	\$727,203
EHS Child Care Partnership Program	<u>265,525</u>	<u>23,707</u>	<u>24,352</u>
	<u>\$3,099,850</u>	<u>\$ 712,459</u>	<u>\$751,555</u>
	<u>Applicable Head Start Expenditures</u>	<u>Non-Federal Funds Required</u>	<u>Non-Federal Funds Received</u>
<u>Year Ended July 31, 2019</u>			
Federal Head Start/Early Head Start Programs	\$2,697,997	\$674,499	\$746,903
EHS Child Care Partnership Program	<u>258,302</u>	<u>22,989</u>	<u>26,277</u>
	<u>\$2,956,299</u>	<u>\$697,488</u>	<u>\$773,180</u>

Knox County Head Start, Inc. met the non-federal funding requirements for its Federal Head Start and Early Head Start Programs and for its Early Head Start Child Care Partnership Program for the fiscal years ended July 31, 2020 and 2019.

NOTE 8 – DONOR RESTRICTED NET ASSETS

Donor restricted net assets are available for the following periods:

<u>Description</u>	<u>2020</u>	<u>2019</u>
United Way Allocations:		
Year-ended December 31, 2020	\$47,767	\$143,300
Year-ended December 31, 2019	-	47,767
Grant funds restricted for Parent Support Initiative Program	<u>-</u>	<u>74,639</u>
	<u>\$47,767</u>	<u>\$265,706</u>

NOTE 9 – CONCENTRATIONS OF RISK

Grants and reimbursement contracts receivable totaled \$275,400 and \$320,764 as of July 31, 2020 and 2019, respectively, and are due from governmental agencies.

The Agency's Federal grants accounted for approximately 61% and 63% of total revenues during each of the years-ended July 31, 2020 and 2019, 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. As of July 31, 2020, all bank deposits were covered by FDIC insurance.

KNOX COUNTY HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS
July 31, 2020 and 2019

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 to a maximum of 3 percent of each employee's annual salary. Retirement Plan expense totaled \$28,996 and \$26,631 for the years ended July 31, 2020 and 2019, respectively.

NOTE 11 – LIQUIDITY

Knox County Head Start, Inc. is reimbursed for Federal Head Start expenditures several times each month and for Child and Adult Care Food Program expenditures on a monthly basis. Approximately 49% of this Agency expenditures are funded by these reimbursements. Knox County Head Start attempts to maintain sufficient financial assets, consisting of cash and cash equivalents in the bank, to cover at least 45 days of operating expenses and has a policy of structuring its financial assets to be available as general expenditures, liabilities and other obligations come due.

As of July 31, 2020, Knox County Head Start, Inc. had \$620,443 in unrestricted cash and cash equivalents available to meet obligations for general expenditures and \$282,949 in grants, reimbursement contracts and accounts receivable.

In accordance with ASU 2016-14, assets included in the accompanying Statements of Financial Position have been sequenced according to the date of their anticipated conversion to cash and liabilities have been sequenced according to their estimated maturity dates.

SUPPLEMENTARY INFORMATION

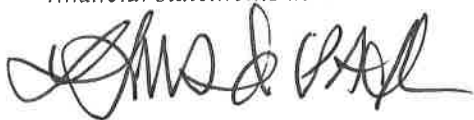

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**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION**

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, 2020 and 2019, and have issued my report thereon dated February 19, 2021. 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, 2020 and 2019, 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
February 19, 2021

KNOX COUNTY HEAD START, INC.
 COMBINING SCHEDULE OF ACTIVITIES
 BY PROGRAM
 Year Ended July 31, 2020

	FEDERAL HEAD START PROGRAMS	CHILD AND ADULT CARE FOOD PROGRAM	CHILD CARE PROGRAM	CORPORATE ACTIVITY	AGENCY TOTAL
CHANGES IN UNRESTRICTED NET ASSETS UNRESTRICTED SUPPORT AND REVENUE					
Child Care revenue	\$ -	\$ -	\$ 838,989	\$ -	\$ 838,989
Other revenue	705,188	-	94,549	19,755	114,304
In-kind contributions	705,188	-	933,538	19,755	705,188
	<u>3,099,850</u>	<u>139,602</u>	<u>-</u>	<u>672,018</u>	<u>3,911,470</u>
	<u>3,805,038</u>	<u>139,602</u>	<u>933,538</u>	<u>691,773</u>	<u>5,569,951</u>
NET ASSETS RELEASED FROM RESTRICTIONS					
Satisfaction of program restrictions					
Federal grant revenue	3,099,850	139,602	-	17,364	3,256,816
State and local grant revenue	-	-	-	336,354	336,354
United Way revenue	-	-	-	143,300	143,300
Payroll Protection Program Funds	3,099,850	139,602	-	175,000	175,000
	<u>3,099,850</u>	<u>139,602</u>	<u>-</u>	<u>672,018</u>	<u>3,911,470</u>
	<u>3,805,038</u>	<u>139,602</u>	<u>933,538</u>	<u>691,773</u>	<u>5,569,951</u>
UNRESTRICTED EXPENSES					
Salaries and wages	1,877,296	83,893	505,634	305,976	2,772,799
Fringe benefits	444,858	20,056	130,429	71,807	667,150
Supplies	205,399	13,803	71,693	18,798	309,693
Space	143,257	-	20,725	5,637	169,619
Contractual	196,454	814	33,588	37,158	268,014
Food	59,311	21,036	24,350	12,317	117,014
Equipment/renovations	72,068	-	-	(72,068)	-
Travel	21,833	-	1,558	6,712	30,103
Staff training	33,767	-	5,663	43,003	82,433
Bus operations	-	-	805	9,254	10,059
Depreciation	-	-	-	34,326	34,326
Other	45,607	-	12,934	106,719	165,260
In-kind expenses	705,188	-	-	-	705,188
	<u>3,805,038</u>	<u>139,602</u>	<u>807,379</u>	<u>579,639</u>	<u>5,331,658</u>
	-	-	126,159	112,134	238,293
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS					
	3,099,850	139,602	-	17,364	3,256,816
	-	-	-	261,715	261,715
	-	-	-	175,000	175,000
	(3,099,850)	(139,602)	-	(17,364)	(3,256,816)
	-	-	-	(336,354)	(336,354)
	-	-	-	(143,300)	(143,300)
	-	-	-	(175,000)	(175,000)
	-	-	-	(217,939)	(217,939)
INCREASE (DECREASE) IN DONOR RESTRICTED NET ASSETS					
	\$ -	\$ -	\$ 126,159	\$ (105,805)	\$ 20,354
INCREASE (DECREASE) IN NET ASSETS					

CHANGES IN DONOR RESTRICTED NET ASSETS

Federal grant revenue	3,099,850
State and local grant revenue	-
Payroll Protection Program Funds	-
Federal grant revenue released from restrictions	(3,099,850)
State and local grant revenue released from restrictions	-
United Way revenue released from restrictions	-
Payroll Protection Program Funds released from restrictions	-

**INCREASE (DECREASE) IN DONOR
RESTRICTED NET ASSETS**

	(217,939)
--	-----------

Please refer to accompanying notes.

KNOX COUNTY HEAD START, INC.
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
Year Ended July 31, 2020

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>GRANT NUMBER</u>	<u>FEDERAL EXPENDITURES</u>	<u>IN-KIND EXPENDITURES</u>
U.S. Department of Health and Human Services:				
Direct Awards:				
Head Start	93.600	#05CH011198-01	\$ 2,720,500	\$ 727,203
Head Start	93.600	#05CH011198-01-C3	113,824	-
Early Head Start-Child Care Partnership	93.600	#05HP000286-01	262,961	24,352
Early Head Start-Child Care Partnership	93.600	#05HP000286-01-C3	<u>2,565</u>	<u>-</u>
	SUBTOTAL, CFDA #93.600		3,099,850 *	751,555
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	<u>17,364</u>	
TOTAL, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			3,117,214	
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>139,602</u>	
TOTAL FEDERAL EXPENDITURES			<u>\$ 3,256,816</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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**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, 2020, 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 February 19, 2021.

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
February 19, 2021



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**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, 2020. 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 Federal statutes, regulations, and the terms and conditions of its Federal awards 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, 2020.

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.

A handwritten signature in black ink, appearing to be 'AMAD RAD', is written over the text of the report.

Medina, Ohio
February 19, 2021

KNOX COUNTY HEAD START, INC.
SCHEDULE OF FINDINGS
Year Ended July 31, 2020

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