Knox County Head Start, Inc.

Financial Statements with Supplementary Information
July 31, 2023 and 2022, and
Independent Auditors' Report

KNOX COUNTY HEAD START, INC.

July 31, 2023 and 2022

Contents

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Accounting • Tax • Business Insight

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Independent Auditors' Report

The Board of Directors
Knox County Head Start, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Knox County Head Start, Inc. (a nonprofit organization), which comprise the statements of financial position as of July 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Knox County Head Start, Inc. as of July 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Knox County Head Start, Inc., and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Knox County Head Start, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

Independent Auditors' Report
(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Knox County Head Start, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Knox County Head Start, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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 our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2024, on our consideration of Knox County Head Start Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Knox County Head Start, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Knox County Head Start, Inc.'s internal control over financial reporting and compliance.

Barnes, Dennig & Co., Ltd.

February 7, 2024
Cincinnati, Ohio

KNOX COUNTY HEAD START, INC.

Statements of Financial Position
July 31, 2023 and 2022

	2023	2022
Assets		
Cash	$ 851,303	$ 665,430
Grants and reimbursement contracts receivable, net	245,446	323,990
United Way allocation receivable	69,234	66,305
Investments	101,536	93,772
Property and equipment, net	853,184	846,130
Right of use assets - operating leases	133,260	-
Total assets	$ 2,253,963	$ 1,995,627
Liabilities		
Accounts payable	$ 151,136	$ 187,431
Accrued payroll and other	93,202	90,641
Lease liabilities - operating leases	135,188	-
Refundable advances	30,089	62,702
Total liabilities	409,615	340,774
Net Assets		
Without donor restrictions:	1,775,114	1,588,548
With donor restrictions	69,234	66,305
Total net assets	1,844,348	1,654,853
Total liabilities and net assets	$ 2,253,963	$ 1,995,627

See accompanying notes to financial statements

KNOX COUNTY HEAD START, INC.

Statements of Activities
Years Ended July 31, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue						
Federal grant revenue	$ 3,720,263	$ -	$ 3,720,263	$ 3,441,063	$ -	$ 3,441,063
State and local grant revenue	947,156	-	947,156	342,358	-	342,358
United Way allocation	69,234	69,234	138,468	66,305	66,305	132,610
Child care fee revenue	1,207,155	-	1,207,155	1,129,589	-	1,129,589
Donated services and in-kind	533,742	-	533,742	547,273	-	547,273
Contributions and other	86,763	-	86,763	51,453	-	51,453
Net assets released from restriction	66,305	(66,305)	-	65,400	(65,400)	-
Total support and revenue	6,630,618	2,929	6,633,547	5,643,441	905	5,644,346
Operating expenses						
Program services						
Federal Head Start program	3,488,565	-	3,488,565	3,396,117	-	3,396,117
Child and adult care food	182,675	-	182,675	140,597	-	140,597
Childcare program	1,040,137	-	1,040,137	919,402	-	919,402
Corporate activity	1,061,520	-	1,061,520	610,600	-	610,600
Total program services	5,772,897	-	5,772,897	5,066,716	-	5,066,716
Management and general	678,919	-	678,919	597,003	-	597,003
Total operating expenses	6,451,816	-	6,451,816	5,663,719	-	5,663,719
Change in net assets, before investment return	178,802	2,929	181,731	(20,278)	905	(19,373)
Investment return, net	7,764	-	7,764	(6,228)	-	(6,228)
Change in net assets	186,566	2,929	189,495	(26,506)	905	(25,601)
Net assets, beginning of year	1,588,548	66,305	1,654,853	1,615,054	65,400	1,680,454
Net assets, end of year	$ 1,775,114	$ 69,234	$ 1,844,348	$ 1,588,548	$ 66,305	$ 1,654,853

See accompanying notes to financial statements.

KNOX COUNTY HEAD START, INC.

Statement of Functional Expense
Year Ended July 31, 2023

	Federal Head Start Program	Child and Adult Care Food	Childcare Program	Corporate Activity	Total Program Services	Management and General	Total
Salaries and wages	$ 1,722,054	$ 108,201	$ 611,855	$ 758,496	$ 3,200,606	$ 473,328	$ 3,673,934
Fringe benefits and employee taxes	478,891	32,297	181,535	82,336	775,059	118,659	893,718
In-kind expenses	533,742	-	-	-	533,742	-	533,742
Occupancy	215,693	-	48,243	62,347	326,283	28,789	355,072
Supplies	236,278	149	94,826	6,215	337,468	10,299	347,767
Professional fee contracts	99,179	-	44,680	13,266	157,125	29,597	186,722
Food	85,928	19,595	33,079	11,870	150,472	-	150,472
Other	43,647	22,386	11,940	25,256	103,229	2,292	105,521
Depreciation	-	-	-	76,501	76,501	-	76,501
Staff training	49,454	-	8,921	6,684	65,059	9,938	74,997
Travel	23,632	47	4,756	5,767	34,202	6,017	40,219
Bus operations	67	-	302	12,782	13,151	-	13,151
Total expense	$ 3,488,565	$ 182,675	$ 1,040,137	$ 1,061,520	$ 5,772,897	$ 678,919	$ 6,451,816

See accompanying notes to financial statements.

KNOX COUNTY HEAD START, INC.

Statement of Functional Expense
Year Ended July 31, 2022

	Federal Head Start Program	Child and Adult Care Food	Childcare Program	Corporate Activity	Total Program Services	Management and General	Total
Salaries and wages	$ 1,626,489	$ 99,085	$ 545,590	$ 378,318	$ 2,649,482	$ 440,692	$ 3,090,174
Fringe benefits and employee taxes	457,248	27,697	164,807	33,094	682,846	90,181	773,027
In-kind expenses	547,273	-	-	-	547,273	-	547,273
Occupancy	186,381	-	31,053	3,060	220,494	7,283	227,777
Supplies	195,699	13,617	58,796	26,271	294,383	912	295,295
Professional fee contracts	193,888	-	35,920	25,287	255,095	28,714	283,809
Food	58,392	-	57,943	3,558	119,893	-	119,893
Other	51,596	168	12,813	43,017	107,594	13,603	121,197
Depreciation	-	-	-	79,942	79,942	-	79,942
Staff training	57,291	30	9,083	363	66,767	8,158	74,925
Travel	20,365	-	2,171	2,969	25,505	7,447	32,952
Bus operations	1,495	-	1,226	14,245	16,966	-	16,966
Equipment and renovations	-	-	-	476	476	13	489
Total expense	$ 3,396,117	$ 140,597	$ 919,402	$ 610,600	$ 5,066,716	$ 597,003	$ 5,663,719

See accompanying notes to financial statements.

KNOX COUNTY HEAD START, INC.

Statements of Cash Flows
Years Ended July 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Change in net assets	$ 189,495	$ (25,601)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	76,501	79,942
Net realized and unrealized (gains) losses on investments	(7,764)	6,228
Non-cash lease expense	1,928	-
Changes in:		
Grants and reimbursement contracts receivable, net	78,544	192,409
United Way allocation receivable	(2,929)	(11,805)
Accounts payable	(36,295)	(184,843)
Accrued payroll and other	2,561	28,226
Refundable advances	(32,613)	13,232
Net cash provided by operating activities	269,428	97,788
Cash flows from investing activities		
Purchases of investments	-	(100,000)
Purchases of property and equipment	(83,555)	(23,300)
Net cash used in investing activities	(83,555)	(123,300)
Net change in cash and cash equivalents	185,873	(25,512)
Cash and cash equivalents, beginning of year	665,430	690,942
Cash and cash equivalents, end of year	$ 851,303	$ 665,430

See accompanying notes to financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Knox County Head Start, Inc. (the Agency) was incorporated as a not-for-profit organization under the laws of the state of Ohio in 1965. The Agency's mission is to work in partnership with the Knox County community to provide quality preschool, childcare and family services to engage children, families and staff in reaching their full potential. In fulfilling this purpose, the Agency administers numerous programs funded by federal, state and local entities.

Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America (GAAP). The Agency is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, which are available for use in general operations and not subject to donor restrictions; and net assets with donor restrictions, which are either temporary in nature, such as those that will be met by the passage of time or other events specified by the donor, or are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Fair Value Measurements

GAAP has a three-level hierarchy for fair value measurements based on transparency of valuation inputs as of the measurement date. The hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows: Level 1 inputs are unadjusted quoted prices for identical assets in active markets; Level 2 inputs are observable quoted prices for similar assets in active markets; Level 3 inputs are unobservable and reflect management's best estimate of what market participants would use as fair value.

Cash and Cash Equivalents

The Agency considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consisted primarily of money market funds. The Agency maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. The Agency has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Investment return includes dividends, interest, and realized and unrealized gains and losses on investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Agency provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts past due more than 120 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. No allowance for doubtful accounts was recognized at July 31, 2023 and 2022.

Property and Equipment

Property and equipment are recorded at cost or, if donated or impaired, at fair value at the time of the gift or determination. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets. Major improvements are capitalized, while maintenance and repairs are expensed as incurred.

In accordance with GAAP, the Agency assesses the recoverability of the carrying amount of property and equipment if certain events or changes occur, such as a significant decrease in market value of the assets or a significant change in operating conditions. Based on its most recent analysis, the Agency believes no impairments existed at July 31, 2023 and 2022.

Leases

The Agency determines if an arrangement is a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities on the statements of financial position. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, the Agency uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Agency will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Agency accounts for the lease and non-lease components as a single lease component. There may be variability in future lease payments as the amount of the non-lease components is typically revised from one period o the next. These variable lease payments are recognized in operating expenses in the period in which the obligation for those payments was incurred.

The Agency has elected to apply the short-term lease exemption to any lease agreements lasting less than 12 months.

In evaluating contracts to determine if they qualify as a lease, the Agency considers factors such as if it has obtained substantially all of the rights to the underlying asset through exclusivity, if it can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts originally having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets with donor restrictions and then released from restriction.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long-lived assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized and reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenues when the conditions are substantially met and the gift becomes unconditional.

Government Fees and Grants

Revenues of the Agency consist primarily of federal, state, and local cost reimbursable grants. The grants are conditional on the Agency incurring allowable expenses in performance of the grants. Grant revenue is recognized as support to the extent that the related expenses are incurred. Grant funds received in excess of expenses incurred result in the recognition of a refundable advance (liability) recorded on the balance sheet. Allowable expenses incurred in excess of grant funds received results in recognition of grants receivable (asset) recorded in accounts receivable on the statement of financial position. Government grants received from one Federal agency represented approximately 53% and 58% of the Agency's revenues during 2023 and 2022, respectively.

In-Kind Donations and Services

The Agency receives certain in-kind donations and services during the year, which are recorded at fair value as contribution revenue and an expense in the financial statements. The Agency records donated services revenue in the period received only if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. However, many individuals volunteer their time and perform a variety of tasks that assist the Agency.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

The Agency identifies a contract with a customer for revenue recognition when there is approval and commitment from both parties, the rights of the parties and payment terms are identified, the contract has commercial substance and the collectability of consideration is probable. The Agency evaluates each contract to determine the number of distinct performance obligations in the contract, which requires the use of judgment. To determine the proper revenue recognition method, the Agency evaluates whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as a single or more than one performance obligation.

Revenue from contracts with customers is primarily recognized from childcare fees. These contracts consist of a single performance obligation as the promise to transfer the service is not separately identifiable from other promises in the contracts and, therefore, not distinct. Revenue is recognized by the Agency over the time its services are provided to the participant. The Agency generally uses the time elapsed method, an input measure, as it considers it to best depict the simultaneous consumption and delivery of its services. The determination of the method by which the Agency measures its progress towards the satisfaction of its performance obligations requires judgement. The transaction price is stated in the contracts and is known at the time of contract inception. The variable consideration associated with the Agency’s contracts with customers consists primarily of discounts offered to program participants. Payments are due monthly and accounts 30 days past due will be subject to a late fee. Some amounts are due from third-party payors (including government programs). The Agency bills third-party payors several days after the services are performed and payment is expected upon submission of claims for the services authorized for reimbursement, generally within 15 – 30 days. Contract assets, recorded as accounts receivable, for childcare fees as of July 31, 2023, 2022, and 2021 was $51,183, $30,936 and $46,975, respectively, and are included in grants and reimbursement contracts receivable, net.

Income Taxes

The Agency is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of Ohio law. However, the Agency is subject to federal income tax on any unrelated business taxable income.

The Agency’s IRS Form 990 is subject to review and examination by federal and state authorities. The Agency believes it has appropriate support for any tax positions taken, and therefore, does not have any uncertain income tax positions that are material to the financial statements.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Certain costs have been allocated among the program, management and general and fundraising categories. The most significant allocations are compensation and related expenses, which were allocated based upon time spent by Agency personnel, and occupancy, which was based on square footage.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Effect of Recently Adopted Accounting Guidance

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 842, *Leases*) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of consolidated financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Agency adopted the standard effective August 1, 2022 and recognized and measured leases existing at, or entered into after, August 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year July 31, 2022 are made under prior lease guidance in FASB ASC 840.

The Agency elected the available practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Agency recognized on August 1, 2022 (beginning of the year of adoption) an operating lease ROU asset and operating lease liabilities of $15,568.

The standard had a material impact on the Agency’s statements of financial position but did not have a material impact on the statements of activities, nor statements of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

Recently Issued Accounting Standards

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the income statement will reflect the measurement of credit losses for newly-recognized financial assets as well as the increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the fiscal year ending July 31, 2024. The Agency is currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

Subsequent Event Evaluation

Subsequent events have been evaluated through February 7, 2024, which is the date the financial statements were available to be issued.

KNOX COUNTY HEAD START, INC.

Notes to Financial Statements
(Continued)

NOTE 2 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of July 31, comprise of the following:

	2023	2022
Cash	$ 851,303	$ 665,430
Grants and reimbursement contracts receivable, net	245,446	323,990
United Way allocation receivable	69,234	66,305
Investments	101,536	93,772
Total financial assets	1,267,519	1,149,497
Less: donor-restricted net assets	(69,234)	(66,305)
	$ 1,198,285	$ 1,083,192

For the purposes of analyzing resources available to meet general expenditures over a 12-month period, the Agency considers all expenditures related to its ongoing activities issued to programs as well as the general expenses that support the programs. The Agency regularly monitors liquidity required to meet its operating needs and other contractual commitments.

NOTE 3 INVESTMENTS AT FAIR VALUE

Investments at fair value as of July 31 consisted of:

	2023	2022
Level 2		
Funds held at Knox County Foundation	$ 101,536	$ 93,772

The Agency holds its investments in the Knox County Foundation Fund, which was established with donor and organinsization funds to improve the quality of life for residences of Knox County. Net investment return of the Fund (representing interest and dividend income and net investment appreciation or depreciation) is allocated to participating organizations based on their respective share of the Fund's assets. Fair value for funds held at the Knox County Foundation are valued as a proportionate interest of the fair value of underlying funds. The underlying funds are primarily assets which can valued using observable inputs and are categorized as using Level 2 inputs.

NOTE 4 CONDITIONAL CONTRIBUTIONS

The Agency has numerous grants for which the federal and local government agencies' promises to give are conditioned upon the Agency incurring certain qualifying expenses under the grant programs. At July 31, 2023 and 2022, the Agency had remaining available award balances on federal and local government conditional grants and contracts of $60,049 and $384,752, of which $30,089 and $62,702 have been received in advance of utilization and have been recognized as refundable advances, all respectively. These award balances are recognized as revenue as the conditions are met, generally as qualifying expenses are incurred.

KNOX COUNTY HEAD START, INC.

Notes to Financial Statements
(Continued)

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment as of July 31 consisted of the following:

	2023	2022
Land	$ 57,822	$ 57,822
Building and improvements	698,661	698,661
Furniture, fixtures and equipment	354,962	271,408
Playground equipment and other site improvements	453,760	453,760
Vehicles	224,328	224,328
Less accumulated depreciation	(936,349)	(859,849)
	$ 853,184	$ 846,130

The Agency received funds through grants from agencies of the federal government for the purpose of acquiring property and equipment. The federal government interest in assets purchased with federal funds will continue until the Administration for Children and Families grants approval upon request by the Agency. The following summarizes information related to the Agency's real property subject to federal government interest:

	Cost	Federal Interest
Northgate Real Property	$ 690,000	$ 324,447

NOTE 6 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of July 31, 2023 and 2022 consisted of $69,234 and $66,305 of the United Way allocations restricted as to timing.

NOTE 7 CONTRIBUTED NONFINANCIAL ASSETS

For the years ended July 31, contributed nonfinancial assets recognized within the statement of activities included:

Type	Revenue Recognized 2023	Revenue Recognized 2022	Valuation Techniques and Inputs
Rent	$ 463,169	$ 485,559	Market appraised value less rent paid
Office, janitorial and program supplies	52,994	41,161	Typical purchase price of a similar item.
Utilities	17,579	20,553	Typical cost for similar usage rates
	$ 533,742	$ 547,273	

All contributed nonfinancial assets are for internal use and do not contain donor restrictions.

NOTE 8 RETIREMENT PLAN

The Agency has a defined contribution retirement plan covering substantially all employees. The Agency provides a matching contribution equal to 100% of employee deferrals, up to a maximum of 3.00%. Total matching contributions were $48,912 and $39,847 for July 31, 2023 and 2022, respectively. There were no discretionary contributions made during 2023 and 2022.

NOTE 9 OPERATING LEASES

The Agency leases classroom and office space under non-cancelable operating leases that expire at various times through 2026, some of which may include options to extend the lease.

The component of lease expense were as follows:

Operating lease expense	$	61,028
Short-term lease expense		54,552
Variable lease expense		43,349
	$	158,929

Other information related to the leases were as follows:

Operating cash flows:	$	157,001
ROU assets obtained in exchange for lease obligations:	$	176,913
Weighted average remaining lease term:		2.95 years
Weighted average discount rate:		2.67%

Future lease payments under leases as of July 31, 2023 were as follows:

2024	$	46,800
2025		48,098
2026		45,894
Total lease payments		140,792
Less interest		(5,604)
Present value of lease liability	$	135,188

NOTE 9 OPERATING LEASES (CONTINUED)

Lease disclosures for the year ended July 31, 2022

The Agency leases classroom and office space under non-cancelable operating leases that expire at various times through 2024. Total lease expense under all operating leases was $51,626 during July 31, 2022.

Future minimum lease payments under non-cancellable lease as of July 31, 2022 were as follows:

2023	$	93,552
2024		43,260
	$	136,812

NOTE 10 COMMITMENTS AND CONTINGENCIES

The majority of the Agency's governmental funding sources have the contractual right to examine the records of the related programs. As a result of these examinations, the Agency may be required to return a portion of the funding received. No allowances are included on the statements of financial position at July 31, 2023 and 2022 related to this contingency.

ACCOMPANYING INFORMATION

KNOX COUNTY HEAD START, INC.

Schedule of Expenditures of Federal Awards
Year Ended July 31, 2023

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Assistance Listing Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services			
Direct Programs			
Head Start and Early Head Start	93.600	$ -	$ 3,308,538
Head Start (American Rescue Plan)	93.600	-	$ 208,590
Total Head Start		-	3,517,128
Passed through Ohio Department of Job and Family Services, through Knox County Department of Job and Family Services			
Temporary Assistance for Needy Families	93.558	-	19,172
Total U.S. Department of Health and Human Services		-	3,536,300
U.S. Department of Agriculture			
Passed through Ohio Department of Education, Division of School Fund Service			
Child and Adult Care Food Program	10.558	-	183,963
Total U.S. Department of Agriculture		-	183,963
Total Expenditures of Federal Awards		$ -	$ 3,720,263

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Knox County Head Start, Inc. under programs of the federal government for the year ended July 31, 2023. 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 Principals, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the schedule presents only a selected portion of the operations of Knox County Head Start, Inc. it is not intended to and does not present the financial position, changes in net assets or cash flows of Knox County Head Start, Inc.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

De Minimus Cost Rate

The Agency has not elected to use the 10% de minimis cost rate.

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

The Board of Directors
Knox County Head Start, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Knox County Head Start, Inc. (a nonprofit organization), which comprise the statement of financial position as of July 31, 2023, and the related statements of activities, functional expense and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 7, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Knox County Head Start, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Knox County Head Start, Inc.'s internal control. Accordingly, we 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Report on 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, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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.

Barnes, Dennig & Co., Ltd.

February 7, 2024
Cincinnati, Ohio

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

The Board of Directors
Knox County Head Start, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Knox County Head Start, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Knox County Head Start, Inc.'s major federal programs for the year ended July 31, 2023. Knox County Head Start, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our 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 each of its major federal programs for the year ended July 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Knox County Head Start, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Knox County Head Start, Inc.'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Knox County Head Start, Inc.'s federal programs.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Knox County Head Start, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Knox County Head Start, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Knox County Head Start, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Knox County Head Start, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Knox County Head Start, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)

Report on Internal Control over Compliance (continued)

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Barnes, Dennig & Co., Ltd.

February 7, 2024
Cincinnati, Ohio

KNOX COUNTY HEAD START, INC.

Schedule of Findings and Questioned Costs
Year Ended July 31, 2023

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

• Material weakness(es) identified?		Yes	X	No
• Significant deficiency identified that is not considered to be a material weakness?		Yes	X	None reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?		Yes	X	No
• Significant deficiencies identified that are not considered to be material weaknesses?		Yes	X	None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2 *U.S. CFR Section 200.516(a)*?		Yes	X	No

Identification of Major Program

Assistance Listing Number(s)	Name of Federal Program or Cluster
93.600	U.S. Department of Health and Human Services Head Start

Dollar threshold used to distinguish between Type A and Type B programs: $750,000

Auditee qualified as low-risk auditee?		Yes	X	No

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters are reportable

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters are reportable

KNOX COUNTY HEAD START, INC.

Summary Schedule of Prior Audit Findings
Year Ended July 31, 2023

Reference Number	Summary of Finding	Status
	No matters are reportable	