# Knox County Head Start, Inc.

**Financial Statements with Supplementary Information**
**July 31, 2024 and 2023, and**
**Independent Auditors' Report**

**KNOX COUNTY HEAD START, INC.**

**July 31, 2024 and 2023**

**Contents**

BARNES DENNIG
Accounting • Tax • Business Insight

INDIANA
INDIANAPOLIS OFFICE
8470 Allison Pointe Blvd, Suite 200
Indianapolis IN 46250
Main: 317.572.1130
Fax: 317.863.0694

**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, 2024 and 2023, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Knox County Head Start, Inc. as of July 31, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***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 Auditors' 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.

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Stand*ards 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:

## Independent Auditors' Report
## (Continued)

***Auditors' Responsibilities for the Audit of the Financial Statements (Continued)***

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 January 23, 2025, 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.

January 31, 2025
Indianapolis, Indiana

## KNOX COUNTY HEAD START, INC.

### Statements of Financial Position
### July 31, 2024 and 2023

| | 2024 | 2023 |
|---|---|---|
| **Assets** | | |
| Cash | $ 991,098 | $ 851,303 |
| Grants and reimbursement contracts receivable, net | 137,070 | 245,446 |
| United Way allocation receivable, due within one year | 66,305 | 69,234 |
| Promises to give, due within one year | 20,000 | - |
| Prepaid expenses | 44,308 | - |
| Investments | 115,548 | 101,536 |
| Property and equipment, net | 766,464 | 853,184 |
| Right of use assets - operating leases | 88,866 | 133,260 |
| Total assets | $ 2,229,659 | $ 2,253,963 |
| **Liabilities** | | |
| Accounts payable | $ 27,411 | $ 151,136 |
| Accrued payroll and other | 136,790 | 93,202 |
| Lease liabilities - operating leases | 91,462 | 135,188 |
| Refundable advances | - | 30,089 |
| Total liabilities | 255,663 | 409,615 |
| **Net Assets** | | |
| Without donor restrictions: | 1,781,456 | 1,745,065 |
| With donor restrictions | 192,540 | 99,283 |
| Total net assets | 1,973,996 | 1,844,348 |
| Total liabilities and net assets | $ 2,229,659 | $ 2,253,963 |

See accompanying notes to financial statements

# KNOX COUNTY HEAD START, INC.

## Statements of Activities
### Years Ended July 31, 2024 and 2023

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| **Support and revenue** | | | | | | |
| Federal grant revenue | $ 3,791,909 | $ - | $ 3,791,909 | $ 3,720,263 | $ - | $ 3,720,263 |
| Child care fee revenue | 1,347,401 | - | 1,347,401 | 1,207,155 | - | 1,207,155 |
| Donated services and in-kind | 520,835 | - | 520,835 | 533,742 | - | 533,742 |
| State and local grant revenue | 358,267 | 126,235 | 484,502 | 917,107 | 30,049 | 947,156 |
| United Way allocation | 67,233 | 66,305 | 133,538 | 69,234 | 69,234 | 138,468 |
| Contributions and other | 82,220 | - | 82,220 | 86,763 | - | 86,763 |
| Net assets released from restriction | 99,283 | (99,283) | - | 128,967 | (128,967) | - |
| Total support and revenue | 6,267,148 | 93,257 | 6,360,405 | 6,663,231 | (29,684) | 6,633,547 |
| **Operating expenses** | | | | | | |
| Program services | | | | | | |
| Federal Head Start program | 3,666,067 | - | 3,666,067 | 3,488,565 | - | 3,488,565 |
| Childcare program | 1,112,566 | - | 1,112,566 | 1,040,137 | - | 1,040,137 |
| Corporate activity | 640,154 | - | 640,154 | 1,061,520 | - | 1,061,520 |
| Child and adult care food | 195,503 | - | 195,503 | 182,675 | - | 182,675 |
| Total program services | 5,614,290 | - | 5,614,290 | 5,772,897 | - | 5,772,897 |
| Management and general | 630,479 | - | 630,479 | 678,919 | - | 678,919 |
| Total operating expenses | 6,244,769 | - | 6,244,769 | 6,451,816 | - | 6,451,816 |
| **Change in net assets, before investment return** | 22,379 | 93,257 | 115,636 | 211,415 | (29,684) | 181,731 |
| **Investment return, net** | 14,012 | - | 14,012 | 7,764 | - | 7,764 |
| **Change in net assets** | 36,391 | 93,257 | 129,648 | 219,179 | (29,684) | 189,495 |
| **Net assets, beginning of year** | 1,745,065 | 99,283 | 1,844,348 | 1,525,886 | 128,967 | 1,654,853 |
| **Net assets, end of year** | $ 1,781,456 | $ 192,540 | $ 1,973,996 | $ 1,745,065 | $ 99,283 | $ 1,844,348 |

See accompanying notes to financial statements

## KNOX COUNTY HEAD START, INC.

### Statement of Functional Expense
### Year Ended July 31, 2024

| | Federal Head Start Program | Child and Adult Care Food | Childcare Program | Corporate Activity | Total Program Services | Management and General | Total |
|---|---|---|---|---|---|---|---|
| Salaries and wages | $ 2,129,306 | $ 68,518 | $ 738,642 | $ 380,965 | $ 3,317,431 | $ 426,609 | $ 3,744,040 |
| Fringe benefits and employee taxes | 550,068 | 20,692 | 230,500 | 43,227 | 844,487 | 105,213 | 949,700 |
| In-kind expenses | 520,835 | - | - | - | 520,835 | - | 520,835 |
| Occupancy | 161,174 | - | 30,707 | 46,965 | 238,846 | 21,008 | 259,854 |
| Supplies | 115,427 | - | 41,019 | 11,699 | 168,145 | 8,016 | 176,161 |
| Food | 35,400 | 91,416 | 17,061 | 13,109 | 156,986 | - | 156,986 |
| Professional fee contracts | 51,766 | - | 32,957 | 12,369 | 97,092 | 56,099 | 153,191 |
| Depreciation | - | - | - | 86,720 | 86,720 | - | 86,720 |
| Other | 33,421 | 14,877 | 9,880 | 26,216 | 84,394 | 2,141 | 86,535 |
| Staff training | 33,583 | - | 6,197 | 7,911 | 47,691 | 5,504 | 53,195 |
| Travel | 27,880 | - | 4,567 | 6,007 | 38,454 | 5,889 | 44,343 |
| Bus operations | 7,207 | - | 1,036 | 4,966 | 13,209 | - | 13,209 |
| Total expense | $ 3,666,067 | $ 195,503 | $ 1,112,566 | $ 640,154 | $ 5,614,290 | $ 630,479 | $ 6,244,769 |

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 |
| Food | 85,928 | 19,595 | 33,079 | 11,870 | 150,472 | - | 150,472 |
| Professional fee contracts | 99,179 | - | 44,680 | 13,266 | 157,125 | 29,597 | 186,722 |
| Depreciation | - | - | - | 76,501 | 76,501 | - | 76,501 |
| Other | 43,647 | 22,386 | 11,940 | 25,256 | 103,229 | 2,292 | 105,521 |
| 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.

### Statements of Cash Flows
### Years Ended July 31, 2024 and 2023

| | 2024 | 2023 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ 129,648 | $ 189,495 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Depreciation | 86,720 | 76,501 |
| Net realized and unrealized gains on investments | (14,012) | (7,764) |
| Non-cash lease expense | 668 | 1,928 |
| Changes in: | | |
| Grants and reimbursement contracts receivable, net | 108,376 | 78,544 |
| United Way allocation receivable | 2,929 | (2,929) |
| Promises to give | (20,000) | - |
| Prepaid expenses | (44,308) | - |
| Accounts payable | (123,725) | (36,295) |
| Accrued payroll and other | 43,588 | 2,561 |
| Refundable advances | (30,089) | (32,613) |
| Net cash provided by operating activities | 139,795 | 269,428 |
| **Cash flows from investing activities** | | |
| Purchases of property and equipment | - | (83,555) |
| Net cash used in investing activities | - | (83,555) |
| **Net change in cash and cash equivalents** | 139,795 | 185,873 |
| **Cash and cash equivalents, beginning of year** | 851,303 | 665,430 |
| **Cash and cash equivalents, end of year** | $ 991,098 | $ 851,303 |

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 expected credit losses. The Agency recognizes an allowance for losses on accounts receivable in an amount equal to the current expected credit losses. The estimation of the allowance is based on an analysis of historical loss experience, current receivables aging, and management's assessment of current conditions and reasonable and supportable expectation of future conditions, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. The Agency assesses collectability by pooling receivables where similar characteristics exist and evaluates receivables individually when specific customer balances no longer share those risk characteristics and are considered at risk or uncollectible. The expense associated with the allowance for expected credit losses is recognized in operating expense. Allowance for expected credit losses was $1,000 at July 31, 2024 and 2023.

***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, 2024 and 2023.

***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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Leases (continued)***

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.

***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 56% and 53% of the Agency’s revenues during 2024 and 2023, respectively. Government grants due from one Federal agency represented approximately 64% and 81% of the Agency’s grant and contracts reimbursement receivable, during 2024 and 2023, respectively.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***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.

***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, 2024, 2023, and 2022 was $27,311, $51,183, and $30,936, 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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***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.

***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***

During 2024, the Agency adopted Accounting Standards Update (ASU) 2016-12*, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU replaces the incurred loss impairment methodology with a current expected credit losses model for all financial assets measured at amortized cost. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Agency that are subject to the ASU include accounts receivable. There was no material impact on the financial statements as a result of this change in accounting principle.

***Reclassifications***

Certain prior year amounts have been reclassified to conform to current year presentation. The reclassifications have no effect on the financial results for either year.

***Subsequent Event Evaluation***

Subsequent events have been evaluated through January 31, 2025, which is the date the financial statements were available to be issued.

## 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:

| | 2024 | 2023 |
|---|---|---|
| Cash | $ 991,098 | $ 851,303 |
| Grants and reimbursement contracts receivable, net | 137,070 | 245,446 |
| United Way allocation receivable, due within one year | 66,305 | 69,234 |
| Promises to give, due within one year | 20,000 | - |
| Investments | 115,548 | 101,536 |
| Total financial assets | 1,330,021 | 1,267,519 |
| Less donor-restricted net assets | (192,540) | (99,283) |
| | $ 1,137,481 | $ 1,168,236 |

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:

| | 2024 | 2023 |
|---|---|---|
| **Level 2** | | |
| Funds held at Knox County Foundation | $ 115,548 | $ 101,536 |

The Agency holds its investments in the Knox County Foundation Fund, which was established with donor and organization 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, 2024 and 2023, the Agency had remaining available award balances on federal and local government conditional grants and contracts of $-0- and $60,049, of which $-0- and $30,089 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.

## NOTE 5 PROPERTY AND EQUIPMENT

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

| | 2024 | 2023 |
|---|---|---|
| Land | $ 57,822 | $ 57,822 |
| Building and improvements | 698,661 | 698,661 |
| Furniture, fixtures and equipment | 354,962 | 354,962 |
| Playground equipment and other site improvements | 453,760 | 453,760 |
| Vehicles | 224,328 | 224,328 |
| Less accumulated depreciation | (1,023,069) | (936,349) |
| | $ 766,464 | $ 853,184 |

The Agency received funds through grants from agencies of the Federal government for the purpose of acquiring real property. In accordance with the grant agreement, the Federal government shall retain an interest in the real property purchased until the Agency requests a release of the federal interest and the release is approved by the applicable Federal agency. The following summarizes information related to the Agency's real property subject to Federal government interest:

| | Cost | Federal Interest |
|---|---|---|
| Northgate Real Property | $ 750,000 | $ 352,500 |

## NOTE 6 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of July 31 consisted of the following:

| | 2024 | 2023 |
|---|---|---|
| Restricted as to purpose or timing: | | |
| United Way allocation | $ 66,305 | $ 69,234 |
| Restricted due to purpose | | |
| Imagination Library Enhancement | 15,482 | - |
| Parent Support Initiative | 110,753 | 30,049 |
| | $ 192,540 | $ 99,283 |

## NOTE 7 CONTRIBUTED NONFINANCIAL ASSETS

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

| Type | Revenue Recognized 2024 | Revenue Recognized 2023 | Valuation Techniques and Inputs |
|---|---|---|---|
| Rent | $ 433,398 | $ 463,169 | Market appraised value less rent paid |
| Office, janitorial and program supplies | 66,934 | 52,994 | Typical purchase price of a similar item. |
| Utilities | 20,503 | 17,579 | Typical cost for similar usage rates |
| | $ 520,835 | $ 533,742 | |

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 $50,310 and $48,912 for July 31, 2024 and 2023, respectively. There were no discretionary contributions made during 2024 and 2023.

## 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:

| | 2024 | 2023 |
|---|---|---|
| Operating lease expense | $ 47,468 | $ 61,028 |
| Short-term lease expense | 68,050 | 54,552 |
| Variable lease expense | 43,043 | 43,349 |
| | $ 158,561 | $ 158,929 |

Other information related to the leases were as follows:

| | 2024 | 2023 |
|---|---|---|
| Operating cash flows: | $ 46,800 | $ 157,001 |
| Weighted average remaining lease term: | 1.96 years | 2.95 years |
| Weighted average discount rate: | 2.67% | 2.67% |

## NOTE 9 OPERATING LEASES (CONTINUED)

Future lease payments under leases as of July 31, 2024 were as follows:

| | Operating |
|---|---|
| 2025 | $ 48,098 |
| 2026 | 45,894 |
| Total lease payments | 93,992 |
| Less interest | (2,530) |
| Present value of lease liability | $ 91,462 |

Subsequent to year end, the Agency entered into a new lease for new office equipment. Future lease payments under this lease will be $13,559 in 2025, $18,078 in 2026 through 2029 and $4,520 in 2030.

## 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, 2024 and 2023 related to this contingency.

## ACCOMPANYING INFORMATION

**KNOX COUNTY HEAD START, INC.**

**Schedule of Expenditures of Federal Awards**
**Year Ended July 31, 2024**

| 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 | $ - | $ 3,574,369 |
| Total Head Start | | - | 3,574,369 |
| *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 | - | 18,234 |
| Total U.S. Department of Health and Human Services | | - | 3,592,603 |
| **U.S. Department of Agriculture** | | | |
| *Passed through Ohio Department of Education, Division of School Fund Service* | | | |
| Child and Adult Care Food Program | 10.558 | - | 199,306 |
| Total U.S. Department of Agriculture | | - | 199,306 |
| Total Expenditures of Federal Awards | | $ - | $ 3,791,909 |

***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, 2024. 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.

BARNES DENNIG
Accounting • Tax • Business Insight

INDIANA
INDIANAPOLIS OFFICE
8470 Allison Pointe Blvd, Suite 200
Indianapolis IN 46250
Main: 317.572.1130
Fax: 317.863.0694

# 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, 2024, 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 January 31, 2025.

## 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.

January 31, 2025
Indianapolis, Indiana

BARNES DENNIG
Accounting • Tax • Business Insight

INDIANA
INDIANAPOLIS OFFICE
8470 Allison Pointe Blvd, Suite 200
Indianapolis IN 46250
Main: 317.572.1130
Fax: 317.863.0694

# 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, 2024. Knox County Head Start, Inc.'s major federal programs are identified in the summary of auditors' 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, 2024.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 Auditors' 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)**

***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on 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 Auditors' 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.

January 31, 2025
Indianapolis, Indiana

## KNOX COUNTY HEAD START, INC.

### Schedule of Findings and Questioned Costs
### Year Ended July 31, 2024

### SECTION I - SUMMARY OF AUDITOR'S RESULTS

***Financial Statements***

Type of auditors' 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 auditors' 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<br>Head Start |

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

| | | | | |
|---|---|---|---|---|
| Auditee qualified as low-risk auditee? | X | Yes | | 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, 2024

| Reference Number | Summary of Finding | Status |
|---|---|---|
| | No matters are reportable | |