

RUSSELL CHILD DEVELOPMENT CENTER, INC.

**FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT
and
OMB CIRCULAR A-133 SINGLE AUDIT REPORTS
YEARS ENDED JULY 31, 2015 AND 2014**

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Russell Child Development Center, Inc.
Garden City, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of Russell Child Development Center, Inc. (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets – cash basis as of July 31, 2015 and 2014, and the related statements of revenues, expenses, and other changes in net assets – cash basis for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting as described in Note A; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Russell Child Development Center, Inc. as of July 31, 2015 and 2014, and its revenues, expenses, and other changes in net assets for the years then ended in accordance with the cash basis of accounting described in Note A.

Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. The combining schedule of revenues, expenses, and other changes in net assets – cash basis is presented for purposes of additional analysis and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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 November 30, 2015, on our consideration of Russell Child Development Center, 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 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 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 Russell Child Development Center, Inc.'s internal control over financial reporting and compliance.

Kennedy McKee & Company LLP

November 30, 2015

RUSSELL CHILD DEVELOPMENT CENTER, INC.

**STATEMENTS OF ASSETS, LIABILITIES,
AND NET ASSETS - CASH BASIS**

	July 31,	
	<u>2015</u>	<u>2014</u>
Assets:		
Cash	\$ 529,673	\$ 529,535
Investments	<u>1,413,373</u>	<u>1,169,503</u>
Total assets	<u>\$ 1,943,046</u>	<u>\$ 1,699,038</u>
Liabilities	<u>\$ -</u>	<u>\$ -</u>
Net assets:		
Unrestricted	1,570,547	1,414,007
Temporarily restricted	<u>372,499</u>	<u>285,031</u>
Total net assets	<u>1,943,046</u>	<u>1,699,038</u>
Total liabilities and net assets	<u>\$ 1,943,046</u>	<u>\$ 1,699,038</u>

The accompanying notes are an integral part of the financial statements.

RUSSELL CHILD DEVELOPMENT CENTER, INC.

STATEMENTS OF REVENUES, EXPENSES, AND OTHER CHANGES IN NET ASSETS - CASH BASIS

	Year ended July 31, 2015				
	Unrestricted				
	General funds	Grant funds	Total general and grant funds	Temporarily restricted	Total
Revenues:					
Donations	\$ 8,402	\$ 93,892	\$ 102,294	\$ -	\$ 102,294
Special events	84,494	-	84,494	-	84,494
RCDC Endowment Association funds	-	47,368	47,368	-	47,368
United Way funds	-	50,000	50,000	-	50,000
Local government support	-	258,236	258,236	-	258,236
Investment income	157,854	-	157,854	87,468	245,322
Other	5,948	223,047	228,995	-	228,995
Rent income	28,449	-	28,449	-	28,449
Newborn follow-up program	-	16,380	16,380	-	16,380
Federal and state grants	-	3,358,960	3,358,960	-	3,358,960
Local grants	76,612	12,512	89,124	-	89,124
Intracompany grants	560	(560)	-	-	-
Transfers	(52,600)	52,600	-	-	-
Vehicle Usage	23,640	-	23,640	-	23,640
Net assets released from restriction:			-		
Restrictions satisfied with payments	-	-	-	-	-
Total revenues	333,359	4,112,435	4,445,794	87,468	4,533,262
Expenses:					
Respite care	-	30	30	-	30
Contracted services & benefits	148,428	1,960,407	2,108,835	-	2,108,835
Accounting and legal	19,369	73,614	92,983	-	92,983
Health and educational supplies	20,917	156,540	177,457	-	177,457
Office expense	12,511	47,384	59,895	-	59,895
Laundry and housekeeping	1,245	-	1,245	-	1,245
Telephone and utilities	8,729	16,008	24,737	-	24,737
Travel and transportation	1,178	86,481	87,659	-	87,659
Insurance	12,663	7,217	19,880	-	19,880
Equipment rental and maintenance	6,632	30,147	36,779	-	36,779
Repair and maintenance	4,259	11	4,270	-	4,270
Miscellaneous	7,603	13,397	21,000	-	21,000
Conference and meeting	15,643	54,596	70,239	-	70,239
Rent and overhead	914	40,784	41,698	-	41,698
Capital outlay	15,753	38,552	54,305	-	54,305
Fund raising expenses	27,495	-	27,495	-	27,495
Family support services	-	12,814	12,814	-	12,814
Collaborative Community Support	-	114,743	114,743	-	114,743
Food program providers	-	747,162	747,162	-	747,162
Advertising and promotion	-	72,192	72,192	-	72,192
Trainings and parent materials	-	140,823	140,823	-	140,823
Grants to others	-	373,013	373,013	-	373,013
ECBG indirect cost (reimbursement)	(202,825)	202,825	-	-	-
Total expenses	100,514	4,188,740	4,289,254	-	4,289,254
Revenues over expenses	232,845	(76,305)	156,540	87,468	244,008
Net assets, beginning of year	1,460,467	(46,460)	1,414,007	285,031	1,699,038
Net assets, end of year	\$ 1,693,312	\$ (122,765)	\$ 1,570,547	\$ 372,499	\$ 1,943,046

The accompanying notes are an integral part of the financial statements.

Year ended July 31, 2014

Unrestricted				
General funds	Grant funds	Total general and grant funds	Temporarily restricted	Total
\$ 30,592	\$ 79,739	\$ 110,331	\$ -	\$ 110,331
102,244	-	102,244	-	102,244
42,264	-	42,264	-	42,264
-	42,500	42,500	-	42,500
-	263,073	263,073	-	263,073
34,714	-	34,714	23,799	58,513
5,785	127,590	133,375	-	133,375
29,100	-	29,100	-	29,100
-	15,600	15,600	-	15,600
-	3,155,543	3,155,543	-	3,155,543
25,452	33,641	59,093	-	59,093
-	-	-	-	-
(78,879)	78,879	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>191,272</u>	<u>3,796,565</u>	<u>3,987,837</u>	<u>23,799</u>	<u>4,011,636</u>
-	-	-	-	-
127,173	1,541,783	1,668,956	-	1,668,956
14,952	62,433	77,385	-	77,385
5,271	143,438	148,709	-	148,709
3,174	45,113	48,287	-	48,287
769	-	769	-	769
8,658	14,890	23,548	-	23,548
1,029	40,196	41,225	-	41,225
10,133	7,960	18,093	-	18,093
2,273	33,939	36,212	-	36,212
10,716	-	10,716	-	10,716
5,979	3,560	9,539	-	9,539
1,487	59,849	61,336	-	61,336
859	33,985	34,844	-	34,844
18,646	44,335	62,981	-	62,981
27,217	-	27,217	-	27,217
-	22,571	22,571	-	22,571
-	-	-	-	-
-	688,813	688,813	-	688,813
4,628	54,300	58,928	-	58,928
15,715	162,134	177,849	-	177,849
-	783,561	783,561	-	783,561
(182,320)	182,320	-	-	-
<u>76,359</u>	<u>3,925,180</u>	<u>4,001,539</u>	<u>-</u>	<u>4,001,539</u>
114,913	(128,615)	(13,702)	23,799	10,097
<u>1,345,554</u>	<u>82,155</u>	<u>1,427,709</u>	<u>261,232</u>	<u>1,688,941</u>
<u>\$ 1,460,467</u>	<u>\$ (46,460)</u>	<u>\$ 1,414,007</u>	<u>\$ 285,031</u>	<u>\$ 1,699,038</u>

RUSSELL CHILD DEVELOPMENT CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2015 and 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the financial statements of Russell Child Development Center, Inc. The financial statements and notes are representations of management, which is responsible for their integrity and objectivity.

1. Organization

Russell Child Development Center, Inc. was organized October 8, 1976, to provide child care and special training to children of preschool age in southwest Kansas.

2. Basis of accounting

The financial statements of the Center have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modification to the cash basis of accounting used by the Organization is that the cost basis of investments is shown as assets with purchases and sales not shown as receipts and disbursements.

3. Fund accounting

The accounts of the Center are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Fund balances are classified on the Statement of Assets, Liabilities and Net Assets as unrestricted, temporarily restricted, or permanently restricted net assets based on the absence or existence and type of donor-imposed restrictions. The Center has no permanently restricted net assets.

4. Economic dependency

The Center is a not-for-profit organization that depends on donations and grants for most of its revenues. These revenues are from private donors in southwest Kansas, state, and federal sources and are a key factor in determining the extent of the Center's programs offered each year.

5. Income taxes

The Center is incorporated under Section 501(c) 3 of the Internal Revenue Code as a corporation exempt from income taxes. In addition, the Center qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Income taxes (Continued)

The Organization has not identified any uncertainties in federal or state income taxes for any open tax years as of July 31, 2015. The Organization is no longer subject to examinations by tax authorities for years before 2013. No authorities have commenced income tax examinations as of July 31, 2015.

6. Restricted and unrestricted revenue and support

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Revenues, Expenses, and Other Changes in Net Assets as net assets released from restriction.

7. Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

8. Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

B. CONCENTRATION OF CREDIT RISK

The Center maintains all of its cash balances at various financial institutions located in southwest Kansas. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. At July 31, 2014, the uninsured cash balance at one financial institution was \$541,926. There were no uninsured bank balances at July 31, 2015.

C. INVESTMENTS

Investments are stated at cost and are summarized as follows:

	July 31, 2015			July 31, 2014		
	Cost	Fair value	Unrealized appreciation (depreciation)	Cost	Fair value	Unrealized appreciation (depreciation)
Bond Fund of America Fund	\$ 50,326	\$ 50,165	\$ (161)	\$ 47,744	\$ 46,540	\$ (1,204)
Capital Income Builder Fund	77,105	75,543	(1,562)	66,218	74,824	8,606
Capital World Growth and Income Fund	55,509	56,834	1,325	41,343	55,714	14,371
Capital World Bond Fund	21,403	20,799	(604)	18,764	20,194	1,430
Intermediate Bond Fund	-	-	-	64,572	65,587	1,015
Growth Fund of America Fund	78,210	83,502	5,292	104,121	163,780	59,659
New Perspective Fund	56,901	57,269	368	41,622	50,760	9,138
Washington Mutual Investors Fund	-	-	-	67,034	83,697	16,663
VOYA Global Real Estate Fund	36,257	35,367	(890)	33,440	37,048	3,608
Oppenheimer Main Street Small Cap Fund	49,770	50,853	1,083	38,776	50,519	11,743
Oppenheimer Small and Mid Cap Value	-	-	-	33,021	57,335	24,314

C. INVESTMENTS (CONTINUED)

	July 31, 2015			July 31, 2014		
	Cost	Fair value	Unrealized appreciation (depreciation)	Cost	Fair value	Unrealized appreciation (depreciation)
Dodge & Cox International Fund	53,325	54,105	780	-	-	-
Dodge & Cox Income Fund	72,102	71,476	(626)	-	-	-
Fidelity Adv. New Insights Fund	78,650	82,582	3,932	-	-	-
Franklin Mutual Shares	74,655	76,920	2,265	-	-	-
Invesco American Value Fund	56,944	59,170	2,226	-	-	-
Oppenheimer Senior Floating Rate Fund	173,417	173,185	(232)	167,693	173,000	5,307
Oppenheimer Limited Term Bond	154,940	154,434	(506)	162,837	152,284	(10,553)
Federated Capital Reserves	9,818	9,818	-	195	195	-
AMCAP Fund	56,605	57,258	653	36,192	58,484	22,292
Delaware Extended Duration Bond	18,693	17,871	(822)	16,515	17,245	730
Delaware Core Plus Bond Fund	52,006	51,515	(491)	49,459	50,055	596
Delaware Inflation Protected Bond	-	-	-	14,359	12,147	(2,212)
Delaware Real Estate Investment Trust	17,358	16,320	(1,038)	13,392	19,962	6,570
Perkins Small Vap Value Fund	18,250	18,811	561	-	-	-
Royce Total Return Fund	18,363	18,135	(228)	-	-	-
Templeton Global Bond Fund	37,175	36,162	(1,013)	-	-	-
Vanguard Infl. Prot. Sec. Fund	16,646	16,477	(169)	-	-	-
Federal Capital Reserves	5,060	5,060	-	-	-	-
Hartford Mid Cap Fund	-	-	-	15,719	21,647	5,928
Hartford Dividend and Growth Fund	73,885	73,922	37	51,880	76,220	24,340
Hartford Select Mid Cap Value Fund	-	-	-	13,847	21,662	7,815
Oppenheimer International Growth Fund	-	-	-	36,637	55,085	18,448
Oppenheimer International Bond Fund	-	-	-	34,123	32,676	(1,447)
	<u>\$1,413,373</u>	<u>\$1,423,553</u>	<u>\$ 10,180</u>	<u>\$1,169,503</u>	<u>\$1,396,660</u>	<u>\$ 227,157</u>

Fair value of investments are as follows:

	Fair value measurements at reporting date using		
	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
July 31, 2015 investments	<u>\$ 1,423,553</u>	<u>\$ -</u>	<u>\$ -</u>
July 31, 2014 investments	<u>\$ 1,396,660</u>	<u>\$ -</u>	<u>\$ -</u>

FASB ASC 820 provides guidance on how to measure fair value, when required under existing accounting standards. FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, 2, and 3).

Level 1: Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access as of the measurement date.

Level 2: Observable inputs, other than quoted prices included in Level 1, for the asset or liability or prices for similar assets and liabilities.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

C. INVESTMENTS (CONTINUED)

Investment income is summarized as follows:

	July 31,	
	<u>2015</u>	<u>2014</u>
Interest	\$ 1,360	\$ 1,693
Dividends	50,827	51,575
Realized gain from sale of investments	200,052	5,245
Investment fees	<u>(6,917)</u>	<u>-</u>
	<u>\$ 245,322</u>	<u>\$ 58,513</u>

D. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for improvements or additions to the facility, replacements of existing equipment, purchases of new equipment, or repairs and maintenance to the existing facility.

E. LEASES AND COMMITMENTS

Russell Child Development Center, Inc. leases the land on which their building is located from the City of Garden City, Kansas. Provisions of the lease include yearly rent of \$1. The lease is effective through August 14, 2020.

On September 12, 2012, Russell Child Development Center, Inc. entered into an operating lease for a vehicle. Lease payments for the years ended July 31, 2015 and 2014 totaled \$4,767, annually. Future minimum lease payments are as follows:

July 31, 2016	\$	733
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F. CONTRACTS

The Center entered into a one year contract expiring June 30, 2015, with Unified School District 457 (USD 457). Under the terms of the contract, USD 457 provides reimbursement funding from the State of Kansas and performs employer functions on behalf of the Center for both certified and classified personnel. USD 457 provides custodial and transportation services which are billed to the Center at cost. The Center provides compensation to USD 457 for the costs of providing administrative services at a rate based upon 2% of annual total Center expenditures.

The Center entered into a one year contract expiring June 30, 2016, with Southeast Kansas Education Service Center (Greenbush). Under the terms of the contract, Greenbush provides reimbursement funding from the State of Kansas and performs employer functions on behalf of the Center for both certified and classified personnel. Greenbush provides custodial and transportation services which are billed to the Center at cost. The Center provides compensation to Greenbush for the costs of providing administrative services at a rate based upon 5% of annual total Center expenditures.

G. COMPENSATED ABSENCES

The Center's policy is to recognize the costs of vacations and other compensated absences when actually paid. The Center's policy regarding sick leave pay permits classified employees to accumulate sick leave days at a maximum rate of 1 day per month up to 100 days and vacation up to a maximum of 40 days. Certified employees are permitted to accumulate sick leave days at a maximum rate of 1 day per month up to 100 days and personal leave up to 5 days. The policy prohibits payment for leave time in lieu of time off and when leaving the Center's employment. The Center allows employees two weeks of vacation leave per year. Accumulations in excess of the maximum are lost if not used within the year earned.

H. FUNCTIONAL EXPENSES

The Center provides childcare and special training to children of preschool age in Southwest Kansas. Expenses by function were as follows:

	July 31,	
	<u>2015</u>	<u>2014</u>
Program services	\$ 3,828,314	\$ 3,633,771
Supporting services:		
Management and general	409,194	318,598
Fund raising	<u>51,746</u>	<u>49,170</u>
	<u>\$ 4,289,254</u>	<u>\$ 4,001,539</u>

Directly identifiable expenses are charged to the relevant program. Expenses related to more than one function are charged to programs on the basis of estimated time and expense. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Center.

I. ADVERTISING

The Organization uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. During the years ended July 31, 2015 and 2014, advertising costs totaled \$72,192 and \$58,928, respectively.

J. CONTINGENCIES

Russell Child Development Center, Inc. receives financial assistance from federal and state governmental agencies in the form of grants and state pass-through aid. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the Center.

K. RELATED PARTIES

RCDC Endowment Association, Inc. is a tax-exempt association that provides funding support for programs such as those administered by Russell Child Development Center, Inc. The Center received \$47,368 and \$42,264 in support from the Association for the years ended July 31, 2015 and 2014, respectively.

L. CONCENTRATIONS

The Organization receives a significant portion of its annual funding in the form of grants. The following summarizes each grant as a percentage of total annual revenues:

	July 31,	
	2015	2014
Child and Adult Food Care Program	20%	20%
KDHE Infant Toddler	10%	10%
Early Childhood Block Grants	44%	47%

M. BENEFICIAL INTEREST IN COMMUNITY FOUNDATION

The Organization transferred unrestricted donations to the Western Kansas Community Foundation to be held in a designated agency fund for the benefit of Russell Child Development Center, Inc. The Community Foundation was granted variance power such that the board of the Community Foundation has the power and the duty to vary the terms of any gift if continued adherence to any condition or restriction is in the judgment of the foundation's Board unnecessary, incapable of fulfillment, or inconsistent with the charitable or other exempt purposes of the foundation or of the needs of the community served by the foundation. Total beneficial interest in the Western Kansas Community Foundation for the years ended July 31, 2015 and 2014 were \$11,390 and \$11,568, respectively.

Fair values measured on a recurring basis at are as follows:

	<u>Fair value measurements at reporting date using</u>		
	<u>Quoted prices in active markets for identical assets (level 1)</u>	<u>Significant other observable inputs (level 2)</u>	<u>Significant unobservable inputs (level 3)</u>
July 31, 2015 beneficial interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,390</u>
July 31, 2014 beneficial interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,568</u>
Balance, August 1, 2014			\$ 11,568
Change in value			<u>(178)</u>
Balance, July 31, 2015			<u>\$ 11,390</u>

Fair values for the beneficial interest in Community Foundation were obtained from a statement provided by the Community Foundation.

N. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 30, 2015, the date on which the financial statements were available to be used. Management's evaluation concluded that there are no subsequent events that are required to be recognized or disclosed in these financial statements:

SUPPLEMENTAL INFORMATION

RUSSELL CHILD DEVELOPMENT CENTER, INC.

**COMBINING SCHEDULE OF REVENUES, EXPENSES, AND OTHER
CHANGES IN NET ASSETS - CASH BASIS**

Year ended July 31, 2015

	Unrestricted				
	General	Fund raising	Total general funds	Capital campaign fund	Tiny-k program
Revenues:					
Donations	\$ 8,402	\$ -	\$ 8,402	\$ 4,520	\$ 54,537
Special events	-	84,494	84,494	-	-
RCDC Endowment					
Association funds	-	-	-	-	47,368
United Way funds	-	-	-	-	50,000
Local government support	-	-	-	-	258,236
Investment income	157,854	-	157,854	-	-
Other	5,948	-	5,948	-	223,047
Rent income	28,449	-	28,449	-	-
Newborn Follow-up program	-	-	-	-	16,380
Federal and state grants	-	-	-	-	531,264
Local grants	76,612	-	76,612	-	12,512
Intracompany grants	560	-	560	-	81,260
Transfers	-	(52,600)	(52,600)	-	52,600
Vehicle Usage	23,640	-	23,640	-	-
Net assets released from restriction:					
Restrictions satisfied with payments	-	-	-	-	-
Total revenues	301,465	31,894	333,359	4,520	1,327,204
Expenses:					
Respite Care	-	-	-	-	30
Contracted services & benefits	148,428	-	148,428	64,640	991,280
Accounting and legal	19,369	-	19,369	-	36,954
Health and educational supplies	20,917	-	20,917	-	13,604
Office expense	12,511	-	12,511	2,040	20,236
Laundry and housekeeping	1,245	-	1,245	-	-
Telephone and utilities	8,729	-	8,729	-	9,501
Travel and transportation	1,178	-	1,178	8,171	3,700
Insurance	12,663	-	12,663	-	5,399
Equipment rental and maintenance	6,632	-	6,632	-	18,089
Repair and maintenance	4,259	-	4,259	-	11
Miscellaneous	7,603	-	7,603	-	12,548
Conference and meeting	15,643	-	15,643	-	15,309
Rent and overhead	914	-	914	-	15,575
Capital outlay	15,753	-	15,753	-	30,792
Fund raising expenses	-	27,495	27,495	-	-
Family support services	-	-	-	-	-
Collaborative Community Support					
Food program providers	-	-	-	-	-
Advertising and promotion	-	-	-	-	-
Trainings and parent materials	-	-	-	-	-
Grants to others	-	-	-	-	-
ECBG indirect cost (reimbursement)	(202,825)	-	(202,825)	-	-
Total expenses	73,019	27,495	100,514	74,851	1,173,028
Revenues over (under) expenses	228,446	4,399	232,845	(70,331)	154,176
Net assets (deficit), beginning of year	1,467,857	(7,390)	1,460,467	-	22,593
Net assets (deficit), end of year	<u>\$ 1,696,303</u>	<u>\$ (2,991)</u>	<u>\$ 1,693,312</u>	<u>\$ (70,331)</u>	<u>\$ 176,769</u>

The accompanying notes are an integral part of the financial statements.

Unrestricted						
Child and adult care food program	Early Childhood Task Force	Targeted case management	Family support services	ECBG Dodge City	ECBG Stanton County	ECBG Ulysses
\$ -	\$ -	\$ 25,000	\$ 9,835	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
886,283	-	-	-	657,576	204,465	222,393
-	-	-	-	-	-	-
-	-	23,229	-	-	(9,999)	(16,274)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
886,283	-	48,229	9,835	657,576	194,466	206,119
-	-	-	-	-	-	-
107,269	-	34,200	-	299,963	82,715	111,413
-	-	-	-	11,162	3,702	3,511
-	-	-	-	46,886	17,879	17,904
6,165	-	-	-	5,832	1,852	1,889
-	-	-	-	-	-	-
1,684	-	350	-	1,208	1,234	977
-	-	-	-	37,386	4,636	5,604
1,818	-	-	-	-	-	-
9,094	-	-	-	936	295	307
-	-	-	-	-	-	-
-	-	-	-	199	173	177
1,646	-	-	-	19,326	3,315	4,689
3,000	-	-	-	12,635	2,412	2,412
-	-	-	-	1,848	1,651	850
-	-	-	-	-	-	-
-	-	-	12,814	-	-	-
-	-	-	-	28,814	33,243	8,116
747,162	-	-	-	-	-	-
-	-	-	-	25,648	6,252	5,608
-	-	-	-	25,634	2,438	5,040
-	-	-	-	157,424	13,494	23,305
-	-	-	-	67,481	16,850	20,756
877,838	-	34,550	12,814	742,382	192,141	212,558
8,445	-	13,679	(2,979)	(84,806)	2,325	(6,439)
52,871	5,480	35,788	43,065	(56,306)	(24,214)	(29,037)
<u>\$ 61,316</u>	<u>\$ 5,480</u>	<u>\$ 49,467</u>	<u>\$ 40,086</u>	<u>\$ (141,112)</u>	<u>\$ (21,889)</u>	<u>\$ (35,476)</u>

RUSSELL CHILD DEVELOPMENT CENTER, INC.

**COMBINING SCHEDULE OF REVENUES, EXPENSES, AND OTHER
CHANGES IN NET ASSETS - CASH BASIS (CONTINUED)**

Year ended July 31, 2015

	Unrestricted		Total general and grant funds	Temporarily restricted Shriver fund	Total
	ECBG Southwest Kansas	Total grant funds			
Revenues:					
Donations	\$ -	\$ 93,892	\$ 102,294	\$ -	\$ 102,294
Special events	-	-	84,494	-	84,494
RCDC Endowment					
Association funds	-	47,368	47,368	-	47,368
United Way funds	-	50,000	50,000	-	50,000
Local government support	-	258,236	258,236	-	258,236
Investment income	-	-	157,854	87,468	245,322
Other	-	223,047	228,995	-	228,995
Rent income	-	-	28,449	-	28,449
Newborn Follow-up program	-	16,380	16,380	-	16,380
Federal and state grants	856,979	3,358,960	3,358,960	-	3,358,960
Local grants	-	12,512	89,124	-	89,124
Intracompany grants	(78,776)	(560)	-	-	-
Transfers	-	52,600	-	-	-
Vehicle Usage	-	-	23,640	-	23,640
Net assets released from restriction:					
Restrictions satisfied with payments	-	-	-	-	-
Total revenues	778,203	4,112,435	4,445,794	87,468	4,533,262
Expenses:					
Respite Care	-	30	30	-	30
Contracted services & benefits	268,927	1,960,407	2,108,835	-	2,108,835
Accounting and legal	18,285	73,614	92,983	-	92,983
Health and educational supplies	60,267	156,540	177,457	-	177,457
Office expense	9,370	47,384	59,895	-	59,895
Laundry and housekeeping	-	-	1,245	-	1,245
Telephone and utilities	1,054	16,008	24,737	-	24,737
Travel and transportation	26,984	86,481	87,659	-	87,659
Insurance	-	7,217	19,880	-	19,880
Equipment rental and maintenance	1,426	30,147	36,779	-	36,779
Repair and maintenance	-	11	4,270	-	4,270
Miscellaneous	300	13,397	21,000	-	21,000
Conference and meeting	10,311	54,596	70,239	-	70,239
Rent and overhead	4,750	40,784	41,698	-	41,698
Capital outlay	3,411	38,552	54,305	-	54,305
Fund raising expenses	-	-	27,495	-	27,495
Family support services	-	12,814	12,814	-	12,814
Collaborative Community Support	44,570	114,743	114,743	-	114,743
Food program providers	-	747,162	747,162	-	747,162
Advertising and promotion	34,684	72,192	72,192	-	72,192
Trainings and parent materials	107,711	140,823	140,823	-	140,823
Grants to others	178,790	373,013	373,013	-	373,013
ECBG indirect cost (reimbursement)	97,738	202,825	-	-	-
Total expenses	868,578	4,188,740	4,289,254	-	4,289,254
Revenues over (under) expenses	(90,375)	(76,305)	156,540	87,468	244,008
Net assets (deficit), beginning of year	(96,700)	(46,460)	1,414,007	285,031	1,699,038
Net assets (deficit), end of year	<u>\$ (187,075)</u>	<u>\$ (122,765)</u>	<u>\$ 1,570,547</u>	<u>\$ 372,499</u>	<u>\$ 1,943,046</u>

APPENDICES

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

Board of Directors
Russell Child Development Center, Inc.
Garden City, Kansas 67846

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 Russell Child Development Center, Inc. (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets – cash basis as of July 31, 2015, and the related statement of revenues, expenses, and other changes in net assets – cash basis for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2015. Our report on the financial statements disclosed that, as described in Note A to the financial statements, the Center prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Russell Child Development Center, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Russell Child Development Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Russell Child Development Center, 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 determination of financial statement amounts. 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*.

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.

Kennedy McKee & Company LLP

November 30, 2015

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Board of Directors
Russell Child Development Center, Inc.
Garden City, Kansas 67846

Report on Compliance for Each Major Federal Program

We have audited Russell Child Development Center, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Russell Child Development Center, Inc.'s major federal programs for the year ended July 31, 2015. Russell Child Development Center, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Russell Child Development Center, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Russell Child Development Center, Inc.'s compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Russell Child Development Center, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Russell Child Development Center, 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, 2015.

Report on Internal Control Over Compliance

Management of Russell Child Development Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Russell Child Development Center, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Russell Child Development Center, Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be a significant deficiency.

Russell Child Development Center, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompany schedule of findings and questioned costs. Russell Child Development Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Kennedy McKee & Company LLP

November 30, 2015

RUSSELL CHILD DEVELOPMENT CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended July 31, 2015

Grant title	Federal CFDA number	Cash disbursements
U.S. Department of Agriculture		
Passed through State Department of Education: Child and Adult Care Food Program	10.558	\$ 877,838
State Administrative Expenses for Child Nutrition	10.560	\$ 475
U.S. Department of Education		
Passed through State Department of Health and Environment: Special Education Grants for Infants and Families with Disabilities	84.181A	<u>186,384</u>
Total		<u><u>\$ 1,064,697</u></u>

Note: The schedule of federal awards is prepared on the cash basis of accounting.

RUSSELL CHILD DEVELOPMENT CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended July 31, 2015

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of Russell Child Development Center, Inc.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of Russell Child Development Center, Inc. which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. One significant deficiency relating to the audit of internal control over major federal award programs is reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133. No material weaknesses are reported.
5. The auditors' report on compliance for the major federal award programs for Russell Child Development Center, Inc. expresses an unmodified opinion on all major federal programs.
6. Audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs include:

Child and Adult Care Food Program	CFDA 10.558
-----------------------------------	-------------
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Russell Child Development Center, Inc. was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

None

RUSSELL CHILD DEVELOPMENT CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Year ended July 31, 2015

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

DEPARTMENT OF AGRICULTURE

SIGNIFICANT DEFICIENCY

2015-001 Child and Adult Care Food Program - CFDA No. 10.558

Grant period: Year Ended July 31, 2015

Condition: A random sample of fifteen providers in the month of February 2015 was selected for compliance testing. We noted two instances where summary meal count totals for individual providers did not match actual daily meals served for the month.

Criteria: Claim reimbursement only for meals served to eligible enrolled participants within the limits of the licensed capacity. No more than 2 meals and 1 snack or 2 snacks and 1 meal per participant shall be claimed per day.

Effect: One provider was reimbursed for one less snack than actually served in the amount of \$0.73. A second provider was reimbursed for nine more snacks than actually served in the amount of \$6.57.

Cause: Child and Adult Care Food Program personnel incorrectly calculated monthly summary meal count totals for providers based on meal count sheets.

Recommendation: We recommend that Child and Adult Care Food Program personnel be diligent in reviewing meal count sheets to ensure that reimbursements are based on actual meals served to eligible participants.

Grantee Response: We agree with the findings and will follow the recommendation of the findings. We will be more diligent in reviewing the monthly meal count sheets by double counting each claim to ensure that reimbursements are for actual meals served.

RUSSELL CHILD DEVELOPMENT CENTER, INC.

SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended July 31, 2015

DEPARTMENT OF AGRICULTURE

2014-001 Child and Adult Care Food Program - CFDA No. 10.558
Grant period: Year Ended July 31, 2015

Condition: A sample of fifteen providers in the month of April 2014 was selected for compliance testing. We noted three instances where summary meal count totals for individual providers were in excess of their actual daily meals served for the month.

Recommendation: We recommend that Child and Adult Care Food Program personnel be diligent in reviewing meal count sheets to ensure that reimbursements are based on actual meals served to eligible participants.

Current Status: The Child and Adult Care Food Program staff agreed with the recommendation. A similar finding was noted in the current year audit.