

RUSSELL CHILD DEVELOPMENT CENTER, INC.

**FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT
and
UNIFORM GUIDANCE SINGLE AUDIT REPORTS
YEARS ENDED JULY 31, 2016 AND 2015**

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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, 2016 and 2015, 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, 2016 and 2015, 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 Supplementary Information

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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. 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 December 11, 2016, 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

December 11, 2016

RUSSELL CHILD DEVELOPMENT CENTER, INC.

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

	July 31,	
	<u>2016</u>	<u>2015</u>
Assets:		
Cash	\$ 1,050,711	\$ 529,673
Investments	<u>1,477,585</u>	<u>1,413,373</u>
Total assets	<u>\$ 2,528,296</u>	<u>\$ 1,943,046</u>
Liabilities	<u>\$ -</u>	<u>\$ -</u>
Net assets:		
Unrestricted	2,092,878	1,570,547
Temporarily restricted	<u>435,418</u>	<u>372,499</u>
Total net assets	<u>2,528,296</u>	<u>1,943,046</u>
Total liabilities and net assets	<u>\$ 2,528,296</u>	<u>\$ 1,943,046</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, 2016				
	Unrestricted				
	General funds	Grant funds	Total general and grant funds	Temporarily restricted	Total
Revenues:					
Donations	\$ 163,872	\$ 82,105	\$ 245,977	\$ 42,069	\$ 288,046
Special events	90,532	-	90,532	-	90,532
RCDC Endowment Association funds	-	45,772	45,772	-	45,772
United Way funds	-	50,000	50,000	-	50,000
Local government support	-	268,372	268,372	-	268,372
Investment income	45,043	-	45,043	20,850	65,893
Other	2,509	225,042	227,551	-	227,551
Newborn follow-up program	-	16,500	16,500	-	16,500
Federal and state grants	-	4,220,839	4,220,839	-	4,220,839
Local grants	-	46,948	46,948	-	46,948
Intracompany grants	-	-	-	-	-
Transfers	(57,398)	57,398	-	-	-
	<u>244,558</u>	<u>5,012,976</u>	<u>5,257,534</u>	<u>62,919</u>	<u>5,320,453</u>
Total revenues					
Expenses:					
Respite care	-	-	-	-	-
Contracted services & benefits	274,588	2,003,607	2,278,195	-	2,278,195
Accounting and legal	18,564	132,670	151,234	-	151,234
Health and educational supplies	25,736	214,251	239,987	-	239,987
Office expense	3,803	40,346	44,149	-	44,149
Laundry and housekeeping	1,309	-	1,309	-	1,309
Telephone and utilities	9,099	16,400	25,499	-	25,499
Travel and transportation	13,153	82,870	96,023	-	96,023
Insurance	13,342	8,742	22,084	-	22,084
Equipment rental and maintenance	1,293	16,781	18,074	-	18,074
Repair and maintenance	3,511	558	4,069	-	4,069
Miscellaneous	2,511	10,880	13,391	-	13,391
Conference and meeting	4,249	118,210	122,459	-	122,459
Rent and overhead	914	9,416	10,330	-	10,330
Capital outlay	24,630	54,910	79,540	-	79,540
Fund raising expenses	32,595	-	32,595	-	32,595
Family support services	-	12,018	12,018	-	12,018
Collaborative Community Support	-	-	-	-	-
Food program providers	-	787,082	787,082	-	787,082
Advertising and promotion	19,503	113,918	133,421	-	133,421
Trainings and parent materials	-	176,296	176,296	-	176,296
Auto expense	15,145	27,255	42,400	-	42,400
Grants to others	-	445,048	445,048	-	445,048
Intracompany rent (reimbursement)	(31,609)	31,609	-	-	-
ECBG indirect cost (reimbursement)	(209,210)	209,210	-	-	-
Vehicle usage (reimbursement)	(44,510)	44,510	-	-	-
	<u>178,616</u>	<u>4,556,587</u>	<u>4,735,203</u>	<u>-</u>	<u>4,735,203</u>
Total expenses					
Revenues over expenses	65,942	456,389	522,331	62,919	585,250
Net assets, beginning of year	<u>1,622,981</u>	<u>(52,434)</u>	<u>1,570,547</u>	<u>372,499</u>	<u>1,943,046</u>
Net assets, end of year	<u>\$ 1,688,923</u>	<u>\$ 403,955</u>	<u>\$ 2,092,878</u>	<u>\$ 435,418</u>	<u>\$ 2,528,296</u>

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

Year ended July 31, 2015

Unrestricted		Total general and grant funds	Temporarily restricted	Total
General funds	Grant funds			
\$ 12,922	\$ 89,372	\$ 102,294	\$ -	\$ 102,294
84,494	-	84,494	-	84,494
-	47,368	47,368	-	47,368
-	50,000	50,000	-	50,000
-	258,236	258,236	-	258,236
157,854	-	157,854	87,468	245,322
5,948	223,047	228,995	-	228,995
-	16,380	16,380	-	16,380
-	3,358,960	3,358,960	-	3,358,960
76,612	12,512	89,124	-	89,124
560	(560)	-	-	-
(52,600)	52,600	-	-	-
<u>285,790</u>	<u>4,107,915</u>	<u>4,393,705</u>	<u>87,468</u>	<u>4,481,173</u>
-	30	30	-	30
213,068	1,887,309	2,100,377	-	2,100,377
19,369	73,614	92,983	-	92,983
20,917	195,628	216,545	-	216,545
3,530	34,520	38,050	-	38,050
1,245	-	1,245	-	1,245
8,729	16,008	24,737	-	24,737
9,349	31,050	40,399	-	40,399
12,663	7,217	19,880	-	19,880
1,663	17,129	18,792	-	18,792
4,259	11	4,270	-	4,270
7,603	13,397	21,000	-	21,000
15,643	54,596	70,239	-	70,239
914	12,335	13,249	-	13,249
15,753	38,552	54,305	-	54,305
27,495	-	27,495	-	27,495
-	12,814	12,814	-	12,814
-	9,547	9,547	-	9,547
-	747,162	747,162	-	747,162
11,021	83,015	94,036	-	94,036
-	140,823	140,823	-	140,823
4,969	13,018	17,987	-	17,987
-	471,200	471,200	-	471,200
(28,449)	28,449	-	-	-
(202,825)	202,825	-	-	-
(23,640)	23,640	-	-	-
<u>123,276</u>	<u>4,113,889</u>	<u>4,237,165</u>	<u>-</u>	<u>4,237,165</u>
162,514	(5,974)	156,540	87,468	244,008
<u>1,460,467</u>	<u>(46,460)</u>	<u>1,414,007</u>	<u>285,031</u>	<u>1,699,038</u>
<u>\$ 1,622,981</u>	<u>\$ (52,434)</u>	<u>\$ 1,570,547</u>	<u>\$ 372,499</u>	<u>\$ 1,943,046</u>

RUSSELL CHILD DEVELOPMENT CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2016 and 2015

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, 2016. The Organization is no longer subject to examinations by tax authorities for years before 2014. No authorities have commenced income tax examinations as of July 31, 2016.

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, 2016, the uninsured cash balance at one financial institution was \$205,415. There were no uninsured bank balances at July 31, 2015.

C. INVESTMENTS

Investments are stated at cost and are summarized as follows:

	July 31, 2016			July 31, 2015		
	Cost	Fair value	Unrealized appreciation (depreciation)	Cost	Fair value	Unrealized appreciation (depreciation)
Bond Fund of America Fund	\$ 51,394	\$ 52,878	\$ 1,484	\$ 50,326	\$ 50,165	\$ (161)
Capital Income Builder Fund	79,850	78,884	(966)	77,105	75,543	(1,562)
Capital World Growth and Income Fund	57,715	56,314	(1,401)	55,509	56,834	1,325
Capital World Bond Fund	21,718	22,381	663	21,403	20,799	(604)
Growth Fund of America Fund	85,074	86,017	943	78,210	83,502	5,292
New Perspective Fund	60,265	57,790	(2,475)	56,901	57,269	368
VOYA Global Real Estate Fund	37,219	39,088	1,869	36,257	35,367	(890)
Oppenheimer Main Street Mid Cap Fund	55,052	50,869	(4,183)	49,770	50,853	1,083
Dodge & Cox International Fund	54,381	47,554	(6,827)	53,325	54,105	780
Dodge & Cox Income Fund	74,526	75,186	660	72,102	71,476	(626)
Fidelity Adv. New Insights Fund	82,401	83,886	1,485	78,650	82,582	3,932
Franklin Mutual Shares	80,618	76,342	(4,276)	74,655	76,920	2,265

C. INVESTMENTS (CONTINUED)

	July 31, 2016			July 31, 2015		
	Cost	Fair value	Unrealized appreciation (depreciation)	Cost	Fair value	Unrealized appreciation (depreciation)
Invesco American Value Fund	60,488	55,733	(4,755)	56,944	59,170	2,226
Oppenheimer Senior Floating Rate Fund	182,211	176,967	(5,244)	173,417	173,185	(232)
Oppenheimer Limited Term Bond	158,587	157,431	(1,156)	154,940	154,434	(506)
Flexinsured Account	3,400	3,400	-	9,818	9,818	-
AMCAP Fund	60,363	57,929	(2,434)	56,605	57,258	653
Delaware Extended Duration Bond	19,434	20,066	632	18,693	17,871	(822)
Delaware Core Plus Bond Fund	53,393	53,788	395	52,006	51,515	(491)
Delaware Real Estate Investment Trust	19,423	19,477	54	17,358	16,320	(1,038)
Perkins Small Cap Value Fund	20,627	19,943	(684)	18,250	18,811	561
Royce Total Return Fund	20,570	19,370	(1,200)	18,363	18,135	(228)
Templeton Global Bond Fund	38,265	34,631	(3,634)	37,175	36,162	(1,013)
Vanguard Infl. Prot. Sec. Fund	16,769	17,255	486	16,646	16,477	(169)
Flexinsured Account	2,801	2,801	-	5,060	5,060	-
Hartford Dividend and Growth Fund	81,041	76,525	(4,516)	73,885	73,922	37
	<u>\$1,477,585</u>	<u>\$1,442,505</u>	<u>\$ (35,080)</u>	<u>\$1,413,373</u>	<u>\$1,423,553</u>	<u>\$ 10,180</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.

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, 2016 investments	<u>\$ 1,442,505</u>	<u>\$ -</u>	<u>\$ -</u>
July 31, 2015 investments	<u>\$ 1,423,553</u>	<u>\$ -</u>	<u>\$ -</u>

Investment income is summarized as follows:

	July 31,	
	2016	2015
Interest	\$ 1,681	\$ 1,360
Dividends	72,890	50,827
Realized gain from sale of investments	-	200,052
Investment fees	(8,678)	(6,917)
	<u>\$ 65,893</u>	<u>\$ 245,322</u>

D. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	July 31,	
	<u>2016</u>	<u>2015</u>
Capital campaign	\$ 42,069	\$ -
Shriver fund – facility and equipment	<u>393,349</u>	<u>372,499</u>
	<u>\$ 435,418</u>	<u>\$ 372,499</u>

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 a 36 month operating lease for a vehicle, which ended during the July 31, 2016 fiscal year. Lease payments for the years ended July 31, 2016 and 2015 totaled \$733 and \$4,767, respectively.

On October 12, 2015, Russell Child Development Center, Inc. entered into a 36 month operating lease for a vehicle. Lease payments for the year ended July 31, 2016 totaled \$2,959. Future minimum lease payments are as follows:

July 31, 2017	\$ 3,551
July 31, 2018	3,551
July 31, 2019	<u>592</u>
	<u>\$ 7,694</u>

On January 1, 2016, Russell Child Development Center, Inc. entered into a 5 year operating lease for office space. Lease payments for the year ended July 31, 2016 totaled \$3,000. Future minimum lease payments are as follows:

July 31, 2017	\$ 4,500
July 31, 2018	4,500
July 31, 2019	4,500
July 31, 2020	4,500
July 31, 2021	<u>1,500</u>
	<u>\$ 19,500</u>

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.

F. CONTRACTS (CONTINUED)

The Center entered into an agreement with Southeast Kansas Education Service Center (Greenbush), with an initial term from July 1, 2015 to June 30, 2016, with a clause to automatically renew for successive one-year terms unless notice of non-renewal is delivered by either party at least seventy-five days prior to the expiration of the term. 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 which includes providing fringe benefits. Greenbush provides 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 payroll costs.

G. 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>2016</u>	<u>2015</u>
Program services	\$ 4,157,619	\$ 3,775,255
Supporting services:		
Management and general	444,368	335,313
Fund raising	<u>133,216</u>	<u>126,597</u>
	<u>\$ 4,735,203</u>	<u>\$ 4,237,165</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.

H. 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, 2016 and 2015, advertising costs totaled \$133,421 and \$94,036, respectively.

I. 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.

J. 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 \$45,772 and \$47,368 in support from the Association for the years ended July 31, 2016 and 2015, respectively.

K. 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,	
	2016	2015
Child and Adult Food Care Program	16%	20%
KDHE Infant Toddler	10%	10%
Early Childhood Block Grants	53%	44%

L. 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, 2016 and 2015 were \$11,292 and \$11,390, 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, 2016 beneficial interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,292</u>
July 31, 2015 beneficial interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,390</u>
Balance, August 1, 2015			\$ 11,390
Change in value			<u>(98)</u>
Balance, July 31, 2016			<u>\$ 11,292</u>

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

M. CAPITAL CAMPAIGN

Russell Child Development Center, Inc. has a capital campaign in process to raise funds for the construction of a new building. As of July 31, 2016 the Organization has received \$210,461 in donations. The goal of the capital campaign is to raise \$7.5 million and professional fundraising firms have been hired to assist with the fundraising efforts.

N. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 11, 2016, 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, 2016

	Unrestricted				
	General	Fund raising	Capital campaign fund	Total general funds	Tiny-k program
Revenues:					
Donations	\$ -	\$ -	\$ 163,872	\$ 163,872	\$ 56,069
Special events	-	90,532	-	90,532	-
RCDC Endowment					
Association funds	-	-	-	-	45,772
United Way funds	-	-	-	-	50,000
Local government support	-	-	-	-	268,372
Investment income	45,043	-	-	45,043	-
Other	2,509	-	-	2,509	222,922
Newborn Follow-up program	-	-	-	-	16,500
Federal and state grants	-	-	-	-	542,497
Local grants	-	-	-	-	12,025
Intracompany grants	-	-	-	-	61,392
Transfers	-	(57,398)	-	(57,398)	57,398
Total revenues	47,552	33,134	163,872	244,558	1,332,947
Expenses:					
Contracted services & benefits	220,182	-	54,406	274,588	836,550
Accounting and legal	18,564	-	-	18,564	80,823
Health and educational supplies	25,736	-	-	25,736	4,980
Office expense	2,070	-	1,733	3,803	9,871
Laundry and housekeeping	1,309	-	-	1,309	-
Telephone and utilities	9,099	-	-	9,099	8,479
Travel and transportation	560	-	12,593	13,153	20,009
Insurance	13,342	-	-	13,342	5,000
Equipment rental and maintenance	1,293	-	-	1,293	6,103
Repair and maintenance	3,511	-	-	3,511	-
Miscellaneous	2,489	-	22	2,511	10,612
Conference and meeting	4,249	-	-	4,249	5,365
Rent and overhead	914	-	-	914	3,300
Capital outlay	15,704	-	8,926	24,630	36,595
Fund raising expenses	-	32,595	-	32,595	-
Family support services	-	-	-	-	-
Food program providers	-	-	-	-	-
Advertising and promotion	3,642	-	15,861	19,503	6,802
Trainings and parent materials	-	-	-	-	-
Auto expense	15,145	-	-	15,145	25,694
Grants to others	-	-	-	-	-
Intracompany rent (reimbursement)	(31,609)	-	-	(31,609)	12,000
ECBG indirect cost (reimbursement)	(209,210)	-	-	(209,210)	-
Vehicle usage (reimbursement)	(44,510)	-	-	(44,510)	-
Total expenses	52,480	32,595	93,541	178,616	1,072,183
Revenues over (under) expenses	(4,928)	539	70,331	65,942	260,764
Net assets (deficit), beginning of year	1,696,303	(2,991)	(70,331)	1,622,981	176,769
Net assets (deficit), end of year	<u>\$ 1,691,375</u>	<u>\$ (2,452)</u>	<u>\$ -</u>	<u>\$ 1,688,923</u>	<u>\$ 437,533</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 Ford County	ECBG Stanton County	ECBG Ulysses
\$ -	\$ -	\$ 15,000	\$ 11,036	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	2,120	-	-	-	-
849,150	-	-	-	940,852	107,215	151,564
-	-	-	-	-	-	-
-	-	23,750	-	-	(4,452)	(8,654)
-	-	-	-	-	-	-
<u>849,150</u>	<u>-</u>	<u>40,870</u>	<u>11,036</u>	<u>940,852</u>	<u>102,763</u>	<u>142,910</u>
85,748	-	34,200	-	345,998	31,067	44,939
7,154	-	-	-	14,225	1,340	2,121
-	-	-	-	65,560	13,463	12,294
8,548	-	100	-	7,485	2,566	1,944
-	-	-	-	-	-	-
1,595	-	336	-	1,756	450	450
-	-	-	-	23,551	1,268	1,054
2,992	-	-	-	750	-	-
5,731	-	-	-	1,467	365	358
-	-	-	-	258	-	-
-	-	-	-	-	-	-
3,534	-	-	-	33,634	4,200	2,787
-	-	-	-	5,693	65	65
-	-	-	-	5,941	422	1,336
-	-	-	-	-	-	-
-	-	-	12,018	-	-	-
787,082	-	-	-	-	-	-
-	-	-	-	33,099	5,391	6,737
-	-	-	-	69,877	7,622	10,678
1,561	-	-	-	-	-	-
-	-	-	-	155,618	4,174	10,373
3,600	-	-	-	6,000	838	838
-	-	-	-	65,933	6,081	8,875
-	-	-	-	2,600	1,562	2,585
<u>907,545</u>	<u>-</u>	<u>34,636</u>	<u>12,018</u>	<u>839,445</u>	<u>80,874</u>	<u>107,434</u>
(58,395)	-	6,234	(982)	101,407	21,889	35,476
61,316	5,480	49,467	40,086	(141,112)	(21,889)	(35,476)
<u>\$ 2,921</u>	<u>\$ 5,480</u>	<u>\$ 55,701</u>	<u>\$ 39,104</u>	<u>\$ (39,705)</u>	<u>\$ -</u>	<u>\$ -</u>

RUSSELL CHILD DEVELOPMENT CENTER, INC.

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

Year ended July 31, 2016

	ECBG Southwest Kansas	ECBG unrestricted quality award	Unrestricted Building blocks miscellaneous grants	Total grant funds	Total general and grant funds
Revenues:					
Donations	\$ -	\$ -	\$ -	\$ 82,105	\$ 245,977
Special events	-	-	-	-	90,532
RCDC Endowment					
Association funds	-	-	-	45,772	45,772
United Way funds	-	-	-	50,000	50,000
Local government support	-	-	-	268,372	268,372
Investment income	-	-	-	-	45,043
Other	-	-	-	225,042	227,551
Newborn Follow-up program	-	-	-	16,500	16,500
Federal and state grants	1,594,761	34,800	-	4,220,839	4,220,839
Local grants	-	-	34,923	46,948	46,948
Intracompany grants	(72,036)	-	-	-	-
Transfers	-	-	-	57,398	-
Total revenues	1,522,725	34,800	34,923	5,012,976	5,257,534
Expenses:					
Contracted services & benefits	625,105	-	-	2,003,607	2,278,195
Accounting and legal	27,007	-	-	132,670	151,234
Health and educational supplies	98,153	-	19,801	214,251	239,987
Office expense	9,832	-	-	40,346	44,149
Laundry and housekeeping	-	-	-	-	1,309
Telephone and utilities	3,334	-	-	16,400	25,499
Travel and transportation	35,199	1,789	-	82,870	96,023
Insurance	-	-	-	8,742	22,084
Equipment rental and maintenance	2,757	-	-	16,781	18,074
Repair and maintenance	300	-	-	558	4,069
Miscellaneous	268	-	-	10,880	13,391
Conference and meeting	65,007	1,260	2,423	118,210	122,459
Rent and overhead	293	-	-	9,416	10,330
Capital outlay	10,616	-	-	54,910	79,540
Fund raising expenses	-	-	-	-	32,595
Family support services	-	-	-	12,018	12,018
Food program providers	-	-	-	787,082	787,082
Advertising and promotion	61,889	-	-	113,918	133,421
Trainings and parent materials	88,119	-	-	176,296	176,296
Auto expense	-	-	-	27,255	42,400
Grants to others	274,883	-	-	445,048	445,048
Intracompany rent (reimbursement)	8,333	-	-	31,609	-
ECBG indirect cost (reimbursement)	128,321	-	-	209,210	-
Vehicle usage (reimbursement)	37,763	-	-	44,510	-
Total expenses	1,477,179	3,049	22,224	4,556,587	4,735,203
Revenues over (under) expenses	45,546	31,751	12,699	456,389	522,331
Net assets (deficit), beginning of year	(187,075)	-	-	(52,434)	1,570,547
Net assets (deficit), end of year	\$ (141,529)	\$ 31,751	\$ 12,699	\$ 403,955	\$ 2,092,878

Temporarily restricted			
Capital campaign fund	Shriver fund	Total temporarily restricted funds	Total
\$ 42,069	\$ -	\$ 42,069	\$ 288,046
-	-	-	90,532
-	-	-	45,772
-	-	-	50,000
-	-	-	268,372
-	20,850	20,850	65,893
-	-	-	227,551
-	-	-	16,500
-	-	-	4,220,839
-	-	-	46,948
-	-	-	-
-	-	-	-
<u>42,069</u>	<u>20,850</u>	<u>62,919</u>	<u>5,320,453</u>
-	-	-	2,278,195
-	-	-	151,234
-	-	-	239,987
-	-	-	44,149
-	-	-	1,309
-	-	-	25,499
-	-	-	96,023
-	-	-	22,084
-	-	-	18,074
-	-	-	4,069
-	-	-	13,391
-	-	-	122,459
-	-	-	10,330
-	-	-	79,540
-	-	-	32,595
-	-	-	12,018
-	-	-	787,082
-	-	-	133,421
-	-	-	176,296
-	-	-	42,400
-	-	-	445,048
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	4,735,203
<u>42,069</u>	<u>20,850</u>	<u>62,919</u>	<u>585,250</u>
-	<u>372,499</u>	<u>372,499</u>	<u>1,943,046</u>
<u>\$ 42,069</u>	<u>\$ 393,349</u>	<u>\$ 435,418</u>	<u>\$ 2,528,296</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, 2016, 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 December 11, 2016. 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

December 11, 2016

Kennedy
McKee & Company LLP Certified Public Accountants

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

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that 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, 2016.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of 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.

Kennedy McKee & Company LLP

December 11, 2016

RUSSELL CHILD DEVELOPMENT CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended July 31, 2016

<u>Federal grantor/ pass-through grantor/ program or cluster title</u>	<u>Federal CFDA number</u>	<u>Pass-through grantors number</u>	<u>Passed through to subrecipients</u>	<u>Total federal expenditures</u>
U.S. Department of Agriculture				
Passed through Kansas Department of Education: Child and Adult Care Food Program	10.558	X0018	\$ -	\$ 907,545
U.S. Department of Education				
Passed through Kansas Department of Health and Environment: Special Education Grants for Infants and Families with Disabilities	84.181A		-	190,325
Total expenditures of federal awards			<u>\$ -</u>	<u>\$ 1,097,870</u>

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this statement.

RUSSELL CHILD DEVELOPMENT CENTER, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

July 31, 2016

A. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Russell Child Development Center, Inc. under programs of the federal government for the year ended July 31, 2016. The information in this Schedule is presented in accordance with the requirement of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operation of Russell Child Development Center, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Russell Child Development Center, Inc.

B. BASIS OF ACCOUNTING

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

C. INDIRECT COST RATE

Russell Child Development Center, Inc. has not elected to use the 10% de minimis cost rate as allowed under the Uniform Guidance.

RUSSELL CHILD DEVELOPMENT CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended July 31, 2016

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of Russell Child Development Center, Inc. The financial statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
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. No significant deficiencies relating to the audit report on internal control over major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
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 2 CFR section 200.516(a) 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 \$750,000.
9. Russell Child Development Center, Inc. did not qualify as a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

None noted

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

None noted

RUSSELL CHILD DEVELOPMENT CENTER, INC.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year ended July 31, 2016

DEPARTMENT OF AGRICULTURE

2015-001 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 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.

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. No similar findings were noted in the current year audit.