Sunrise Children's Services, Inc.

Financial Statements

Years Ended August 31, 2016 and 2015

Sunrise Children's Services, Inc.

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August 31, 2016 and 2015

CPAs & ADVISORS

Independent Auditor's Report

To the Board of Directors
Sunrise Children's Services, Inc.

We have audited the accompanying financial statements of Sunrise Children's Services, Inc. ("the Organization"), which comprise the statements of financial position as of August 31, 2016 and 2015, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Independent Auditor's Report (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sunrise Children's Services, Inc. as of August 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mountjoy Chilton Medley LLP

Louisville, Kentucky
November 11, 2016

Sunrise Children's Services, Inc.
Statements of Financial Position
August 31, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	$ 377,057	$ 113,735
Receivables, net	2,372,961	2,607,258
Marketable securities	6,208,532	7,958,017
Beneficial interest in charitable trusts, net	894,560	980,305
Other assets	329,320	448,926
Property and equipment, net	15,868,074	16,113,233
Funds held in trust by others	14,753,778	14,491,103
Total Assets	$ 40,804,282	$ 42,712,577
Liabilities and Net Assets		
Line of credit, net	$ 1,762,072	$ 1,144,975
Accounts payable	676,811	723,101
Accrued expenses	1,468,084	1,285,171
Deferred settlement	143,146	143,146
Charitable gift annuity payable	131,028	150,225
Other liabilities	-	6,501
Long-term debt, net	3,651,336	3,954,738
Total Liabilities	7,832,477	7,407,857
Commitments and Contingencies		
Net Assets		
Unrestricted	13,703,994	16,434,803
Temporarily restricted	2,179,942	2,029,091
Permanently restricted	17,087,869	16,840,826
Total Net Assets	32,971,805	35,304,720
Total Liabilities and Net Assets	$ 40,804,282	$ 42,712,577

See accompanying notes.

Sunrise Children's Services, Inc.
Statements of Activities and Changes in Net Assets
Years Ended August 31, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues and Support								
Resident support	$ 19,124,184	$ -	$ -	$ 19,124,184	$ 19,265,686	$ -	$ -	$ 19,265,686
Contributions	2,442,255	270,183	-	2,712,438	2,357,961	174,650	-	2,532,611
Interest and dividend income	288,335	39,137	-	327,472	351,573	47,044	-	398,617
Net assets released from:								
Program restrictions	393,528	(393,528)	-	-	325,561	(325,561)	-	-
Total Operating Revenues and Support	22,248,302	(84,208)	-	22,164,094	22,300,781	(103,867)	-	22,196,914
Operating Expenses								
Program expenses	21,743,581	-	-	21,743,581	20,853,970	-	-	20,853,970
Administrative division	3,474,992	-	-	3,474,992	3,207,672	-	-	3,207,672
Development division	874,505	-	-	874,505	917,193	-	-	917,193
Total Operating Expenses	26,093,078	-	-	26,093,078	24,978,835	-	-	24,978,835
Changes in Net Assets from Operations	(3,844,776)	(84,208)	-	(3,928,984)	(2,678,054)	(103,867)	-	(2,781,921)
Discontinued Operations	-	-	-	-	(515,433)	-	-	(515,433)
Other Revenues and Expenses								
Contributions and bequests	775,663	53,401	-	829,064	546,987	-	25,560	572,547
Donated property	-	-	-	-	230,000	-	-	230,000
Interest and dividend income	-	25,036	-	25,036	-	29,139	-	29,139
Net realized and unrealized gains (losses) on investments	94,602	164,202	-	258,804	(99,017)	(165,747)	-	(264,764)
Change in fair value of funds held in trust	-	15,632	247,043	262,675	-	(34,354)	(763,132)	(797,486)
Actuarial change on annuity obligations	-	(7,056)	-	(7,056)	-	305	-	305
Interest expense	(177,678)	-	-	(177,678)	(177,607)	-	-	(177,607)
Miscellaneous revenue	130,869	-	-	130,869	163,042	-	-	163,042
Gain (loss) on disposal of property and equipment	274,355	-	-	274,355	(31,391)	-	-	(31,391)
Net assets released from:								
Capital restrictions	16,156	(16,156)	-	-	26,252	(26,252)	-	-
Total Other Revenues and Expenses	1,113,967	235,059	247,043	1,596,069	658,266	(196,909)	(737,572)	(276,215)
Changes in Net Assets	(2,730,809)	150,851	247,043	(2,332,915)	(2,535,221)	(300,776)	(737,572)	(3,573,569)
Net Assets at Beginning of Year	16,434,803	2,029,091	16,840,826	35,304,720	18,970,024	2,329,867	17,578,398	38,878,289
Net Assets at End of Year	$ 13,703,994	$ 2,179,942	$ 17,087,869	$ 32,971,805	$ 16,434,803	$ 2,029,091	$ 16,840,826	$ 35,304,720

See accompanying notes.

Sunrise Children's Services, Inc.
Statements of Cash Flows
Years Ended August 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Changes in Net Assets	$ (2,332,915)	$ (3,573,569)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation and amortization	1,037,968	985,202
Bad debt expense	326,573	291,662
(Gain) loss on disposal of property and equipment	(274,355)	138,535
Net realized and unrealized (gains) losses	(521,479)	1,062,250
Contributions to funds held in trust by others	-	(25,560)
Contributions to charitable remainder trusts	(53,239)	-
Donated property	-	(230,000)
Actuarial change on annuity obligations	7,056	(305)
Changes in:		
Receivables, net	(92,276)	(234,910)
Other assets	119,606	48,209
Accounts payable	(33,297)	57,271
Accrued expenses	182,913	84,466
Other liabilities	(6,501)	6,501
Net Cash Used by Operating Activities	(1,639,946)	(1,390,248)
Cash Flows from Investing Activities		
Purchases of marketable securities	(826,836)	(2,101,999)
Proceeds from sale of marketable securities	2,821,166	1,879,252
Proceeds from charitable remainder trusts	152,943	82,203
Purchases of property and equipment	(878,262)	(1,624,791)
Proceeds from sale of property and equipment	357,069	132,586
Net Cash Provided (Used) by Investing Activities	1,626,080	(1,632,749)

Sunrise Children's Services, Inc.
Statements of Cash Flows (Continued)
Years Ended August 31, 2016 and 2015

	2016	2015
Cash Flows from Financing Activities		
Net proceeds from line of credit	614,223	1,151,441
Payments of annuity obligations	(26,253)	(27,131)
Payments on capital lease obligations	-	(662)
Proceeds from long-term debt	424,800	1,100,628
Principal payments on long-term debt	(735,582)	(653,925)
Deferred loan costs	-	(8,304)
Net Cash Provided by Financing Activities	277,188	1,562,047
Net Increase (Decrease) in Cash and Cash Equivalents	263,322	(1,460,950)
Cash and Cash Equivalents at Beginning of Year	113,735	1,574,685
Cash and Cash Equivalents at End of Year	$ 377,057	$ 113,735
Supplemental Disclosure:		
Cash paid for interest	$ 177,678	$ 177,607
Non-cash Operating and Investing Activities:		
Purchases of property and equipment included in accounts payable	7,129	20,122

See accompanying notes.

Note A - Nature of Operations

Sunrise Children's Services, Inc. ("the Organization") provides residential and foster care programs, among other programs, to children and adults in the Commonwealth of Kentucky.

Note B - Summary of Significant Accounting Policies

1. Basis of Presentation: The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Accounting Standards Codification ("ASC") as produced by the Financial Accounting Standards Board ("FASB") is the sole source of authoritative GAAP.

   Changes in net assets from operations include the revenues and support and expenses associated with operating the residential and foster care programs.

2. Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. Subsequent Events: Subsequent events for the Organization have been considered through the date of the Independent Auditor's Report which represents the date which the financial statements were available to be issued.

4. Donor-imposed Restrictions: The Organization records and reports its assets, liabilities, net assets, revenues, expenses, gains and losses, and other support based on the existence or absence of donor-imposed restrictions.

   The Organization reports cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 activities and changes in net assets as net assets released from restriction.

   The Organization reports gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Permanently restricted net assets include those contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the actions of the Organization.

5. Contributed Services, Supplies and Property and Equipment: Certain contributed supplies and professional services are recorded as support and expenses at fair value when determinable, otherwise at values indicated by the donor. Certain contributed property and equipment are recorded as support and assets at fair value when determinable, otherwise at values indicated by the donor. The Organization received contributed professional services, supplies, and property of $82,762 and $364,871 during the years ended August 31, 2016 and 2015, respectively.

Note B - Summary of Significant Accounting Policies (Continued)

6. Cash and Cash Equivalents: The Organization considers all highly liquid investments with a maturity when purchased of three months or less not restricted for a specific purpose, to be cash equivalents. The Organization typically maintains balances with its bank in excess of federally insured limits.

7. Receivables: Receivables from providing services are based on contracted prices. The Organization grants credit based on the creditworthiness of the client and receivables are typically unsecured. The Organization provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Invoices are net due upon receipt. Receivables past 30 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the client.

8. Marketable Securities: Investments are recorded at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Net realized and unrealized gains and losses are reflected in the statements of activities and changes in net assets.

   Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of investments and net assets of the Organization. The Organization also has interests in alternative funds that represent approximately .34% and .46% of total investments held in trust by the Kentucky Baptist Foundation, Inc. ("the Foundation") for the Organization at August 31, 2016 and 2015, respectively. Because these alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a readily available market for such investments existed.

   Operating revenue includes all interest and dividend income except that which is temporarily restricted for higher education. Net realized and unrealized gains (losses) are considered non-operating revenue. Investment income is reported net of investment expenses of approximately $151,000 and $160,000 in 2016 and 2015, respectively.

9. Funds Held in Trust by Others: Funds held in trust by others represent resources neither in the possession nor under the control of the Organization, but held and administered by an outside party, with the Organization deriving income from such funds. The fair value of the Organization's share of the assets is reflected in the accompanying statements of financial position, and the income, including fair value adjustments, is recorded in the accompanying statements of activities and changes in net assets.

   Dividends and interest of $444,348 and $589,216 were earned on funds held in trust by others in 2016 and 2015, respectively.

10. Assets Held for Sale: The Organization had certain real estate held for sale with a recorded value of $117,930 at August 31, 2015 which was included in other assets in the accompanying statement of financial position. During the year ended August 31, 2016, the real estate was taken off the market and converted to Organization use.

Note B - Summary of Significant Accounting Policies (Continued)

11. Property and Equipment: It is the Organization's policy to capitalize property and equipment over $3,000. Lesser amounts are expensed. Property and equipment are recorded at cost at date of acquisition or fair value at date of donation and are depreciated using the straight-line method over their estimated useful lives which range from 3-10 years for vehicles and furniture and equipment and 20-30 years for buildings. Depreciation expense for the years ended August 31, 2016 and 2015 was $1,027,715 and $975,667, respectively. It is the Organization's policy not to fund depreciation.

12. Income Taxes: The Organization has received a determination letter from the Internal Revenue Service indicating that it qualifies as a tax-exempt organization under 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is included in the financial statements.

    The Organization recognizes uncertain income tax positions using the "more-likely-than-not" approach as defined in the ASC. No liability for uncertain income tax positions has been recorded in the accompanying financial statements.

13. Marketing/Advertising Costs: Marketing/advertising costs are expensed as incurred. These expenses amounted to $75,391 and $44,260 for the years ended August 31, 2016 and 2015, respectively.

14. Recent Accounting Pronouncements: In April 2015, the FASB issued Accounting Standards Update No. 2015-03 (ASU 2015-03), *Interest - Imputation of Interest (Subtopic 835-30)*. ASU 2015-03 simplifies the presentation of debt issuance costs. The amendment requires debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This standard is effective for annual reporting periods beginning after December 15, 2016. The Organization elected to early adopt this authoritative guidance effective September 1, 2015. The guidance was applied retrospectively and impacted the presentation of financing costs, line of credit, and long term debt for the years ended August 31, 2016 and 2015 (Note G).

    In August 2016, the FASB issued Accounting Standards Update No. 2016-14 (ASU 2016-14), Presentation of Financial Statements of Not-for-Profit Entities. This updated guidance changes presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditor and other users. This guidance includes qualitative and quantitative requirements in the following areas: 1) net asset classes, 2) investment return, 3) expenses, 4) liquidity and availability of resources and, 5) presentation of operating cash flows. This standard is effective for annual reporting periods beginning after December 15, 2017. Early adoption is permitted. The Organization is currently evaluating this guidance and its related impact on the Organization's financial statements.

    In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers (Topic 606). ASU 2014-09 supersedes the revenue recognition guidance in Topic 605, Revenue Recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in the exchange for those goods or services. This standard is effective for annual reporting periods beginning after December 15, 2018. The adoption of this guidance is not expected to have a material effect on the Organization's financial statements.

Note B - Summary of Significant Accounting Policies (Continued)

14. Recent Accounting Pronouncements (Continued): In February 2016, the FASB issued ASU No. 2016-02, Leases. This updated guidance provides new requirements for leases to be recognized in the financial statements. In general, the guidance requires the lessee to recognize liabilities on the statement of financial position for the obligation to make lease payments and an asset for the right to use the underlying assets for the lease term. There is a differentiation between finance leases and operating leases for the lessee in the statements of activities and cash flows. Finance leases recognize interest on the lease liability separately from the right to use the asset whereas an operating lease recognizes a single lease cost allocated over the lease term on a generally straight-line basis. All cash payments are within operating activities in the statement of cash flows except finance leases classify repayments of the principal portion of the lease liability within financing activities. The updated guidance is to be applied using a modified retrospective approach effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted. The Organization is currently evaluating this guidance and its related impact on the Organization’s financial statements.

Note C - Receivables

Receivables consist of the following at August 31, 2016 and 2015:

	2016	2015
Receivable from the Cabinet for Families and Children and Department of Juvenile Justice	$ 1,232,996	$ 1,328,408
Receivables from others	1,273,583	1,420,271
	2,506,579	2,748,679
Allowance for uncollectible receivables	(133,618)	(141,421)
	$ 2,372,961	$ 2,607,258

Note D - Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which the transaction for the asset or liability occurs with sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2: Observable market-based inputs or observable inputs that are corroborated by market data, such as quoted prices for similar assets or liabilities or model-derived valuations.

- Level 3: Unobservable inputs that are not corroborated by market data. These inputs reflect an organization's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Note D - Fair Value Measurements (Continued)

The following is a description of the valuation methodologies for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2016 and 2015.

Cash and cash equivalents: Valued at cost which approximates fair value.

Common stocks and preferred stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

U.S. government obligations, corporate bonds and notes, and fixed income funds: Valued based on yields currently available on identical securities in active markets (Level 1) and comparable securities of issuers with similar credit ratings in active markets (Level 2).

Mutual funds and equity funds: Valued at the net asset value of shares held by the Organization at year end.

Private equity funds and alternative funds: The fair value of these investments has been estimated by management in the absence of readily determined fair values. Management's estimates are based on information provided by the fund managers through the Foundation.

Beneficial interest in charitable trusts: The fair value of beneficial interest in charitable trusts to be received in more than one year have been recorded at the net present value of the expected future cash flows, net of allowances.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note D - Fair Value Measurements (Continued)

The following tables set forth by level, within the fair value hierarchy, the Organization's assets and liabilities at fair value as of August 31, 2016:

	Marketable Securities at Fair Value as of August 31, 2016			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 988,852	$ -	$ -	$ 988,852
Equity funds	2,970,384	-	-	2,970,384
Fixed income funds	589,802	1,212,624	-	1,802,426
Common stocks	170,029	-	-	170,029
Preferred stocks	34,980	-	-	34,980
Mutual funds	241,861	-	-	241,861
	$ 4,995,908	$ 1,212,624	$ -	$ 6,208,532

	Beneficial Interest in Charitable Trusts at Fair Value as of August 31, 2016			
	Level 1	Level 2	Level 3	Total
Beneficial Interest in Charitable Trusts	$ -	$ 894,560	$ -	$ 894,560

	Funds Held in Trust by Others at Fair Value as of August 31, 2016			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 80,223	$ -	$ -	$ 80,223
U.S. government obligations	94,790	-	-	94,790
Private equity funds	-	-	540,187	540,187
Alternative funds	-	-	49,635	49,635
Equity funds	6,107,862	-	-	6,107,862
Fixed income funds	1,164,197	2,393,573	-	3,557,770
Common stocks	288,165	-	-	288,165
Mutual funds	4,035,146	-	-	4,035,146
	$ 11,770,383	$ 2,393,573	$ 589,822	$ 14,753,778

Note D - Fair Value Measurements (Continued)

The following tables set forth by level, within the fair value hierarchy, the Organization's assets at fair value as of August 31, 2015:

	Marketable Securities at Fair Value as of August 31, 2015			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 2,239,591	$ -	$ -	$ 2,239,591
Equity funds	3,308,473	-	-	3,308,473
Fixed income funds	663,658	1,333,484	-	1,997,142
Common stocks	151,516	-	-	151,516
Preferred stocks	33,483	-	-	33,483
Mutual funds	227,812	-	-	227,812
	$ 6,624,533	$ 1,333,484	$ -	$ 7,958,017

	Beneficial Interest in Charitable Trusts at Fair Value as of August 31, 2015			
	Level 1	Level 2	Level 3	Total
Beneficial Interest in Charitable Trusts	$ -	$ 980,305	$ -	$ 980,305

	Funds Held in Trust by Others at Fair Value as of August 31, 2015			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 73,595	$ -	$ -	$ 73,595
U.S. government obligations	100,056	-	-	100,056
Private equity funds	-	-	641,122	641,122
Alternative funds	-	-	66,397	66,397
Equity funds	5,794,707	-	-	5,794,707
Fixed income funds	1,176,014	2,362,959	-	3,538,973
Common stocks	253,530	-	-	253,530
Mutual funds	3,897,929	-	-	3,897,929
Corporate bonds and notes	124,794	-	-	124,794
	$ 11,420,625	$ 2,362,959	$ 707,519	$ 14,491,103

Note D - Fair Value Measurements (Continued)

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the years ended August 31, 2016 and 2015:

	Private Equity Funds	Alternative Funds
Balance, September 1, 2014	$ 725,370	$ 120,745
Realized and unrealized gains/(losses)	(129,192)	(14,249)
Purchases	44,944	-
Sales	-	(40,099)
Balance, August 31, 2015	641,122	66,397
Realized and unrealized gains/(losses)	(22,624)	(16,762)
Sales	(78,311)	-
Balance, August 31, 2016	$ 540,187	$ 49,635

Note E - Beneficial Interest in Charitable Trusts

Beneficial interests are included in the accompanying financial statements as an asset and the change in their fair value as revenue in the appropriate net asset group. Beneficial interests to be received in more than one year have been recorded at the net present value of the expected future cash flows, net of allowances.

As of August 31, 2016 and 2015, beneficial interest of $1,001,034 and $1,158,191, respectively, consists of charitable remainder trusts which are expected to be realized over 5 years and are recorded net of discounts of $159,713 and $177,886, respectively.

Note F - Property and Equipment

Property and equipment consist of the following at August 31, 2016 and 2015:

	2016	2015
Land and land improvements	$ 2,217,192	$ 2,130,967
Buildings and building improvements	19,118,182	19,176,244
Furniture and equipment	3,200,462	3,345,402
	24,535,836	24,652,613
Less: accumulated depreciation	(8,667,762)	(8,539,380)
	$ 15,868,074	$ 16,113,233

Note G - Debt

Deferred Loan Costs

Financing costs are amortized ratably (approximates the effective interest method) over the life of the related debt. During the year ended August 31, 2015, the Organization capitalized $8,622 in loan costs related to the 2015 line of credit refinancing. Gross deferred loan costs are $62,230 as of both August 31, 2016 and 2015. Accumulated amortization is $29,209 and $18,956 at August 31, 2016 and 2015, respectively. Amortization expense for the years ended August 31, 2016 and 2015 was $10,253 and $9,535, respectively. Amortization expense is expected to be $10,253 for the year ended August 31, 2017, $8,098 for the year ended August 31, 2018 and $7,380 for each of the years ended August 31, 2019 and 2020.

Line of Credit

The Organization has a $2,000,000 operating line of credit ("the Line") with Central Bank & Trust Co. ("Central Bank") bearing interest at Central Bank's index rate plus .25%, which shall not fall below 4.25% (4.25% at August 31, 2016). The Line is collateralized by certain personal property and equipment maintained by the Organization and matures November 2017. The outstanding balance of the Line at August 31, 2016 and 2015, is $1,765,664 and $1,151,441, respectively, and is presented net of deferred loan costs of $3,592 and $6,466, respectively.

Long-term Debt

Long-term debt consists of the following at August 31, 2016 and 2015:

	2016	2015
City of Hardin, Kentucky Industrial Building Revenue Refunding Bonds, Series 2013 ("the 2013 Bonds"). The sale of the 2013 Bonds was made privately to Central Bank. Interest is at a rate of 2.95% through April 30, 2018 at which time the interest rate will adjust to the sum of the three-year average constant maturity treasury rate plus 2.20% until maturity on August 1, 2020. Payable in monthly principal and interest installments of $50,588. Secured by certain real property and equipment. Balance is presented net of deferred financing costs of $29,519 and $36,898, respectively at August 31, 2016 and 2015.	$ 2,276,337	$ 2,769,573
Bank term loan payable to United Southern Bank with an interest rate of 4.00%, payable in monthly principal and interest installments of $2,531 through May 25, 2023. Secured by certain assets obtained in an acquisition.	179,226	201,910
Bank term loan payable to Central Bank with an interest rate of 4.75%, payable in monthly principal and interest installments of $1,650 with balance due in December 2019. Secured by certain real property and equipment.	236,583	244,742

Note G - Debt (Continued)

Long-term Debt (Continued)

	2016	2015
Bank term loan payable to Central Bank with an interest rate of 4.80%, payable in monthly installments of principal and interest of $2,220 with the balance due in August 2020. Secured by certain real property and equipment.	329,501	340,000
Multiple vehicle loan agreements with Ford and Nissan authorized dealerships with interest rates range from 0% to 3.99% and maturity dates between September 2017 and October 2019. Monthly principal and interest payments total $11,931. Secured by vehicles.	257,850	398,513
Multiple vehicle loan agreements with Ally with an interest rate of 3.89%, payable in monthly installments of principal and interest of $2,502 through October 2018. Secured by vehicles.	62,278	-
Bank term loan payable to Traditional Bank with a variable interest rate consisting of the highest prime rate in the Wall Street Journal rounded up to the nearest .125% plus .250%, with a minimum rate of 4.170% (4.170% at August 31, 2016). Payable in monthly principal and interest installments of $2,102 with the balance due in July 2036. Secured by certain real property.	339,080	-
	$ 3,680,855	$ 3,954,738

At August 31, 2016, the aggregate annual maturities of principal payable on the long-term debt are:

Year Ending August 31,	Amount
2017	$ 767,863
2018	743,884
2019	670,204
2020	1,129,202
2021	41,068
Thereafter	328,634
	3,680,855
Deferred Loan Costs	(29,519)
	$ 3,651,336

The 2013 Bonds contain a number of affirmative and negative covenants including an unencumbered liquid asset ratio, an interest bearing debt to unrestricted net assets ratio, and maintaining minimum monthly gross revenues.

Note H - Endowment Fund

The Organization's endowment consists of donor-restricted funds placed with the Foundation and with various other fund managers (at the direction of individual donors). The endowment funds were established to support the programs of the Organization. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Commonwealth of Kentucky has enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the provisions of which apply to endowment funds existing on or established after enactment. The Organization is required to act prudently when making decisions to spend or accumulate donor restricted endowment assets and in doing so to consider a number of factors including the duration and preservation of its donor restricted endowment funds.

The Organization has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. The Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment that is not classified in permanently restricted net assets is classified as temporarily restricted if the amounts are restricted as to purpose, otherwise as unrestricted net assets.

The endowment fund assets at August 31, 2016 and 2015 are included in the following categories in the statements of financial position:

	2016	2015
Funds held in trust by others	$ 14,753,778	$ 14,491,103
Marketable securities	2,827,151	2,794,790
	$ 17,580,929	$ 17,285,893

Note H - Endowment Fund (Continued)

Changes in endowment net assets for the years ended August 31, 2016 and 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, September 1, 2014	$ -	$ 577,087	$ 17,578,398	$ 18,155,485
Contributions	-	-	25,560	25,560
Investment Return:				
Investment income (net of fees)	-	71,310	452,435	523,745
Net depreciation	-	(133,440)	(693,603)	(827,043)
Total Investment Return	-	(62,130)	(241,168)	(303,298)
Distribution from Funds Held in Trust	556,627	(34,663)	(521,964)	-
Appropriation for Expenditures	(556,627)	(35,227)	-	(591,854)
Endowment Net Assets August 31, 2015	-	445,067	16,840,826	17,285,893
Contributions	-	-	-	-
Investment Return:				
Investment income (net of fees)	-	55,780	317,497	373,277
Net appreciation	-	142,670	466,794	609,464
Total Investment Return	-	198,450	784,291	982,741
Distribution from Funds Held in Trust	572,936	(35,688)	(537,248)	-
Appropriation for Expenditures	(572,936)	(114,769)	-	(687,705)
Endowment Net Assets, August 31, 2016	$ -	$ 493,060	$ 17,087,869	$ 17,580,929

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

Under this policy, as approved by the Board or the individual donor, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of approximately 3.8% over the rate of inflation, as measured by the Consumer Price Index, while assuming a moderate level of investment risk.

The focus on an annualized return may cause the portfolios to experience periods of negative rates of return while aiming for a higher return over a multi-year annualized period.

Note H - Endowment Fund (Continued)

To satisfy its long-term rate-of-return objective, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield. The Organization targets diversified asset allocations that place a greater emphasis on equity-based investment to achieve its long-term objectives within prudent risk constraints.

Based on the individual endowment fund agreements, the distributions of net income from the funds may occur on a quarterly or annual basis and includes realized income, net of fees. The distributions are determined by the individual fund managers or restrictions placed by the donor, not the Organization.

Note I - Net Assets

Temporarily restricted net assets are available for the following purposes:

	2016	2015
Operations	$ 1,258,797	$ 1,112,095
Unappropriated endowment earnings	493,060	445,067
Time restricted contributions	218,981	282,782
Higher education	209,104	189,147
	$ 2,179,942	$ 2,029,091

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support:

	2016	2015
General operations	$ 16,101,242	$ 15,854,199
Higher education	986,627	986,627
	$ 17,087,869	$ 16,840,826

Note J - Operating Leases

The Organization has several operating lease commitments for equipment, office space and a youth support center expiring in various years through 2018. Total rental expense under operating leases was approximately $317,600 and $244,000 in 2016 and 2015, respectively. At August 31, 2016, approximate minimum future rental payments required under operating leases, net of subleases, that have initial or remaining non-cancelable lease terms in excess of one year are as follows:

Year Ending August 31,	Amount
2017	$ 246,253
2018	20,700

Note K - Retirement Plan

The Organization has a contributory retirement plan for the benefit of all eligible employees through contracts with GuideStone Financial Resources of the Southern Baptist Convention. Contract premium costs are based on a specified percentage of each employee's annual salary and these costs are funded as they accrue. The Organization matches 100% of the employee's contribution up to 3.00%. Total cost to the Organization under this defined contribution plan was approximately $165,000 and $146,000 in 2016 and 2015, respectively.

Note L - Covenant Agreement

In 1986, the Organization entered into a covenant agreement with the Kentucky Baptist Convention ("the Convention"). The Convention supports the Organization by financial contributions made to the Organization through the Thanksgiving Offering, Cooperative Program and other designations, in accordance with recommendations as approved by the Executive Board of the Convention. For the years ended August 31, 2016 and 2015, the Organization received unrestricted revenues of approximately $801,000 and $796,000, respectively, from the Convention, which included approximately $298,000 and $291,000, respectively, from the Cooperative Program. For the years ended August 31, 2016 and 2015, the Organization received unrestricted revenues from Thanksgiving Offerings independent of the Convention of approximately $68,000 and $70,000, respectively. Such revenue has been recorded as unrestricted revenues in the accompanying statements of activities and changes in net assets.

The agreement also provides for the Convention to annually elect the Board of Directors of the Organization.

Note M - Contingencies

In the ordinary course of its operations, the Organization is a party to certain claims and litigation. In management's opinion, the ultimate liability resulting from such claims and litigation, if any, will not materially affect the Organization's financial statements.

In addition, the Organization was in litigation over construction issues with the general contractor of two buildings. During 2013, the litigation was settled and the Organization was awarded a settlement of $457,500 for repairs to be performed at the two buildings. As of August 31, 2014, the Organization had completed the renovation of one of the two buildings. Settlement amounts not yet utilized for repair purposes are included in deferred settlement in the accompanying 2016 and 2015 statements of financial position.

Note N - Concentrations

For the years ended August 31, 2016 and 2015, the Organization received 73% and 78%, respectively, of its support for its residential and foster care programs from the Commonwealth of Kentucky. A significant reduction in the level of this support, if this were to occur, could have a material adverse effect on the Organization's programs. At August 31, 2016 and 2015, the receivable from the Commonwealth of Kentucky represents approximately 53% and 50% of total receivables, respectively. At August 31, 2016 and 2015, the receivable from Medicaid represents approximately 25% and 39% of total receivables, respectively.

Note O - Operational Changes

During the year ended August 31, 2015, the Organization approved the closures of the residential facilities at Oak Meadows and Dixon. The related property owned by the Organization relating to Dixon was sold and the associated loss is included in discontinued operations. The related equipment associated with the Dixon facility was transferred to other programs within the Organization and utilized or stored for future use. The related property and equipment associated with the Oak Meadows facility were transferred to other programs within the Organization and stored for future use or sold. The results of operations for these closures amounted to net losses of $515,433 for the year ended August 31, 2015 and are presented within the results of discontinued operations in the accompanying statement of activities and changes in net assets.

Supplementary Information

Independent Auditor's Report on Supplementary Information

Board of Directors
Sunrise Children's Services, Inc.

We have audited the financial statements of Sunrise Children's Services, Inc. as of and for the years ended August 31, 2016 and 2015, and have issued our report thereon dated November 11, 2016 which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses are presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Mountjoy Chilton Medley LLP

Louisville, Kentucky
November 11, 2016

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Sunrise Children's Services, Inc.
Schedules of Functional Expenses
Years Ended August 31, 2016 and 2015

	2016				2015			
	Program Expenses	Administrative Division	Development Division	Total Operating Expenses	Program Expenses	Administrative Division	Development Division	Total Operating Expenses
Expenses:								
Salaries	$ 10,843,610	$ 1,863,861	$ 410,922	$ 13,118,393	$ 10,343,953	$ 1,691,125	$ 418,567	$ 12,453,645
Benefits	2,214,923	355,180	80,213	2,650,316	2,069,938	373,455	83,466	2,526,859
Retirement	120,023	39,428	5,864	165,315	108,411	33,295	4,683	146,389
Food and clothing	511,999	-	-	511,999	493,247	-	-	493,247
Foster parent payments	3,312,809	-	-	3,312,809	3,405,634	-	-	3,405,634
Family and financial assistance	31,504	-	-	31,504	33,645	-	-	33,645
Therapist expenses and travel	40,826	-	-	40,826	37,466	-	-	37,466
Maintenance and environment of care	350,605	141,518	9,073	501,196	318,240	114,840	8,538	441,618
Staff travel and meals	273,396	68,008	6,681	348,085	248,689	54,795	14,397	317,881
Consultants	153,386	21,339	40,993	215,718	12,264	31,780	37,213	81,257
Telephone	251,255	96,335	456	348,046	251,067	102,846	2,377	356,290
Utilities	384,190	37,624	-	421,814	358,732	35,498	-	394,230
Insurance	614,923	110,563	24,171	749,657	621,036	107,511	26,057	754,604
Staff training	43,842	12,132	285	56,259	50,697	24,358	995	76,050
Vehicle expense	74,168	43,745	2,169	120,082	110,934	54,459	2,998	168,391
Capital spending under $3,000	61,423	38,443	1,700	101,566	40,840	30,175	240	71,255
Depreciation	763,691	237,826	26,198	1,027,715	719,145	232,185	14,803	966,133
Advertising	2,086	73,305	-	75,391	2,014	42,246	-	44,260
Rent	317,575	-	-	317,575	244,036	-	-	244,036
Other expenses	1,377,347	335,685	265,780	1,978,812	1,383,982	279,104	302,859	1,965,945
	$ 21,743,581	$ 3,474,992	$ 874,505	$ 26,093,078	$ 20,853,970	$ 3,207,672	$ 917,193	$ 24,978,835
	83.33%	13.32%	3.35%	100.00%	83.49%	12.84%	3.67%	100.00%

See independent auditor's report on supplementary information.