Sunrise Children's Services, Inc.

Financial Statements

Years Ended August 31, 2014 and 2013

Sunrise Children's Services, Inc.

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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, 2014 and 2013, 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.

Kentucky
Indiana
Ohio

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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, 2014 and 2013, 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 14, 2014

Sunrise Children's Services, Inc.
Statements of Financial Position
August 31, 2014 and 2013

	2014	2013
Assets		
Cash and cash equivalents	$ 1,574,685	$ 800,811
Receivables, net	2,664,010	2,260,046
Marketable securities	7,938,763	9,592,788
Beneficial interest in charitable trusts, net	1,123,779	958,842
Other assets	497,135	418,098
Deferred loan costs, net	44,595	49,597
Property and equipment, net	15,551,763	16,330,628
Funds held in trust by others	15,263,029	13,464,144
Goodwill	-	183,416
Total Assets	$ 44,657,759	$ 44,058,370
Liabilities and Net Assets		
Line of credit	$ -	$ 1,150,000
Accounts payable	712,363	680,559
Accrued expenses	1,200,705	1,266,575
Deferred settlement	143,146	457,500
Charitable gift annuity payable	177,661	204,710
Capital lease obligations	662	12,128
Long-term debt	3,544,933	4,065,561
Total Liabilities	5,779,470	7,837,033
Commitments and Contingencies		
Net Assets		
Unrestricted	18,970,024	18,494,425
Temporarily restricted	2,329,867	1,874,775
Permanently restricted	17,578,398	15,852,137
Total Net Assets	38,878,289	36,221,337
Total Liabilities and Net Assets	$ 44,657,759	$ 44,058,370

See accompanying notes.

Sunrise Children's Services, Inc.
Statements of Activities and Changes in Net Assets
Years Ended August 31, 2014 and 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues and Support								
Resident support	$ 18,881,782	$ -	$ -	$ 18,881,782	$ 17,893,808	$ -	$ -	$ 17,893,808
Contributions	2,531,216	147,104	-	2,678,320	2,256,131	142,670	-	2,398,801
Interest and dividend income	308,723	32,134	-	340,857	511,583	31,250	-	542,833
Net assets released from:								
Program restrictions	316,758	(316,758)	-	-	240,764	(240,764)	-	-
Total Operating Revenues and Support	22,038,479	(137,520)	-	21,900,959	20,902,286	(66,844)	-	20,835,442
Operating Expenses								
Program expenses	21,450,595	-	-	21,450,595	19,826,392	-	-	19,826,392
Administrative division	2,829,816	-	-	2,829,816	2,595,884	-	-	2,595,884
Development division	800,617	-	-	800,617	737,772	-	-	737,772
Total Operating Expenses	25,081,028	-	-	25,081,028	23,160,048	-	-	23,160,048
Changes in Net Assets from Operations	(3,042,549)	(137,520)	-	(3,180,069)	(2,257,762)	(66,844)	-	(2,324,606)
Discontinued Operations	(70,014)	-	-	(70,014)	(160,051)	-	-	(160,051)
Other Revenues and Expenses								
Contributions and bequests	1,488,969	-	297,137	1,786,106	708,430	-	25,000	733,430
Capital campaign contributions	-	-	-	-	-	850	-	850
Interest and dividend income	-	21,143	-	21,143	-	14,276	-	14,276
Net realized and unrealized gains on investments	678,537	559,684	-	1,238,221	486,522	265,740	-	752,262
Change in fair value of funds held in trust	-	72,624	1,429,124	1,501,748	-	38,973	652,258	691,231
Actuarial loss on annuity obligations	-	(7,681)	-	(7,681)	-	(34,458)	-	(34,458)
Interest expense	(140,790)	-	-	(140,790)	(124,096)	-	-	(124,096)
Miscellaneous revenue	216,399	-	-	216,399	124,636	-	-	124,636
Goodwill impairment	(183,416)	-	-	(183,416)	-	-	-	-
Gain on disposal of property and equipment	1,475,305	-	-	1,475,305	-	-	-	-
Net assets released from:								
Capital restrictions	53,158	(53,158)	-	-	39,926	(39,926)	-	-
Total Other Revenues and Expenses	3,588,162	592,612	1,726,261	5,907,035	1,235,418	245,455	677,258	2,158,131
Changes in Net Assets	475,599	455,092	1,726,261	2,656,952	(1,182,395)	178,611	677,258	(326,526)
Net Assets at Beginning of Year	18,494,425	1,874,775	15,852,137	36,221,337	19,676,820	1,696,164	15,174,879	36,547,863
Net Assets at End of Year	$ 18,970,024	$ 2,329,867	$ 17,578,398	$ 38,878,289	$ 18,494,425	$ 1,874,775	$ 15,852,137	$ 36,221,337

See accompanying notes.

Sunrise Children's Services, Inc.
Statements of Cash Flows
Years Ended August 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Changes in Net Assets	$ 2,656,952	$ (326,526)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation and amortization	924,290	995,986
Gain on disposal of property and equipment	(1,475,305)	(250)
Net realized and unrealized gains	(2,739,969)	(1,446,009)
Goodwill impairment	183,416	-
Contributions restricted for long-term investments	(297,137)	(25,850)
Actuarial loss on annuity obligations	7,681	34,458
Change in fair value of cash flow hedge	-	(33,063)
Changes in:		
Receivables, net	(403,964)	(11,752)
Other assets	(79,037)	36,330
Accounts payable	(6,422)	34,522
Accrued expenses	(65,870)	(3,923)
Deferred settlement	(314,354)	457,500
Net Cash Used by Operating Activities	(1,906,853)	(288,577)
Cash Flows from Investing Activities		
Withdrawals from restricted cash	-	127,406
Purchases of marketable securities	(88,668)	(143,670)
Proceeds from sale of marketable securities	2,815,974	1,055,652
Purchases of property and equipment	(234,145)	(173,559)
Proceeds from sale of property and equipment	1,609,788	250
Net Cash Provided by Investing Activities	4,102,949	866,079

Sunrise Children's Services, Inc.
Statements of Cash Flows (Continued)
Years Ended August 31, 2014 and 2013

	2014	2013
Cash Flows from Financing Activities		
Proceeds from contributions restricted for:		
Investment in endowment	297,137	25,000
Investment in property and equipment	-	850
Deferred loan costs	(2,535)	(51,481)
Net (repayments on) borrowings from line of credit	(1,150,000)	852,834
Payments of annuity obligations	(34,730)	(33,917)
Payments on capital lease obligations	(11,466)	(14,400)
Proceeds from long-term debt	-	3,951,860
Principal payments on long-term debt	(520,628)	(4,442,375)
Settlement of cash flow hedge	-	(112,346)
Net Cash (Used) Provided by Financing Activities	(1,422,222)	176,025
Net Increase in Cash and Cash Equivalents	773,874	753,527
Cash and Cash Equivalents at Beginning of Year	800,811	47,284
Cash and Cash Equivalents at End of Year	$ 1,574,685	$ 800,811
Supplemental Disclosure:		
Cash paid for interest	$ 144,504	$ 175,408
Non-cash Operating and Investing Activities:		
Purchases of property and equipment included in accounts payable	66,655	28,429
Capital lease additions	-	3,868
Oak Meadow Ranch, Inc. acquisition (see Note Q)	-	250,107

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 for non-governmental entities.

   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. The Organization received contributed professional services and supplies of $155,290 and $118,847 during the years ended August 31, 2014 and 2013, respectively. Certain contributed property and equipment are recorded as support and assets at fair value when determinable, otherwise at values indicated by the donor.

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 .79% and .90% of total investments held in trust by the Kentucky Baptist Foundation, Inc. ("the Foundation") for the Organization at August 31, 2014 and 2013, 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 $168,000 and $162,000 in 2014 and 2013, 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 $426,345 and $300,711 were earned on funds held in trust by others in 2014 and 2013, respectively.

10. Assets Held for Sale: The Organization has certain real estate held for sale with a recorded value of $117,930 at August 31, 2014 and 2013. This asset is included in other assets in the accompanying statement of financial position. The Organization believes that the value recorded is recoverable and does not exceed fair value.

Note B - Summary of Significant Accounting Policies (Continued)

11. Deferred Loan Costs: Deferred loan costs consist of capitalized loan fees that are being amortized ratably (approximates the effective interest method) over the life of the related long-term debt. During the year ended August 31, 2013, the Organization capitalized $51,481 in loan costs related to the debt refinancing (see Note I) and wrote off net deferred loan costs in the amount of $42,928, which is included in 2013 amortization expense. During the year ended August 31, 2014, the Organization capitalized $2,535 in loan costs related to the 2013 debt refinancing. Gross deferred loan costs are $54,016 and $51,481 as of August 31, 2014 and 2013, respectively. Accumulated amortization is $9,421 and $1,884 at August 31, 2014 and 2013, respectively. Amortization expense for the years ended August 31, 2014 and 2013 was $7,537 and $59,671, respectively. Amortization expense is expected to be $7,537 for each of the years ended August 31, 2014 through 2019.

12. 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, 2014 and 2013 was $916,753 and $936,315, respectively. It is the Organization's policy not to fund depreciation.

13. Goodwill: Goodwill represents the amount in excess of the fair value of identifiable net assets acquired related to the acquisition of certain assets and liabilities and operations of a residential facility in Hopkinsville, KY (see Note Q). In accordance with and as required by the FASB ASC, the Organization assesses goodwill for impairment on an annual basis. During the year ended August 31, 2014, management's analysis determined that goodwill was impaired and an impairment loss of $183,416 was recognized in the statement of activities (see Note Q).

14. Derivative Financial Instrument: The Organization accounts for the derivative as either an asset or liability in the statements of financial position and measures the instrument at fair value. Changes in the fair value of the derivative are recorded as a component of interest expense.

    The Organization's derivative instrument was an interest rate swap. The interest rate swap was entered into to manage the interest rate risk associated with the Organization's variable rate loan payable from the bond issue (see Note I). The Organization utilized the interest rate swap to secure a fixed interest rate on its outstanding debt. Under the terms of the agreement, the Organization paid to the swap counterparty the agreed to fixed rate and received interest based on an agreed to variable indexed rate on the outstanding debt. The swap agreement was designated by the Organization as a cash flow hedge. The terms of the swap were established to exactly match those of the underlying loan payable (including notional amounts, payment dates, interest rates, etc.), thereby eliminating any ineffectiveness. Net payments made (received) under the swap agreement are included as a component of interest expense in the accompanying statements of activities and changes in net assets. The change in the fair value of the swap instrument was a positive $33,063 during the year ended August 31, 2013. During the year ended August 31, 2013, the swap was settled for $112,346 as part of the debt refinancing (see Note I).

Note B - Summary of Significant Accounting Policies (Continued)

15. 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. The Organization's 2010 - 2013 tax years remain open and subject to examination.

16. Marketing/Advertising Costs: Marketing/advertising costs are expensed as incurred. These expenses amounted to $134,994 and $153,335 for the years ended August 31, 2014 and 2013, respectively.

17. Reclassifications: Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

Note C - Receivables

Receivables consist of the following at August 31, 2014 and 2013:

	2014	2013
Receivable from the Cabinet for Families and Children and Department of Juvenile Justice	$ 1,483,795	$ 1,346,066
Receivables from others	1,268,664	952,279
	2,752,459	2,298,345
Allowance for uncollectible receivables	(88,449)	(38,299)
	$ 2,664,010	$ 2,260,046

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, 2014 and 2013.

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

Common stocks, preferred stocks, equity funds and mutual funds: 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: 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.

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, 2014:

	Marketable Securities at Fair Value as of August 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 915,538	$ -	$ -	$ 915,538
U.S. government obligations	71,114	-	-	71,114
Equity funds	4,046,461	-	-	4,046,461
Fixed income funds	1,064,668	1,417,657	-	2,482,325
Common stocks	156,201	-	-	156,201
Preferred stocks	33,125	-	-	33,125
Mutual funds	233,999	-	-	233,999
	$ 6,521,106	$ 1,417,657	$ -	$ 7,938,763

Note D - Fair Value Measurements (Continued)

	Beneficial Interest in Charitable Trusts at Fair Value as of August 31, 2014			
	Level 1	Level 2	Level 3	Total
Beneficial Interest in Charitable Trusts	$ -	$ 1,123,779	$ -	$ 1,123,779

	Funds Held in Trust by Others at Fair Value as of August 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 80,734	$ -	$ -	$ 80,734
Private equity funds	-	-	725,370	725,370
Alternative funds	-	-	120,745	120,745
Equity funds	6,128,847	-	-	6,128,847
Fixed income funds	1,530,416	2,037,824	-	3,568,240
Common stocks	366,271	-	-	366,271
Mutual funds	4,271,667	-	-	4,271,667
Corporate bonds and notes	1,155	-	-	1,155
	$ 12,379,090	$ 2,037,824	$ 846,115	$ 15,263,029

The following tables set forth by level, within the fair value hierarchy, the Organization's assets at fair value as of August 31, 2013:

	Marketable Securities at Fair Value as of August 31, 2013			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 341,296	$ -	$ -	$ 341,296
Equity funds	5,538,644	-	-	5,538,644
Fixed income funds	217,516	3,145,660	-	3,363,176
Common stocks	168,987	-	-	168,987
Mutual funds	32,396	-	-	32,396
Corporate bonds and notes	148,289	-	-	148,289
	$ 6,447,128	$ 3,145,660	$ -	$ 9,592,788

Note D - Fair Value Measurements (Continued)

	Beneficial Interest in Charitable Trusts at Fair Value as of August 31, 2013			
	Level 1	Level 2	Level 3	Total
Beneficial Interest in Charitable Trusts	$ -	$ 958,842	$ -	$ 958,842

	Funds Held in Trust by Others at Fair Value as of August 31, 2013			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 78,002	$ -	$ -	$ 78,002
U.S. government obligations	12,323	-	-	12,323
Private equity funds	-	-	707,214	707,214
Alternative funds	-	-	125,136	125,136
Equity funds	5,288,830	-	-	5,288,830
Fixed income funds	196,879	2,847,221	-	3,044,100
Common stocks	399,727	-	-	399,727
Mutual funds	3,808,812	-	-	3,808,812
	$ 9,784,573	$ 2,847,221	$ 832,350	$ 13,464,144

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, 2014 and 2013:

	Private Equity Funds	Alternative Funds
Balance, September 1, 2012	$ 653,156	$ 255,331
Realized and unrealized gains/(losses)	54,058	334,660
Sales	-	(464,855)
Balance, August 31, 2013	707,214	125,136
Realized and unrealized gains/(losses)	(41,656)	98,956
Purchases	59,812	-
Sales	-	(103,347)
Balance, August 31, 2014	$ 725,370	$ 120,745

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, 2014 and 2013, beneficial interest of $1,243,717 and $1,131,765, respectively, consists of charitable remainder trusts which are expected to be realized over 5 years and are recorded net of discounts of $119,938 and $172,923, respectively.

Note F - Property and Equipment

Property and equipment consist of the following at August 31, 2014 and 2013:

	2014	2013
Land and land improvements	$ 1,841,765	$ 2,122,638
Buildings and building improvements	18,837,007	21,299,785
Furniture and equipment	3,653,464	4,243,879
	24,332,236	27,666,302
Less: accumulated depreciation	(8,780,473)	(11,335,674)
	$ 15,551,763	$ 16,330,628

Note G - Line of Credit

During the year ended August 31, 2013, the Organization obtained a $1,150,000 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, 2014), maturing June 1, 2015. The Line is collateralized by certain personal property and equipment maintained by the Organization. The outstanding balance of the Line at August 31, 2014 and 2013, is $-0- and $1,150,000, respectively. In November 2014, Central Bank approved increasing the operating line of credit to $2,000,000.

Note H - Capital Lease Obligations

The Organization leases certain equipment under a capital lease which is to expire during January 2015. The following is a schedule by year of future minimum lease payments under the capital lease as of August 31, 2014:

Year Ending August 31,	Amount
2015	$ 667
Less amount representing interest	5
Present Value of Net Minimum Lease Payments	$ 662

The cost of equipment under the capital leases was $25,511 and $41,473 at August 31, 2014 and 2013, respectively, with accumulated amortization of $15,962 and $11,815 at August 31, 2014 and 2013, respectively.

Note I - Long-term Debt

During the year ended August 31, 2013, the Organization entered into a bank qualified financing agreement with Central Bank for the issuance of $3,951,861 in County 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. The proceeds of the 2013 Bonds were used to refinance the Organization's existing long-term debt and operating line of credit with BB&T, settle the cash flow hedge associated with the existing long-term debt, and pay for debt issuance costs. The 2013 Bonds are payable in monthly principal and interest installments of $50,588 and are secured by certain real property and equipment maintained by the Organization. The 2013 Bonds bear interest at a fixed rate of 2.95% per year 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. The outstanding balance on the 2013 Bonds was $3,321,207 and $3,820,898 at August 31, 2014 and 2013, respectively.

In June 2013, the Organization assumed an existing loan with United Southern Bank ("the Loan") in the original principal amount of $250,107 related to the acquisition of certain assets and operations from the Seller (see Note Q). The Loan bears interest at a fixed rate of 4.00%, is payable in monthly principal and interest installments of $2,531 and matures May 25, 2023. The Loan is collateralized by the certain assets obtained in the acquisition. The outstanding balance on the Loan was $223,726 and $244,663 at August 31, 2014 and 2013, respectively.

At August 31, 2014, the aggregate annual maturities of principal payable on the long-term debt are:

Year Ending August 31,	Amount
2015	$ 536,554
2016	552,818
2017	570,050
2018	587,582
2019	605,656
Thereafter	692,273
	$ 3,544,933

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. The Organization was in compliance with all covenants as of and for the year ended August 31, 2014.

Note J - 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, 2014 and 2013 are included in the following categories in the statements of financial position:

	2014	2013
Funds held in trust by others	$ 15,263,029	$ 13,464,144
Marketable securities	2,892,456	2,716,922
	$ 18,155,485	$ 16,181,066

Note J - Endowment Fund (Continued)

Changes in endowment net assets for the years ended August 31, 2014 and 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, September 1, 2012	$ -	$ 197,060	$ 15,174,879	$ 15,371,939
Contributions	-	-	25,000	25,000
Investment Return:				
Investment income (net of fees)	-	47,949	190,914	238,863
Net appreciation	-	253,915	995,525	1,249,440
Total Investment Return	-	301,864	1,186,439	1,488,303
Distribution from Funds Held in Trust	569,389	(35,208)	(534,181)	-
Appropriation for Expenditures	(569,389)	(134,787)	-	(704,176)
Endowment Net Assets August 31, 2013	-	328,929	15,852,137	16,181,066
Contributions	-	-	297,137	297,137
Investment Return:				
Investment income (net of fees)	-	48,446	296,326	344,772
Net appreciation	-	444,305	1,616,038	2,060,343
Total Investment Return	-	492,751	1,912,364	2,405,115
Distribution from Funds Held in Trust	516,301	(33,061)	(483,240)	-
Appropriation for Expenditures	(516,301)	(211,532)	-	(727,833)
Endowment Net Assets, August 31, 2014	$ -	$ 577,087	$ 17,578,398	$ 18,155,485

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.

Note J - Endowment Fund (Continued)

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.

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, not the Organization.

Note K - Net Assets

Temporarily restricted net assets are available for the following purposes:

	2014	2013
Operations	$ 1,085,960	$ 1,155,797
Time restricted contributions	430,396	248,169
Unappropriated endowment earnings	577,087	328,929
Higher education	236,424	141,880
	$ 2,329,867	$ 1,874,775

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

	2014	2013
General operations	$ 16,591,771	$ 14,865,510
Higher education	986,627	986,627
	$ 17,578,398	$ 15,852,137

Note L - Operating Leases

The Organization has several operating lease commitments for equipment, office space and a youth support center expiring in various years through 2021. Total rental expense under operating leases was approximately $296,600 and $211,500 in 2014 and 2013, respectively. At August 31, 2014, 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
2015	$ 221,101
2016	112,348
2017	77,600
2018	37,600
2019	27,600
Thereafter	50,600

Note M - 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 $151,000 and $155,000 in 2014 and 2013, respectively.

Note N - 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, 2014 and 2013, the Organization received unrestricted revenues of approximately $851,000 and $823,000, respectively, from the Convention, which included approximately $291,000 and $309,000, respectively, from the Cooperative Program. For the years ended August 31, 2014 and 2013, the Organization received unrestricted revenues from Thanksgiving Offerings independent of the Convention of approximately $66,000 and $89,000, 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 O - 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 has 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 2014 and 2013 statement of financial position.

Note P - Concentrations

For the years ended August 31, 2014 and 2013, the Organization received 77% and 81%, 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, 2014 and 2013, the receivable from the Commonwealth of Kentucky represents approximately 61% and 58% of total receivables, respectively. At August 31, 2014 and 2013, the receivable from Medicaid represents approximately 19% and 20% of total receivables, respectively.

Note Q - Operational Changes

During 2013 the Organization's Board of Directors approved the purchase of certain assets and the operations of a residential facility for teenage boys in Hopkinsville, KY owned by Oak Meadow Ranch, Inc. ("the Seller"). The closing date on the purchase was June 1, 2013. The purchase was financed by the Organization by assuming an existing loan of the Seller and no consideration was transferred. The goodwill arising from the transaction relates largely to the Organization being able to operate a residential facility in Western Kentucky and expand its community-based services, including foster care and outpatient counseling, in the area. The following table summarizes the acquisition date fair values of the assets acquired and liabilities assumed:

Receivables	$ 28,185
Property and equipment	38,506
Goodwill	183,416
Long-term debt assumed	(250,107)

In October 2014, the Organization ceased operations of the residential facility at Oak Meadow Center and management is currently evaluating potential uses for the facility.

In September 2013, the Organization approved closing its Genesis Program. The related property and equipment owned by the Organization was transferred to other programs within the Organization and utilized or stored for future use. The results of operations for this program amounted to net losses of $70,014 for the year ended August 31, 2014 and are presented as results of discontinued operations in the accompanying statement of activities and changes in net assets. The results of operations for this program amounted to net losses of $160,051 for the year ended August 31, 2013 and were also reclassified and presented in discontinued operations.

Supplementary Information

CPAs & ADVISORS

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, 2014 and 2013, and have issued our report thereon dated November 14, 2014 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 14, 2014

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Sunrise Children's Services, Inc.
Schedules of Functional Expenses
Years Ended August 31, 2014 and 2013

	2014				2013			
	Program Expenses	Administrative Division	Development Division	Total Operating Expenses	Program Expenses	Administrative Division	Development Division	Total Operating Expenses
Expenses:								
Salaries	$ 10,678,123	$ 1,625,018	$ 273,245	$ 12,576,386	$ 9,812,301	$ 1,479,815	$ 323,439	$ 11,615,555
Benefits	2,143,958	276,355	54,148	2,474,461	1,947,288	233,385	62,914	2,243,587
Retirement	110,471	35,248	5,399	151,118	113,776	34,068	6,767	154,611
Food and clothing	525,941	-	-	525,941	516,443	-	-	516,443
Foster parent payments	3,444,472	-	-	3,444,472	3,101,011	-	-	3,101,011
Family and financial assistance	32,441	-	-	32,441	35,697	-	-	35,697
Therapist expenses and travel	95,161	-	-	95,161	93,615	-	-	93,615
Maintenance and environment of care	350,437	113,985	11,454	475,876	348,630	114,909	22,274	485,813
Staff travel and meals	252,450	35,247	7,892	295,589	210,364	29,164	8,364	247,892
Consultants	11,555	19,259	45,875	76,689	18,220	1,759	2,000	21,979
Telephone	226,111	60,983	5,904	292,998	190,329	41,077	4,818	236,224
Utilities	404,125	33,701	-	437,826	349,305	29,929	-	379,234
Insurance	491,659	91,956	12,730	596,345	635,124	95,028	23,088	753,240
Staff training	54,222	13,576	8,748	76,546	48,164	12,551	1,630	62,345
Vehicle expense	125,930	52,801	448	179,179	123,093	51,129	-	174,222
Capital spending under $3,000	19,964	54,889	3,398	78,251	24,583	34,316	2,618	61,517
Depreciation	683,043	208,875	1,355	893,273	680,417	217,998	1,355	899,770
Advertising	10,486	124,508	-	134,994	16,153	137,182	-	153,335
Rent	296,605	-	-	296,605	211,531	-	-	211,531
Other expenses	1,493,441	83,415	370,021	1,946,877	1,350,348	83,574	278,505	1,712,427
	$ 21,450,595	$ 2,829,816	$ 800,617	$ 25,081,028	$ 19,826,392	$ 2,595,884	$ 737,772	$ 23,160,048

See independent auditor's report on supplementary information.