Sunrise Children's Services, Inc.

Financial Statements

Years Ended August 31, 2018 and 2017

Sunrise Children's Services, Inc.

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Years Ended August 31, 2018 and 2017

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, 2018 and 2017, 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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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, 2018 and 2017, 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.

MCM CPAs & Advisors LLP

Louisville, Kentucky
November 9, 2018

Sunrise Children's Services, Inc.
Statements of Financial Position
August 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 43,942	$ 490,076
Receivables, net	2,863,135	2,396,846
Marketable securities	1,270,958	1,358,350
Beneficial interest in charitable trusts, net	988,758	963,268
Other assets	450,502	343,898
Property and equipment, net	14,812,358	15,487,529
Marketable securities, endowment	1,525,459	2,919,968
Funds held in trust by others	16,360,289	15,557,332
Total Assets	$ 38,315,401	$ 39,517,267
Liabilities and Net Assets		
Lines of credit, net	$ 2,131,486	$ 741,999
Accounts payable	772,778	707,267
Accrued expenses	1,047,876	1,582,791
Deferred settlement	143,146	143,146
Charitable gift annuity payable	113,797	120,091
Other liabilities	126,798	133,518
Long-term debt, net	2,252,799	2,891,216
Total Liabilities	6,588,680	6,320,028
Commitments and Contingencies		
Net Assets		
Unrestricted	10,971,342	12,937,222
Temporarily restricted	2,181,012	2,406,985
Permanently restricted	18,574,367	17,853,032
Total Net Assets	31,726,721	33,197,239
Total Liabilities and Net Assets	$ 38,315,401	$ 39,517,267

See accompanying notes.

Sunrise Children's Services, Inc.
Statements of Activities and Changes in Net Assets
Years Ended August 31, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues and Support								
Resident support	$ 19,702,353	$ -	$ -	$ 19,702,353	$ 19,622,928	$ -	$ -	$ 19,622,928
Contributions	2,721,695	347,756	-	3,069,451	2,426,421	282,672	-	2,709,093
Interest and dividend income	56,644	34,832	-	91,476	356,810	43,073	-	399,883
Net assets released from:								
Program restrictions	871,550	(871,550)	-	-	430,717	(430,717)	-	-
Total Operating Revenues and Support	23,352,242	(488,962)	-	22,863,280	22,836,876	(104,972)	-	22,731,904
Operating Expenses								
Program expenses	22,825,234	-	-	22,825,234	22,332,321	-	-	22,332,321
Administrative division	3,087,030	-	-	3,087,030	3,322,984	-	-	3,322,984
Development division	780,106	-	-	780,106	875,579	-	-	875,579
Total Operating Expenses	26,692,370	-	-	26,692,370	26,530,884	-	-	26,530,884
Changes in Net Assets from Operations	(3,340,128)	(488,962)	-	(3,829,090)	(3,694,008)	(104,972)	-	(3,798,980)
Other Revenues and Expenses								
Contributions and bequests	726,818	183,210	-	910,028	463,968	42,297	6	506,271
Donated property	-	-	-	-	316,400	-	-	316,400
Interest and dividend income	-	34,093	-	34,093	-	31,445	-	31,445
Net realized and unrealized gains on investments	68,261	162,058	-	230,319	68,551	257,219	-	325,770
Change in fair value of funds held in trust	-	81,622	721,335	802,957	-	38,391	765,157	803,548
Actuarial change on annuity obligations	-	(15,534)	-	(15,534)	-	(17,337)	-	(17,337)
Interest expense	(174,401)	-	-	(174,401)	(179,810)	-	-	(179,810)
Miscellaneous revenue	57,354	-	-	57,354	82,609	-	-	82,609
Net gain on disposal of property and equipment	513,756	-	-	513,756	2,155,518	-	-	2,155,518
Net assets released from:								
Capital restrictions	182,460	(182,460)	-	-	20,000	(20,000)	-	-
Total Other Revenues and Expenses	1,374,248	262,989	721,335	2,358,572	2,927,236	332,015	765,163	4,024,414
Changes in Net Assets	(1,965,880)	(225,973)	721,335	(1,470,518)	(766,772)	227,043	765,163	225,434
Net Assets at Beginning of Year	12,937,222	2,406,985	17,853,032	33,197,239	13,703,994	2,179,942	17,087,869	32,971,805
Net Assets at End of Year	$ 10,971,342	$ 2,181,012	$ 18,574,367	$ 31,726,721	$ 12,937,222	$ 2,406,985	$ 17,853,032	$ 33,197,239

See accompanying notes.

Sunrise Children's Services, Inc.
Statements of Cash Flows
Years Ended August 31, 2018 and 2017

	2018	**2017**
Cash Flows from Operating Activities		
Changes in net assets	$ (1,470,518)	$ 225,434
Adjustments to reconcile changes in net assets to net cash used by operating activities		
Depreciation and amortization	1,053,327	1,041,175
Amortization of deferred loan costs	7,697	10,254
Bad debt expense	120,512	213,932
Net gain on disposal of property and equipment	(513,756)	(2,155,518)
Net realized and unrealized gains	(1,033,276)	(1,129,318)
Contributions to funds held in trust by others	-	(6)
Donated property	-	(316,400)
Actuarial change on annuity obligations	15,534	17,337
Changes in		
Receivables, net	(350,512)	(160,817)
Other assets	(106,604)	(14,578)
Accounts payable	34,347	32,085
Accrued expenses	(534,915)	114,707
Other liabilities	(6,720)	623
Net Cash Used by Operating Activities	(2,784,884)	(2,121,090)
Cash Flows from Investing Activities		
Purchases of marketable securities	(70,609)	(76,164)
Proceeds from sale of marketable securities	1,757,339	2,263,440
Purchases of property and equipment	(566,148)	(534,997)
Insurance proceeds from involuntary conversion of property and equipment	413,900	-
Proceeds from sale of property and equipment	82,723	2,400,551
Net Cash Provided by Investing Activities	1,617,205	4,052,830

See accompanying notes.

Sunrise Children's Services, Inc.
Statements of Cash Flows (Continued)
Years Ended August 31, 2018 and 2017

	2018	2017
Cash Flows from Financing Activities		
Net borrowings from (repayments on) lines of credit	$ 1,388,769	$ (1,022,947)
Payments of annuity obligations	(21,828)	(28,274)
Proceeds from long-term debt	34,357	-
Principal payments on long-term debt	(679,753)	(767,500)
Net Cash Provided by (Used in) Financing Activities	721,545	(1,818,721)
Net (Decrease) Increase in Cash and Cash Equivalents	(446,134)	113,019
Cash and Cash Equivalents at Beginning of Year	490,076	377,057
Cash and Cash Equivalents at End of Year	$ 43,942	$ 490,076
Supplemental Disclosure		
Cash paid for interest	$ 166,704	$ 169,556
Non-cash Operating and Investing Activities		
Purchases of property and equipment included in accounts payable	36,664	5,500
Refinancing of long term debt	1,269,351	-
Insurance proceeds receivable from involuntary conversion of property and equipment	313,289	-
Note receivable from sale of property	-	77,000
Life estate in donated property	-	132,895

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 $135,993 and $502,290 during the years ended August 31, 2018 and 2017, 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 private equity and alternative funds that represent approximately 2.84 % and 3.59% of total investments held in trust by the Kentucky Baptist Foundation, Inc. ("the Foundation") for the Organization at August 31, 2018 and 2017, 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 are considered non-operating revenue. Investment income is reported net of investment expenses of approximately $161,000 and $145,000 in 2018 and 2017, 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 $503,513 and $424,861 were earned on funds held in trust by others in 2018 and 2017, respectively.

10. 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, 2018 and 2017 was $1,053,327 and $1,041,175, respectively. It is the Organization's policy not to fund depreciation.

    The Organization periodically reviews the carrying values of property and equipment for impairment whenever adverse events or changes in circumstances indicate the carrying value of the asset may not be recoverable. For the year ended August 31, 2018, the Organization recognized impairment losses totaling $92,491 which is included in gain on disposal of property and equipment in the statement of activities and changes in net assets.

Note B - Summary of Significant Accounting Policies (Continued)

11. 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.

12. Marketing/Advertising Costs: Marketing/advertising costs are expensed as incurred. These expenses amounted to $41,207 and $175,371 for the years ended August 31, 2018 and 2017, respectively.

13. Recent Accounting Pronouncements: 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 will be effective for the fiscal year ending August 31, 2019.

    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 will be effective for the fiscal year ending August 31, 2020.

    In June 2018, the FASB issued Accounting Standards Update No. 2018-08 (ASU 2018-08), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard should assist entities in 1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and 2) determining whether a contribution is conditional. This standard will be effective for the fiscal year ending August 31, 2020.

    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 the fiscal year ending August 31, 2021. Early adoption is permitted.

Note B - Summary of Significant Accounting Policies (Continued)

13. Recent Accounting Pronouncements (Continued): In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses.* The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented as the net amount expected to be collected. Thus, the statement of activities and changes in net assets will reflect the measurement of credit losses for newly-recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will effective for the fiscal year ending August 31, 2022.

    The Organization is currently in the process of evaluating the impact of the adoption of these ASUs on the financial statements.

14. Reclassifications: Certain amounts have been reclassified in the 2017 financial statements to conform to the 2018 presentation. The reclassifications had no effect on net assets or the change in net assets.

Note C - Receivables

Receivables consist of the following at August 31, 2018 and 2017:

	2018	2017
Receivable from the Cabinet for Families and Children and Department of Juvenile Justice	$ 1,550,156	$ 1,379,356
Receivables from Others	1,442,625	1,167,795
	2,992,781	2,547,151
Allowance for Uncollectible Receivables	(129,646)	(150,305)
	$ 2,863,135	$ 2,396,846

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, 2018 and 2017.

Cash and Cash Equivalents: Valued at cost which approximates fair value.

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

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

Funds Held in Trust by the Kentucky Baptist Foundation: Valued using Level 2 and Level 3 measurements based on net asset per share value of quoted prices for assets held by the fund.

Funds Held in Trust by Others: Valued using Level 2 measurements based on net asset per share value of quoted prices for assets held by the fund.

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, 2018:

	Marketable Securities at Fair Value as of August 31, 2018			
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	$ 223,126	$ -	$ -	$ 223,126
Mutual Funds	2,573,291	-	-	2,573,291
	$ 2,796,417	$ -	$ -	$ 2,796,417

	Beneficial Interest in Charitable Trusts at Fair Value as of August 31, 2018			
	Level 1	Level 2	Level 3	Total
Beneficial Interest in Charitable Trusts	$ -	$ 988,758	$ -	$ 988,758

	Funds Held in Trust by Others at Fair Value as of August 31, 2018			
	Level 1	Level 2	Level 3	Total
Funds Held in Trust by the Kentucky Baptist Foundation	$ -	10,915,175	$ 496,903	$ 11,412,078
Funds Held in Trust by Others	-	4,948,211	-	4,948,211
	$ -	$ 15,863,386	$ 496,903	$ 16,360,289

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, 2017:

	Marketable Securities at Fair Value as of August 31. 2017			
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	$ 262,796	$ -	$ -	$ 262,796
Common Stocks	124,116	-	-	124,116
Mutual Funds	3,891,406	-	-	3,891,406
	$ 4,278,318	$ -	$ -	$ 4,278,318

	Beneficial Interest in Charitable Trusts at Fair Value as of August 31. 2017			
	Level 1	Level 2	Level 3	Total
Beneficial Interest in Charitable Trusts	$ -	963,268	$ -	$ 963,268

	Funds Held in Trust by Others at Fair Value as of August 31. 2017			
	Level 1	Level 2	Level 3	Total
Funds Held in Trust by the Kentucky Baptist Foundation	$ -	$ 10,212,345	$ 557,784	$ 10,770,129
Funds Held in Trust by Others	-	4,787,203	-	4,787,203
	$ -	$ 14,999,548	$ 557,784	$ 15,557,332

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, 2018 and 2017:

	Private Equity Funds	Alternative Funds
Balance, September 1, 2016	$ 540,187	$ 49,635
Realized and unrealized gains/(losses)	690	2,059
Sales	(34,787)	-
Balance, August 31, 2017	506,090	51,694
Realized and unrealized gains/(losses)	(2,381)	(10,089)
Purchases	12,630	-
Sales	(61,041)	-
Balance, August 31, 2018	$ 455,298	$ 41,605

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, 2018 and 2017, beneficial interests of $1,174,111 and $1,147,119, respectively, consists of charitable remainder trusts which are expected to be realized over 5 years and are recorded net of discounts of $185,353 and $183,851, respectively.

Note F - Property and Equipment

Property and equipment consist of the following at August 31, 2018 and 2017:

	2018	2017
Land and land improvements	$ 2,547,686	$ 2,447,325
Buildings and building improvements	18,851,591	19,066,772
Furniture and equipment	3,324,571	3,318,720
Construction in process	321,967	-
	25,045,815	24,832,817
Less: accumulated depreciation	(10,233,457)	(9,345,288)
	$ 14,812,358	$ 15,487,529

Note G - Debt

Deferred Loan Costs

Financing costs are amortized ratably (approximates the effective interest method) over the life of the related debt. Gross deferred loan costs were $71,162 and $62,320 as of August 31, 2018 and 2017, respectively. Accumulated amortization is $47,160 and $39,463 at August 31, 2018 and 2017, respectively. Amortization expense for the years ended August 31, 2018 and 2017 was $7,697 and $10,254, respectively. Amortization expense is expected to be $4,973 for each of the years ended August 31, 2019, 2020, 2021 and 2020, and $4,110 for the year ended August 31, 2023.

Lines 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% (5.25% at August 31, 2018). The Line is collateralized by certain personal property and equipment maintained by the Organization and matures November 2020. The outstanding balance of the Line at August 31, 2018 and 2017, is $1,831,486 and $742,717, respectively, and is presented net of deferred loan costs of $0 and $718, respectively.

In August 2018, the Organization obtained a $500,000 revolving line of credit with Central Bank bearing interest at Central Bank’s index rate less .25% (4.75% at August 31, 2018). The line of credit is unsecured and matures February 3, 2019. The outstanding balance on the line of credit at August 31, 2018 is $300,000.

Note G - Debt (Continued)

Long-term Debt

Long-term debt consists of the following at August 31, 2018 and 2017:

	2018	2017
Commercial note payable to Central Bank with an interest rate of 5.00%, payable in 24 monthly principal and interest installments of $24,900 beginning July 14, 2018 with balance due in June 2023. Secured by certain real property and equipment. Balance is presented net of deferred financing costs of $24,002 at August 31, 2018.	$ 1,222,006	$ -
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 was at a rate of 2.95% through April 30, 2018 at which time the interest rate adjusted to the sum of the three-year average constant maturity treasury rate plus 2.20% until maturity on August 1, 2020. The 2013 Bonds were payable in monthly principal and interest installments of $50,588 and secured by certain real property and equipment. The 2013 Bonds were repaid in a refinancing during June 2018. Balance is presented net of deferred financing costs of $22,139 at August 31, 2017.	-	1,707,777
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 first mortgage on certain property in Paducah.	131,003	155,595
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.	218,972	227,989
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.	306,826	318,434
Commercial loan payable to Central Bank with an interest rate of 3.85%, payable in monthly installments of principal and interest of $813 through July 2021. Secured by vehicles.	26,712	-
Multiple vehicle loan agreements with Ford and Nissan authorized dealerships with interest rates ranging from 0% to 3.99% and maturity dates between October 2018 and October 2019. Monthly principal and interest payments total $7,160. Secured by vehicles.	26,406	119,557
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.	4,975	34,183
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% (5.250% and 4.170% at August 31, 2018 and 2017, respectively). Payable in monthly principal and interest installments of $2,102 with the balance due in July 2036. Secured by certain real property.	315,899	327,681
	$ 2,252,799	$ 2,891,216

Note G - Debt (Continued)

Long-term Debt (Continued)

At August 31, 2018, the aggregate annual maturities of principal payable on the long-term debt are:

Year Ending August 31,	Amount
2019	$ 339,856
2020	807,489
2021	316,521
2022	323,465
2023	240,412
Thereafter	249,058
	2,276,801
Deferred Loan Costs	(24,002)
	$ 2,252,799

The commercial note payable to Central Bank contains a number of affirmative and negative covenants including an unencumbered liquid asset ratio and an interest bearing debt to unrestricted net assets ratio.

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 until appropriated for expenditure.

Note H - Endowment Fund (Continued)

The endowment fund assets at August 31, 2018 and 2017 are included in the following categories in the statements of financial position:

	2018	2017
Funds Held in Trust by Others	$ 16,360,289	$ 15,557,332
Marketable Securities	1,525,459	2,919,968
	$ 17,885,748	$ 18,477,300

Changes in endowment net assets for the years ended August 31, 2018 and 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, September 1, 2016	$ -	$ 493,060	$ 17,087,869	$ 17,580,929
Contributions	-	-	6	6
Investment Return				
Investment income (net of fees)	-	61,874	289,201	351,075
Net appreciation	-	212,070	1,006,418	1,218,488
Total Investment Return	-	273,944	1,295,619	1,569,563
Distribution from Funds Held in Trust	567,230	(36,768)	(530,462)	-
Appropriation for Expenditures	(567,230)	(105,968)	-	(673,198)
Endowment Net Assets August 31, 2017	-	624,268	17,853,032	18,477,300
Contributions	-	-	-	-
Withdrawal	(1,000,000)	-	-	(1,000,000)
Investment Return				
Investment income (net of fees)	-	54,565	345,119	399,684
Net appreciation	-	198,911	965,104	1,164,015
Total Investment Return	-	253,476	1,310,223	1,563,699
Distribution from Funds Held in Trust	626,712	(37,824)	(588,888)	-
Appropriation for Expenditures	(626,712)	(528,539)	-	(1,155,251)
Endowment Net Assets, August 31, 2018	$ (1,000,000)	$ 311,381	$ 18,574,367	$ 17,885,748

Note H - Endowment Fund (Continued)

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.

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.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets when they occur. During the year ended August 31, 2018, the Organization made withdrawals from the endowment corpus totaling $1,000,000, which is reflected in unrestricted endowment net assets at August 31, 2018. The Organization is in the process of determining a plan to re-establish the endowment corpus.

Note I - Net Assets

Temporarily restricted net assets are available for the following purposes:

	2018	2017
Operations	$ 1,389,759	$ 1,401,088
Unappropriated endowment earnings	311,382	624,268
Time restricted contributions	164,691	122,912
Higher education	315,180	258,717
	$ 2,181,012	$ 2,406,985

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

	2018	2017
General Operations	$ 17,587,740	$ 16,866,405
Higher Education	986,627	986,627
	$ 18,574,367	$ 17,853,032

Note J - Operating Leases

The Organization has several operating lease commitments for equipment and real property expiring in various years through 2021. Total rental expense under operating leases was approximately $467,200 and $343,600 in 2018 and 2017, respectively. At August 31, 2018, 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
2019	$ 269,414
2020	96,000
2021	8,000

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 $160,000 and $178,000 in 2018 and 2017, 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, 2018 and 2017, the Organization received unrestricted revenues of approximately $796,000 and $769,000, respectively, from the Convention, which included approximately $302,000 and $289,000, respectively, from the Cooperative Program. For the years ended August 31, 2018 and 2017, the Organization received unrestricted revenues from Thanksgiving Offerings independent of the Convention of approximately $70,000 and $61,000, 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 2018 and 2017 statements of financial position.

Note N - Concentrations

For each of the years ended August 31, 2018 and 2017, the Organization received 72% 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, 2018 and 2017, the receivable from the Commonwealth of Kentucky represents approximately 54% and 58% of total receivables, respectively. At August 31, 2018 and 2017, the receivable from Medicaid represents approximately 23% and 26% of total receivables, respectively.

Note O - Operational Changes

During the year ended August 31, 2017, the Organization approved the closure of the Youth Support Center in London, KY. The related equipment associated with the facility was transferred to other programs within the Organization and utilized or stored for future use. The results of operations for these closures amounted to net losses of $244,383 for the year ended August 31, 2017 and are presented within the results of operations in the accompanying statement of activities and changes in net assets.

Note P - Involuntary Conversion

During the year ended August 31, 2018, the Organization experienced losses due to fire on one of its properties. The proceeds from insurance exceeded the remaining net book value of the property, and the resulting net gain of approximately $585,000 has been reflected as part of gain on disposal of property and equipment in the statement of activities and changes in net assets. Insurance proceeds receivable related to the involuntary conversion of $313,289 are included in receivables, net in the statement of financial position at August 31, 2018.

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, 2018 and 2017, and have issued our report thereon dated November 9, 2018 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 are 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.

MCM CPAs & Advisors LLP

Louisville, Kentucky
November 9, 2018

Kentucky
Indiana
Ohio

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Sunrise Children's Services, Inc.
Schedules of Functional Expenses
Years Ended August 31, 2018 and 2017

	2018				2017			
	Program Expenses	Administrative Division	Development Division	Total Operating Expenses	Program Expenses	Administrative Division	Development Division	Total Operating Expenses
Expenses								
Salaries	$ 11,017,789	$ 1,633,895	$ 374,648	$ 13,026,332	$ 11,210,406	$ 1,678,879	$ 415,580	$ 13,304,865
Benefits	2,440,862	319,053	63,195	2,823,110	2,305,470	312,515	75,190	2,693,175
Retirement	123,545	31,218	5,698	160,461	137,026	33,782	7,508	178,316
Food and clothing	434,990	-	-	434,990	480,145	-	-	480,145
Foster parent payments	3,995,535	-	-	3,995,535	3,635,616	-	-	3,635,616
Family and financial assistance	52,643	-	-	52,643	48,425	-	-	48,425
Therapist expenses and travel	113,927	-	-	113,927	79,694	-	-	79,694
Maintenance and environment of care	310,895	87,964	12,591	411,450	281,684	162,340	8,270	452,294
Staff travel and meals	319,549	59,895	5,822	385,266	316,956	86,660	2,798	406,414
Consultants	6,965	19,981	51,000	77,946	78,299	20,276	28,850	127,425
Telephone	330,835	51,195	9,934	391,964	263,058	79,139	8,727	350,924
Utilities	418,402	24,508	2,531	445,441	402,129	37,519	-	439,648
Insurance	675,322	112,722	24,000	812,044	576,000	107,568	22,706	706,274
Staff training	43,854	12,468	5,781	62,103	38,641	18,570	575	57,786
Vehicle expense	130,601	25,523	3,415	159,539	122,342	22,649	6,107	151,098
Capital spending under $3,000	25,847	4,237	408	30,492	21,966	19,113	-	41,079
Depreciation	848,190	170,209	34,928	1,053,327	819,940	182,392	38,843	1,041,175
Advertising	2,551	38,656	-	41,207	1,928	173,443	-	175,371
Rent	461,633	-	5,580	467,213	343,556	-	-	343,556
Other expenses	1,071,299	495,506	180,575	1,747,380	1,169,040	388,139	260,425	1,817,604
	$ 22,825,234	$ 3,087,030	$ 780,106	$ 26,692,370	$ 22,332,321	$ 3,322,984	$ 875,579	$ 26,530,884
	85.51%	11.57%	2.92%	100.00%	84.17%	12.52%	3.30%	100.00%

See independent auditor's report on supplementary information.