Sunrise Children's Services, Inc.

Financial Statements

Years Ended August 31, 2019 and 2018

Sunrise Children's Services, Inc.

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Year Ended August 31, 2019

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, 2019 and 2018, and the related statements of activities, functional expenses and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Independent Auditor's Report (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sunrise Children's Services, Inc. as of August 31, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note B (1), Sunrise Children's Services, Inc. has adopted Financial Accounting Standards Update 2016-14, Not for Profit Entities (Topic 958): *Presentation of Financial Statements for Not for Profit Entities*. Our opinion is not modified with respect to this matter.

MCM CPAs & Advisors LLP

Louisville, Kentucky
November 8, 2019

Sunrise Children's Services, Inc.
Statements of Financial Position
August 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 54,885	$ 43,942
Receivables, net	2,369,803	2,863,135
Marketable securities	4,673,063	4,637,703
Beneficial interest in charitable trusts, net	1,625,875	988,758
Other assets	447,569	450,502
Property and equipment, net	14,588,110	14,812,358
Marketable securities, endowment	993,743	1,525,459
Funds held in trust by others	12,891,162	12,993,544
Total Assets	$ 37,644,210	$ 38,315,401
Liabilities and Net Assets		
Lines of credit	$ 2,000,000	$ 2,131,486
Accounts payable	739,014	772,778
Accrued expenses	1,049,047	1,047,876
Deferred settlement	143,146	143,146
Charitable gift annuity payable	105,693	113,797
Other liabilities	121,237	126,798
Long-term debt, net	2,801,490	2,252,799
Total Liabilities	6,959,627	6,588,680
Commitments and Contingencies		
Net Assets		
Without donor restrictions		
Undesignated	2,641,979	(588,217)
Invested in property and equipment	11,786,620	12,559,559
Total Net Assets Without Donor Restrictions	14,428,599	11,971,342
With donor restrictions		
Purpose restrictions	2,679,316	2,181,012
Perpetual in nature	13,576,668	17,574,367
Total Net Assets with Donor Restrictions	16,255,984	19,755,379
Total Net Assets	30,684,583	31,726,721
Total Liabilities and Net Assets	$ 37,644,210	$ 38,315,401

See accompanying notes.

Sunrise Children's Services, Inc.
Statements of Activities and Changes in Net Assets
Years Ended August 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues and Support						
Resident support	$ 20,923,623	$ -	$ 20,923,623	$ 19,702,353	$ -	$ 19,702,353
Contributions	3,093,915	127,643	3,221,558	2,721,695	347,756	3,069,451
Interest and dividend income	288,456	20,505	308,961	56,644	34,832	91,476
Net assets released from						
Program restrictions	4,322,285	(4,322,285)	-	871,550	(871,550)	-
Total Operating Revenues and Support	28,628,279	(4,174,137)	24,454,142	23,352,242	(488,962)	22,863,280
Operating Expenses						
Program expenses						
Residential services	12,376,516	-	12,376,516	12,420,545	-	12,420,545
Community based services	10,812,850	-	10,812,850	10,737,752	-	10,737,752
Total Program Expenses	23,189,366	-	23,189,366	23,158,297	-	23,158,297
Administrative expenses	2,570,010	-	2,570,010	2,753,967	-	2,753,967
Development expenses	774,231	-	774,231	780,106	-	780,106
Total Operating Expenses	26,533,607	-	26,533,607	26,692,370	-	26,692,370
Changes in Net Assets from Operations	2,094,672	(4,174,137)	(2,079,465)	(3,340,128)	(488,962)	(3,829,090)
Other Revenues and Expenses						
Contributions and bequests	267,755	686,034	953,789	726,818	183,210	910,028
Interest and dividend income	-	29,550	29,550	-	34,093	34,093
Net realized and unrealized gains						
on investments	18,049	50,193	68,242	68,261	162,058	230,319
Change in fair value of funds held in trust	-	(102,382)	(102,382)	-	802,957	802,957
Actuarial change on annuity obligations	-	(13,137)	(13,137)	-	(15,534)	(15,534)
Interest expense	(233,022)	-	(233,022)	(174,401)	-	(174,401)
Miscellaneous revenue	28,907	-	28,907	57,354	-	57,354
Net gain on disposal of property and equipment	305,380	-	305,380	513,756	-	513,756
Net assets released from						
Capital restrictions	17,000	(17,000)	-	182,460	(182,460)	-
Total Other Revenues and Expenses	404,069	633,258	1,037,327	1,374,248	984,324	2,358,572
Changes in Net Assets	2,498,741	(3,540,879)	(1,042,138)	(1,965,880)	495,362	(1,470,518)
Net Assets at Beginning of Year	11,971,342	19,755,379	31,726,721	12,937,222	20,260,017	33,197,239
Transfers	(41,484)	41,484	-	1,000,000	(1,000,000)	-
Net Assets at End of Year	$ 14,428,599	$ 16,255,984	$ 30,684,583	$ 11,971,342	$ 19,755,379	$ 31,726,721

See accompanying notes.

Sunrise Children's Services, Inc.
Statement of Functional Expenses
Year Ended August 31, 2019

	Program Services					
	Residential Treatment	Community Based Services	Total	General and Administrative	Development	Total Expenses
Expenses						
Advertising	$ 379	$ 2,935	$ 3,314	$ 91,569	$ -	$ 94,883
Benefits	2,524,190	134,104	2,658,294	227,941	86,510	2,972,745
Capital spending under $3,000	11,173	9,445	20,618	5,427	358	26,403
Client related expenses	60,800	108,944	169,744	-	-	169,744
Consultants	3,394	-	3,394	22,388	33,500	59,282
Depreciation	574,938	197,983	772,921	161,037	24,589	958,547
Family and financial assistance	-	39,047	39,047	-	-	39,047
Food and clothing	401,060	67,248	468,308	-	-	468,308
Foster parent payments	-	4,000,297	4,000,297	-	-	4,000,297
Insurance	467,918	264,661	732,579	91,119	21,735	845,433
Maintenance and environment of care	233,643	17,751	251,394	114,568	2,595	368,557
Other expenses	731,888	292,028	1,023,916	417,301	267,453	1,708,670
Program support	36,568	80,443	117,011	15,063	-	132,074
Rent	-	488,397	488,397	-	7,626	496,023
Retirement	62,125	21,840	83,965	29,634	3,255	116,854
Salaries	6,628,115	4,524,352	11,152,467	1,304,604	302,048	12,759,119
Staff training	14,679	24,997	39,676	6,016	757	46,449
Staff travel and meals	97,483	188,858	286,341	17,320	5,802	309,463
Telephone	103,001	163,647	266,648	36,680	10,060	313,388
Therapist expenses and travel	59,517	74,616	134,133	-	-	134,133
Utilities	276,335	70,346	346,681	21,036	3,328	371,045
Vehicle expense	89,310	40,911	130,221	8,307	4,615	143,143
	$ 12,376,516	$ 10,812,850	$ 23,189,366	$ 2,570,010	$ 774,231	$ 26,533,607
	46.64%	40.75%	87.39%	9.69%	2.92%	100.00%

See accompanying notes.

Sunrise Children's Services, Inc.
Statement of Functional Expenses
Year Ended August 31, 2018

	Program Services					
	Residential Treatment	Community Based Services	Total	General and Administrative	Development	Total Expenses
Expenses						
Advertising	$ -	$ 2,551	$ 2,551	$ 38,656	$ -	$ 41,207
Benefits	2,405,751	140,406	2,546,157	270,235	63,195	2,879,587
Capital spending under $3,000	19,022	6,277	25,299	4,088	408	29,795
Client related expenses	78,223	106,806	185,029	-	-	185,029
Consultants	3,365	3,600	6,965	19,981	51,000	77,946
Depreciation	725,815	127,379	853,194	165,205	34,928	1,053,327
Family and financial assistance	-	52,643	52,643	-	-	52,643
Food and clothing	384,709	50,281	434,990	-	-	434,990
Foster parent payments	-	4,032,201	4,032,201	-	-	4,032,201
Insurance	413,063	239,833	652,896	96,292	24,000	773,188
Maintenance and environment of care	287,616	23,280	310,896	81,001	12,591	404,488
Other expenses	656,064	241,365	897,429	478,560	180,575	1,556,564
Program support	31,840	81,874	113,714	17,455	-	131,169
Rent	-	461,633	461,633	-	5,580	467,213
Retirement	61,372	9,932	71,304	26,982	5,698	103,984
Salaries	6,603,533	4,619,442	11,222,975	1,428,709	374,648	13,026,332
Staff training	16,996	26,233	43,229	7,225	5,781	56,235
Staff travel and meals	88,718	222,806	311,524	22,756	5,822	340,102
Telephone	154,855	165,456	320,311	49,026	9,934	379,271
Therapist expenses and travel	66,080	47,847	113,927	-	-	113,927
Utilities	317,691	51,138	368,829	24,508	2,531	395,868
Vehicle expense	105,832	24,769	130,601	23,288	3,415	157,304
	$ 12,420,545	$ 10,737,752	$ 23,158,297	$ 2,753,967	$ 780,106	$ 26,692,370
	46.53%	40.23%	86.76%	10.32%	2.92%	100.00%

See accompanying notes.

Sunrise Children's Services, Inc.
Statements of Cash Flows
Years Ended August 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Changes in net assets	$ (1,042,138)	$ (1,470,518)
Adjustments to reconcile changes in net assets to net cash used by operating activities		
Depreciation	958,547	1,053,327
Amortization of deferred loan costs	4,973	7,697
Bad debt expense	80,790	120,512
Net gain on disposal of property and equipment	(305,380)	(513,756)
Contributed property and equipment	(114,476)	-
Net realized and unrealized (losses) gains	34,140	(1,033,276)
Contributions to funds held in trust by others	(31,844)	-
Contributions to charitable remainder trusts	(608,789)	-
Actuarial change on annuity obligations	13,137	15,534
Changes in		
Receivables, net	412,542	(350,512)
Other assets	2,933	(106,604)
Accounts payable	(27,386)	34,347
Accrued expenses	1,171	(534,915)
Other liabilities	(5,561)	(6,720)
Net Cash Used by Operating Activities	(627,341)	(2,784,884)
Cash Flows from Investing Activities		
Purchases of marketable securities	(51,061)	(70,609)
Proceeds from sale of marketable securities	619,175	1,757,339
Purchases of property and equipment	(799,842)	(566,148)
Insurance proceeds from involuntary conversion of property and equipment	-	413,900
Proceeds from sale of property and equipment	479,021	82,723
Net Cash Provided by Investing Activities	247,293	1,617,205

See accompanying notes.

Sunrise Children's Services, Inc.
Statements of Cash Flows (Continued)
Years Ended August 31, 2019 and 2018

	2019	2018
Cash Flows from Financing Activities		
Net (repayments on) borrowings from lines of credit	$ (131,486)	$ 1,388,769
Payments of annuity obligations	(21,241)	(21,828)
Proceeds from long-term debt	896,010	34,357
Principal payments on long-term debt	(352,292)	(679,753)
Net Cash Provided by Financing Activities	390,991	721,545
Net Increase (Decrease) in Cash and Cash Equivalents	10,943	(446,134)
Cash and Cash Equivalents at Beginning of Year	43,942	490,076
Cash and Cash Equivalents at End of Year	$ 54,885	$ 43,942
Supplemental Disclosure		
Cash paid for interest	$ 228,049	$ 166,704
Non-cash Operating and Investing Activities		
Purchases of property and equipment included in accounts payable	30,286	36,664
Refinancing of long term debt	-	1,269,351
Insurance proceeds receivable from involuntary conversion of property and equipment	-	313,289

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.

   In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and the availability of resources, and the lack of consistency in the type of information provided about expenses and investment returns. The Organization adopted ASU 2016-14 as of and for the year ended August 31, 2019 and has thus adjusted the presentation of the accompanying financial statements accordingly. ASU 2016-14 has been applied retrospectively to all periods presented which increased net assets without donor restrictions by $1,000,000 and decreased net assets with donor restrictions by $1,000,000 resulting from the reclassification of underwater endowment funds as required by ASU 2016-14.

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 according to the two classes of net assets as follows:

   - *Net Assets Without Donor Restrictions*: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.
   - *Net Assets with Donor Restrictions*: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

   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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Note B - Summary of Significant Accounting Policies (Continued)

5. Contributed Services, Supplies and Property and Equipment: Certain contributed supplies, property and equipment, 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, supplies, and property and equipment of $393,388 and $135,993 during the years ended August 31, 2019 and 2018, respectively.

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 2.46 % and 2.84% of total investments held in trust by the Kentucky Baptist Foundation, Inc. ("the Foundation") for the Organization at August 31, 2019 and 2018, 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 restricted for higher education. Net realized and unrealized gains are considered non-operating revenue. Investment income is reported net of investment expenses of approximately $167,000 and $161,000 in 2019 and 2018, 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.

Note B - Summary of Significant Accounting Policies (Continued)

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, 2019 and 2018 was $958,547 and $1,053,327, 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 years ended August 31, 2019 and 2018 the Organization recognized impairment losses totaling $0 and $92,491, respectively, which is netted with gain on disposal of property and equipment in the statement of activities and changes in net assets.

11. Functional Expenses: The costs of providing program and other activities have been summarized on a functional basis in the accompanying statements of functional expenses. The statements of functional expenses present expenses by function and natural classification. Certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis. Maintenance costs are allocated on the basis of time and efforts of maintenance staff, and space costs are allocated on the basis of square footage.

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

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

13. Marketing/Advertising Costs: Marketing/advertising costs are expensed as incurred. These expenses amounted to $94,883 and $41,207 for the years ended August 31, 2019 and 2018, respectively.

14. Recent Accounting Pronouncements: 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. The Organization evaluated the impact of the adoption of ASU 2014-09 on the financial statements and did not record any material impact from the adoption of ASU 2014-09 as of September 1, 2019.

    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. The Organization evaluated the impact of the adoption of ASU 2018-08 on the financial statements and did not record any material impact from the adoption of ASU 2018-08 as of September 1, 2019.

Note B - Summary of Significant Accounting Policies (Continued)

14. Recent Accounting Pronouncements (Continued): In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities and changes in net assets. This standard will be effective for the fiscal year ending August 31, 2022. The Organization is currently in the process of evaluating the impact of adoption of ASU 2016-02 on the financial statements.

    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, 2024. The Organization is currently in the process of evaluating the impact of the adoption of ASU 2016-13 on the financial statements.

15. Reclassifications: Certain amounts have been reclassified in the 2018 financial statements to conform to the 2019 presentation. The reclassifications had no effect on net assets or the change in net assets.

Note C - Liquidity and Availability of Resources

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. Its working capital and cash flows have both monthly and seasonal variations due to state reimbursements and donor tax planning. Revenues and cash flow correlate to the census levels maintained at the residential treatment centers and the foster care program. Foster care census fluctuates based on the number of adoptions through foster-to-adopt. The Organization is pleased to have facilitated nearly 500 adoptions since the inception of the foster-to-adopt program in 2006. Additional revenues are generated by the family services program and the independent living program. The Organization anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. The following reflects the Organization's financial assets as of August 31, 2019 and 2018:

	2019	2018
Cash and Cash Equivalents	$ 54,885	$ 43,942
Accounts Receivable, net	2,369,803	2,863,135
Marketable Securities	4,673,063	4,637,703
Beneficial Interests in Charitable Trusts	1,625,875	988,758
Marketable Securities, endowment	993,743	1,525,459
Funds Held in Trust by Others	12,891,162	12,993,544
Total Financial Assets	22,608,531	23,052,541
Less Amounts not Available to be Used Within One Year		
Restricted by donors due to purpose	2,679,316	2,181,012
Restricted by donors in perpetuity	13,576,668	17,574,367
Total Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	$ 6,352,547	$ 3,297,162

Note C - Liquidity and Availability of Resources (Continued)

To help manage liquidity the Organization has a $2 million line of credit with a bank that is drawn upon as needed during the year to manage cash flow. The full amount has been borrowed on the line of credit at August 31, 2019.

The Organization recognizes the variability of cash flows both in timing and amounts due to the quantity of clients served in Sunrise care. In order to improve liquidity and reduce expenses Sunrise has implemented three savings plans. The plans include some staff position reductions, benefit plan savings, office configurations and other expense reductions. The first savings plan began in midyear fiscal 2018 with over $700,000 in savings. The second savings plan was implemented in midyear 2019 and included closure of one residential treatment center that was experiencing reduced census levels. This plan will save approximately $1,000,000 in net expenses. The third savings plan was started in late fiscal 2019 and will save another $740,000, for a total savings of over $2.4 million. The full effects of both the second and third savings plan are being realized in fiscal 2020. These savings along with continued marketing activities to increase the census of the foster care and family services programs will ensure there are adequate finances to meet the Organization's needs. Although not expected to be needed, the spendable yet restricted portion of the Organization's net assets could be used to meet cash needs if necessary.

Note D - Receivables

Receivables consist of the following at August 31, 2019 and 2018:

	2019	2018
Receivable from the Cabinet for Families and Children and Department of Juvenile Justice	$ 1,317,807	$ 1,550,156
Receivables from Others	1,091,996	1,442,625
	2,409,803	2,992,781
Allowance for Uncollectible Receivables	(40,000)	(129,646)
	$ 2,369,803	$ 2,863,135

Note E - 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 E - 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, 2019 and 2018.

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

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, 2019:

	Marketable Securities at Fair Value as of August 31, 2019			
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	$ 238,080	$ -	$ -	$ 238,080
Mutual Funds	2,046,226	-	-	2,046,226
Funds Held at Kentucky Baptist Foundation	-	3,382,500	-	3,382,500
	$ 2,284,306	$ 3,382,500	$ -	$ 5,666,806

	Beneficial Interest in Charitable Trusts at Fair Value as of August 31, 2019			
	Level 1	Level 2	Level 3	Total
Beneficial Interest in Charitable Trusts	$ -	$ 1,625,875	$ -	$ 1,625,875

	Funds Held in Trust by Others at Fair Value as of August 31, 2019			
	Level 1	Level 2	Level 3	Total
Funds Held in Trust by the Kentucky Baptist Foundation	$ -	$ 7,736,683	$ 400,013	$ 8,136,696
Funds Held in Trust by Others	-	4,754,466	-	4,754,466
	$ -	$ 12,491,149	$ 400,013	$ 12,891,162

Note E - 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, 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
Funds Held at Kentucky Baptist Foundation	-	3,366,745	-	3,366,745
	$ 2,796,417	$ 3,366,745	$ -	$ 6,163,162

	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	$ -	$ 7,548,430	$ 496,903	$ 8,045,333
Funds Held in Trust by Others	-	4,948,211	-	4,948,211
	$ -	$ 12,496,641	$ 496,903	$ 12,993,544

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, 2019 and 2018:

	Private Equity Funds	Alternative Funds	Total
Balance, September 1, 2017	$ 506,090	$ 51,694	$ 557,784
Realized and unrealized gains/(losses)	(2,381)	(10,089)	(12,470)
Purchases	12,630	-	12,630
Sales	(61,041)	-	(61,041)
Balance, August 31, 2018	455,298	41,605	496,903
Realized and unrealized gains/(losses)	(3,959)	(15,451)	(19,410)
Purchases	10,269	-	10,269
Sales	(87,749)	-	(87,749)
Balance, August 31, 2019	$ 373,859	$ 26,154	$ 400,013

Note F - 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, 2019 and 2018, beneficial interests of $1,956,987 and $1,174,111, respectively, consists of charitable remainder trusts which are expected to be realized over 5 years and are recorded net of discounts of $331,112 and $185,353, respectively.

Note G - Property and Equipment

Property and equipment consist of the following at August 31, 2019 and 2018:

	2019	2018
Land and Land Improvements	$ 2,512,594	$ 2,547,686
Buildings and Building Improvements	18,790,992	18,851,591
Furniture and Equipment	3,068,649	3,324,571
Construction in Process	947,179	321,967
	25,319,414	25,045,815
Less: accumulated depreciation	(10,731,304)	(10,233,457)
	$ 14,588,110	$ 14,812,358

Note H - 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 as of August 31, 2019 and 2018. Accumulated amortization is $52,133 and $47,160 at August 31, 2019 and 2018, respectively. Amortization expense for the years ended August 31, 2019 and 2018 was $4,973 and $7,697, respectively. Amortization expense is expected to be $4,973 for each of the years ended August 31, 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% (5.75% at August 31, 2019). 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, 2019 and 2018, is $2,000,000 and $1,831,486, 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%. During 2019 the line of credit was amended and modified to a term note payable, the terms of which are described below.

Note H - Debt (Continued)

Long-term Debt

Long-term debt consists of the following at August 31, 2019 and 2018:

	2019	2018
Commercial note payable to Central Bank with an interest rate of prime plus 2.25% (7.50% at August 31, 2019), interest-only payable monthly with balance due in September 2019. Secured by certain real property and equipment. Paid in full in September 2019.	$ 496,010	$ -
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.	1,674	26,406
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.	211,100	218,972
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.	294,597	306,826
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. Paid in full in September 2019.	18,014	26,712
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.	105,407	131,003
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 $19,029 and $24,002 at August 31, 2019 and 2018, respectively.	985,797	1,222,006
Commercial note payable to Central Bank with an interest rate of 5.85%, payable in monthly principal and interest installments of $9,382 with balance due in June 2023. Secured by mortgage interest on certain property in Danville, KY.	385,169	-
Bank term loan payable to Traditional Bank with a variable interest rate consisting of the highest prime rate in the Wall Street Journal rounded up to the nearest .125% plus .250%, with a minimum rate of 4.170% (4.170% at both August 31, 2019 and 2018). Payable in monthly principal and interest installments of $2,102 with the balance due in July 2036. Secured by certain real property.	303,722	315,899
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
	$ 2,801,490	$ 2,252,799

Note H - Debt (Continued)

Long-term Debt (Continued)

At August 31, 2019, the aggregate annual maturities of principal payable on the long-term debt are:

Year Ending August 31,	Amount
2020	$ 1,408,735
2021	414,538
2022	427,271
2023	322,397
2024	24,485
Thereafter	223,093
	2,820,519
Deferred Loan Costs	(19,029)
	$ 2,801,490

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 I - 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 net assets restricted in perpetuity the original value of gifts donated to the endowment and accumulations to the 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 as net assets restricted in perpetuity is classified as net assets with donor time or purpose restrictions until appropriated for expenditure by the Organization. The Organization considers the fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument.

Note I - Endowment Fund (Continued)

The endowment fund assets at August 31, 2019 and 2018 are included in the following categories in the statements of financial position:

	2019	2018
Funds Held in Trust by Others	$ 12,891,162	$ 12,993,544
Marketable Securities	993,743	4,892,204
	$ 13,884,905	$ 17,885,748

Changes in endowment net assets for the years ended August 31, 2019 and 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, September 1, 2017	$ -	$ 18,477,300	$ 18,477,300
Withdrawal (Endowment borrowing)	-	(1,000,000)	(1,000,000)
Investment Return	-	1,563,699	1,563,699
Distributions from Funds Held in Trust	626,712	(626,712)	-
Appropriation for Expenditures	(626,712)	(528,539)	(1,155,251)
Endowment Net Assets, August 31, 2018	-	17,885,748	17,885,748
Contributions	-	58,624	58,624
Endowment Borrowing Repayments	-	41,484	41,484
Releases from Restrictions	-	(3,979,336)	(3,979,336)
Investment Return	-	518,244	518,244
Distributions from Funds Held in Trust	595,336	(595,336)	-
Appropriation for Expenditures	(595,336)	(44,523)	(639,859)
Endowment Net Assets, August 31, 2019	$ -	$ 13,884,905	$ 13,884,905

Note I - 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 net assets with donor restrictions 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 net assets with donor restrictions in perpetuity. During the year ended August 31, 2019, the Organization repaid $41,484 to the endowment.

Endowment net asset composition as of August 31, 2019 and 2018 is as follows:

	2019	2018
Unappropriated Endowment Earnings	$ 308,237	$ 311,381
Restricted in Perpetuity	13,576,668	17,574,367
	$ 13,884,905	$ 17,885,748

Note J - Net Assets

At August 31, 2019 and 2018, net assets with donor restrictions consist of the following:

	2019	2018
Restricted for Expenditure in Future Periods	$ 793,524	$ 164,691
Subject to Expenditure for Specified Purposes		
Operations	1,259,202	1,389,759
Unappropriated endowment earnings	308,237	311,382
Higher education	318,353	315,180
Total Subject to Expenditure for Specified Purposes	1,885,792	2,016,321
Endowments to be Maintained in Perpetuity		
General operations	12,590,041	16,587,740
Higher education	986,627	986,627
Total Endowments to be Maintained in Perpetuity	13,576,668	17,574,367
Total Net Assets with Donor Restrictions	$ 16,255,984	$ 19,755,379

Note K - Operating Leases

The Organization has several operating lease commitments for equipment and real property expiring in various years through 2023. Total rental expense under operating leases was approximately $496,000 and $467,200 in 2019 and 2018, respectively. At August 31, 2019, 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
2020	$ 345,347
2021	159,689
2022	149,100
2023	8,500

Note L - 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 $91,000 and $89,000 in 2019 and 2018, respectively. Subsequent to year end, the plan was amended to change the 3.00% match to a discretionary match.

Note M - 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, 2019 and 2018, the Organization received unrestricted revenues of approximately $823,000 and $796,000, respectively, from the Convention, which included approximately $300,000 and $302,000, respectively, from the Cooperative Program. For the years ended August 31, 2019 and 2018, the Organization received unrestricted revenues from Thanksgiving Offerings independent of the Convention of approximately $46,000 and $70,000, respectively. Such revenue has been recorded as unrestricted revenues in the accompanying statements of activities and changes in net assets.

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

Note N - 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 2019 and 2018 statements of financial position.

Note O - Concentrations

For the years ended August 31, 2019 and 2018, the Organization received 75% and 72%, 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, 2019 and 2018, the receivable from the Commonwealth of Kentucky represents approximately 56% and 54% of total receivables, respectively. At August 31, 2019 and 2018, the receivable from Medicaid represents approximately 12% and 23% of total receivables, respectively.

Note P - Operational Changes

During the year ended August 31, 2019, the Organization approved the closure of the Morehead Center. 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 $193,256 and $379,583 for the years ended August 31, 2019 and 2018, respectively, and are presented within the results of operations in the accompanying statement of activities and changes in net assets.

Note Q - 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 both August 31, 2019 and 2018. The receivable will be paid upon completion of construction.

Note R - Subsequent Event

In November 2019, the Organization received a stock donation of approximately 593,000 shares with a fair value of approximately $5 million.