WENDELL FOSTER'S CAMPUS
FOR DEVELOPMENTAL DISABILITIES, INC.

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

OCTOBER 31, 2019 AND 2018

WENDELL FOSTER'S CAMPUS
FOR DEVELOPMENTAL DISABILITIES, INC.
Contents
October 31, 2019 and 2018

ALEXANDER
& COMPANY CPAS PSC

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Since 1924

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Wendell Foster's Campus
for Developmental Disabilities, Inc.

We have audited the accompanying financial statements of Wendell Foster's Campus for Developmental Disabilities, Inc. (a nonprofit organization) which comprise the balance sheets as of October 31, 2019 and 2018, and the related statements of operations 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.

Auditors' 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wendell Foster's Campus for Developmental Disabilities, Inc. as of October 31, 2019 and 2018, and the results of its operations and 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 A to the financial statements, during the year ended December 31, 2018, the Organization adopted new accounting guidance, (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* As a result of the ASU, the Organization has updated the terminology for net asset classifications and has provided additional disclosure requirements for expenses, liquidity, and the availability of resources.

Alexander & Company CPAs PSC

Owensboro, Kentucky
March 3, 2020

WENDELL FOSTER'S CAMPUS FOR DEVELOPMENTAL DISABILITIES, INC.

Balance Sheets

October 31, 2019 and 2018

	2019	2018
Assets		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,198,486	$ 3,670,058
Patient accounts receivable, net of estimated uncollectibles of $106,743 in 2019 and $64,774 in 2018	1,908,096	1,738,973
Other receivables	271,089	760,989
Investments	6,460,012	6,305,530
Promises to give	62,101	75,451
Supplies	51,184	48,212
Prepaid insurance	20,089	10,862
Prepaid expenses	52,060	73,864
TOTAL CURRENT ASSETS	12,023,117	12,683,939
Assets limited as to use	531,002	493,121
PROPERTY AND EQUIPMENT		
Land	1,537,320	1,512,820
Land improvements	1,404,487	1,336,373
Buildings	12,806,346	12,390,474
Equipment	1,950,872	1,917,352
Vehicles	659,520	606,474
Construction in progress	672,167	262,287
	19,030,712	18,025,780
Accumulated depreciation	(12,426,390)	(11,963,148)
PROPERTY AND EQUIPMENT, NET	6,604,322	6,062,632
OTHER ASSETS		
Website development	12,069	15,602
Investments - restricted	44,862	43,280
TOTAL OTHER ASSETS	56,931	58,882
TOTAL ASSETS	$ 19,215,371	$ 19,298,575

See accompanying notes.

WENDELL FOSTER'S CAMPUS FOR DEVELOPMENTAL DISABILITIES, INC.

Balance Sheets

October 31, 2019 and 2018

	2019	2018
Liabilities and Net Assets		
CURRENT LIABILITIES		
Accounts payable	$ 431,894	$ 594,647
Accrued payroll and withholdings	761,611	652,143
Accrued compensated absences	475,045	436,065
Accrued self-insurance claims	246,465	894,430
Accrued expenses	13,021	6,522
Estimated third-party payor settlements	278,377	165,587
Deferred revenue	16,412	12,393
TOTAL CURRENT LIABILITIES	2,222,825	2,761,787
LONG-TERM DEBT		
Unamortized debt issue costs	(11,521)	-
TOTAL LIABILITIES	2,211,304	2,761,787
NET ASSETS		
Without donor restrictions	16,267,040	15,863,974
With donor restrictions	737,027	672,814
TOTAL NET ASSETS	17,004,067	16,536,788
TOTAL LIABILITIES AND NET ASSETS	$ 19,215,371	$ 19,298,575

See accompanying notes.

WENDELL FOSTER'S CAMPUS FOR DEVELOPMENTAL DISABILITIES, INC.
Statements of Operations and Changes in Net Assets
Years ended October 31, 2019 and 2018

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES		
Client service revenues (net of contractual discounts and allowances)	$ 19,229,921	$ 17,652,548
Provision for uncollectible accounts	(106,626)	(63,432)
Net client service revenues less provision for uncollectible accounts	19,123,295	17,589,116
Contributions	290,764	442,948
Other	279,505	290,212
TOTAL REVENUES WITHOUT DONOR RESTRICTIONS	19,693,564	18,322,276
NET ASSETS RELEASED FROM RESTRICTIONS		
Satisfaction of program restrictions	199,724	231,706
TOTAL REVENUE WITHOUT DONOR RESTRICTIONS AND RECLASSIFICATIONS	19,893,288	18,553,982
EXPENSES		
Salaries and wages	12,125,446	10,971,343
Employee benefits	3,063,788	2,579,312
Supplies and other expense	3,800,662	3,623,180
Purchased services and professional fees	653,906	615,092
Depreciation and amortization	645,311	636,181
Interest	397	22,697
TOTAL EXPENSES	20,289,510	18,447,805
OTHER INCOME		
Investment income, net	799,288	225,741
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	403,066	331,918

See accompanying notes.

WENDELL FOSTER'S CAMPUS FOR DEVELOPMENTAL DISABILITIES, INC.

Statements of Operations and Changes in Net Assets

Years ended October 31, 2019 and 2018

	2019	2018
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	$ 226,057	$ 219,059
Net assets released from restrictions	(199,724)	(231,706)
Change in unrealized gains and losses on investments	37,880	(15,301)
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	64,213	(27,948)
INCREASE IN NET ASSETS	467,279	303,970
NET ASSETS, BEGINNING OF YEAR	16,536,788	16,232,818
NET ASSETS, END OF YEAR	$ 17,004,067	$ 16,536,788

See accompanying notes.

WENDELL FOSTER'S CAMPUS FOR DEVELOPMENTAL DISABILITIES, INC.
Statements of Cash Flows
Years ended October 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 467,279	$ 303,970
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	645,311	636,181
Unrealized (gain) loss on other than trading securities	(642,145)	(50,569)
Allowance for bad debts	41,969	13,956
(Gain) loss on disposition of assets	24,810	800
Change in debt issuance costs	397	30,547
(Increase) decrease in assets:		
Patient accounts receivable	(211,092)	(302,254)
Other receivables	489,900	(583,034)
Promises to give	13,349	(12,037)
Supplies	(2,971)	17,093
Prepaid insurance and expenses	12,577	(7,319)
Increase (decrease) in liabilities:		
Accounts payable	(162,754)	288,539
Payroll and withholdings	109,468	(60,631)
Compensated absences	38,981	38,539
Accrued self-insurance	(647,964)	602,065
Accrued expenses	6,501	(855)
Accrued interest	-	(718)
Estimated third-party payor settlements	112,790	(30,741)
Deferred revenue	4,018	9,245
TOTAL ADJUSTMENTS	(166,855)	588,808
NET CASH PROVIDED BY OPERATING ACTIVITIES	300,424	892,778
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments, net	486,081	(334,554)
(Increase) decrease in assets limited as to use	(37,881)	15,300
Proceeds from sale of assets	48,208	150
Payments for the purchase of intangibles	-	(17,662)
Payments for the purchase of property	(1,256,486)	(585,638)
NET CASH USED IN INVESTING ACTIVITIES	(760,078)	(922,404)

See accompanying notes.

WENDELL FOSTER'S CAMPUS FOR DEVELOPMENTAL DISABILITIES, INC.
Statements of Cash Flows
Years ended October 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	$ -	$ (295,000)
Payments for debt issue costs	(11,918)	-
NET CASH USED IN FINANCING ACTIVITIES	(11,918)	(295,000)
NET DECREASE IN CASH	(471,572)	(324,626)
CASH AT BEGINNING OF YEAR	3,670,058	3,994,684
CASH AT END OF YEAR	$ 3,198,486	$ 3,670,058

See accompanying notes.

WENDELL FOSTER'S CAMPUS
FOR DEVELOPMENTAL DISABILITIES, INC.
Notes to the Financial Statements
October 31, 2019 and 2018

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Wendell Foster's Campus for Developmental Disabilities, Inc. DBA Wendell Foster, a private non-profit organization, is a multi-service agency located in the heart of Owensboro, Kentucky. Serving over 1,300 children and adults, our services are known for supporting people with intellectual and developmental disabilities across 34 counties in Western Kentucky and Southern Indiana; however, we are much more of a universal agency capable of supporting an array of individuals in need. Wendell Foster also provides therapy services, support for community living, outpatient rehabilitation, and rental housing to individuals with disabilities. Wendell Foster's mission is to empower people with developmental disabilities to realize their dreams and potentials.

Programs and Services

The Organization's wide array of services provides support to children, adolescents and adults with special needs. These programs and services include:

- *Intermediate Care Facilities* – Wendell Foster's licensed Intermediate Care Facility (ICF) for individuals with disabilities consists of four, eight bedroom/four bathroom homes for 63 individuals. Residential, active treatment, and nursing supports are offered 24 hours per day. Each person living in the ICF has a person-centered, individualized support plan, based on their strengths, interests, and needs.

- *Outpatient Therapies* – Wendell Foster's Comprehensive Outpatient Rehabilitation Facility (CORF) houses all outpatient therapies including Physical, Occupational, and Speech Therapies. The therapies include the evaluation and treatment of people of all ages, birth through adulthood. Services are offered both at our site and within the school setting through contractual arrangements with some area school systems. Depending on coverage, Medicaid, Medicare, and private insurance may pay for expenses related to the services.

- *Community Living Arrangements (CLA)* – Wendell Foster Community Living Services offer individualized community based supports to participants who meet ICF/IID criteria. Participants and their team work to develop supports that ensures individuals are active contributing members of their community. Community Services are offered with respect, designed to ensure participants are afforded choice, and provided in a manner whereby participants feel, and are safe in the community. Wendell Foster Community Services provide supports to individuals allocated funding through the Supports for Community Living and Michelle P Waivers. Supports can also be provided on a fee-for-service basis.

- *Day Services* – Wendell Foster offers services so adults can become more self-sufficient in their home, during community and volunteer activities, or to prepare for work. Training is offered in small group community-based activities or classroom settings. These services are funded by the Supports for Community Living and Michelle P Waivers, as well as fee-for-service

- *Community Transportation* – Wendell Foster provides non-emergency medical transportation for people with disabilities through a subcontract with GRITS at Audubon Area Community Services. Wendell Foster offers additional transportation services for those participating in our ICF/SCL programs. This helps those participants maintain or increase their community involvement and lead a meaningful quality of life.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Programs and Services (continued)

- *Assistive Technology* – Wendell Foster is a participating member of the Kentucky Assistive Technology Services (KATS) Network whose mission is to make AT information, devices, and services easily obtainable throughout the state. Assistive Technology (AT) is defined as "any item, piece of equipment or product system, whether acquired commercially off the shelf, modified, or customized, that is used to increase, maintain, or improve the functional capabilities of individuals with disabilities."

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Wendell Foster and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Other donor-imposed stipulations are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity and are included in net assets with donor restrictions. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Promises to Give

Contributions are recognized when the donor makes a promise to give to Wendell Foster that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Bequests are recognized as revenue once the probate process is complete.

Wendell Foster uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

WENDELL FOSTER'S CAMPUS
FOR DEVELOPMENTAL DISABILITIES, INC.
Notes to the Financial Statements
October 31, 2019 and 2018

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed Services

During the years ended October 31, 2019 and 2018, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.

Functional Allocation of Expenses

The functional allocation of expenses in Note 22 report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis hat is consistently applied. The expenses that are allocated include the executive, business, human relations, information systems and development offices and occupancy, which are allocated based on square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, Wendell Foster reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Wendell Foster reclassifies temporarily restricted net assets to unrestricted net assets at that time. Wendell Foster capitalizes fixed assets with a value greater than $ 5,000 and a life greater than a year. Property and equipment are depreciated using the straight-line method as follows:

Land improvements	10-40 years
Buildings	15-40 years
Equipment	5-20 years
Vehicles	5 years

Depreciation expense for the year ended October 31, 2019 and 2018 charged to operations was $641,778 and $ 632,439, respectively.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities (level 1 measurement) are reported at their fair values based on quoted prices in active markets in the balance sheets.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Return

Investment return (including realized gains and losses on investments, interest and dividends, net of investment fees) is included in the excess (deficiency) of revenues over expenses unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess (deficiency) of revenues over expenses unless the investments are trading securities. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets.

Assets Limited as to Use

Assets limited as to use include primarily assets held by trustees, assets restricted by donors and assets set aside by the board of directors for future capital improvements over which the board retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of Wendell Foster are included in current assets.

Tax Position

Wendell Foster maintains the tax position that it is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for Federal income taxes in the accompanying financial statements. In addition, Wendell Foster maintains that it has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

Wendell Foster did not pay any interest or penalties as a result of its tax position. The tax years 2016 through 2018 remain subject to examination by the Internal Revenue Service.

Cash and Cash Flows Information

Wendell Foster considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At October 31, 2019 and 2018, cash equivalents consisted primarily of money market accounts with brokers.

Interest paid for the year ended October 31, 2019 and 2018 was $ 397 and $ 23,415 respectively. Income tax paid was $ 0 each year.

Wendell Foster is required under Kentucky Revised Statute 528.130(8) to maintain a separate checking account for all gaming activities.

At October 31, 2019, the bank carrying amount of Wendell Foster's cash and cash equivalents was $3,285,522. Of the total cash balance, $ 718,674 was covered by Federal depositary insurance and $3,197,505 was uninsured and uncollateralized.

At October 31, 2018, the bank carrying amount of Wendell Foster's cash and cash equivalents was $3,774,359. Of the total cash balance, $ 757,285 was covered by Federal depositary insurance and $3,017,074 was uninsured and uncollateralized.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Client Accounts Receivable

Wendell Foster reports accounts receivable for services rendered at net realizable amounts due from third-party payers, residents, and others. Wendell Foster provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. Client accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Charity Care

Wendell Foster provides care to clients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Wendell Foster does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Advertising

Advertising costs are charged to expense in the period incurred and totaled $ 13,712 and $ 9,553 for the years ended October 31, 2019 and 2018, respectively.

Supplies

Supply inventory consists of medical and food supplies for residents, along with general housekeeping and office supplies. These supplies are valued at cost using the weighted average cost method.

Special Events

Wendell Foster conducts a charity auction each year in September. Auction income was $ 138,894 and $ 128,313 for the years ended October 31, 2019 and 2018, respectively. Direct expenses were $ 29,923 and $ 33,978 for the years ended October 31, 2019 and 2018, respectively.

Management Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Reclassifications

Certain amounts in 2018 have been reclassified to conform to the 2019 presentation.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standard

During fiscal 2019, the Organization implemented Account Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU are intended to improve financial statement presentation by not-for-profit (NFP) organizations. The ASU requires NFPs to improve their presentation and disclosures to provide more relevant information about their resources (and the changes in those resources) to their users. As a result of the ASU, the Organization has updated the terminology for net asset classifications and has provided additional disclosure requirements for expenses, liquidity, and the availability of resources.

The changes have the following effect on net assets at October 31, 2018:

Net Asset Class	As Originally Presented	After Adoption of ASU 2016-14
Unrestricted net assets	$ 15,863,974	$ -
Temporarily restricted net assets	138,112	-
Permanently restricted net assets	534,702	-
Net assets without donor restrictions	-	15,863,974
Net assets with donor restrictions	-	672,814
Total net assets	$ 16,536,788	$ 16,536,788

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers,* which outlines a single comprehensive model for recognizing revenue and supersedes most existing revenue recognition guidance. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* which defers the effective date of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, by one year, to years beginning after December 15, 2018, and interim periods within years beginning after December 15, 2019. Early adoption is permitted under several options, the earliest for a year beginning after December 15, 2016, and interim periods within that year. In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow Scope Improvements and Practical Expedients* which is intended to reduce the potential diversity in practice at initial application and the cost and complexity of applying the amendments. Effective dates of the latest amendments remain unchanged from those of ASU 2015-14. Management is evaluating the impact of adopting this new accounting standard on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. These amendments are effective for entities other than public business entities, certain non-profit entities, and certain employee benefit plans for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Application is to be applied using a modified retrospective approach with optional practical expedients and other special transition provisions. Early adoption is permitted. Management is evaluating the impact of adopting this new accounting standard on the financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* The amendments in this update address diversity in practice that exists in the classification and presentation in restricted cash on the statement of cash flows. This amendment require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or cash equivalents. The amendments in the update are effective for fiscal years beginning after December 15, 2019 with early application permitted. Management is evaluating the impact of adopting this new accounting standard on the financial statements.

NOTE 2 – NET CLIENT SERVICE REVENUE

Wendell Foster has agreements with third-party payers that provide for payments to Wendell Foster at amounts different from its established rates. A summary of the payment arrangements with major third-party payers follows.

- *Medicaid.* Inpatient services provided in the ICF/IID program are reimbursed under a cost reimbursement methodology. Wendell Foster is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by Wendell Foster and audits thereof by the Medicaid fiscal intermediary.

  Other inpatient and outpatient services are reimbursed under a fee for service methodology.

Client service revenue is reported at the estimated net realizable amounts from clients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, and adjusted in future periods as final settlements are determined.

Wendell Foster recognizes client service revenue associated with services provided to clients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured clients that do not qualify for charity care, Wendell Foster recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a portion of Wendell Foster's underinsured clients will be unable or unwilling to pay for the services provided. Thus, Wendell Foster records a provision for bad debts related to uninsured clients in the period the services are provided.

Revenue from the Medicaid program accounted for approximately 90 and 91 percent of Wendell Foster's client service revenue for the years ended 2019, and 2018, respectively. Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Wendell Foster also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to Wendell Foster under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NOTE 3 – INVESTMENTS

Investments, stated at fair value, at October 31, 2019 and 2018, include:

2019	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents	$ 95,559	$ -	$ -	$ 95,559
Available for sale:				
Corporate stocks	2,213,422	735,057	(48,152)	2,900,327
Fixed income securities	754,947	9,406	-	764,353
Preferreds/fixed Rate	865,306	19,264	(401)	884,169
Mutual funds	1,516,897	312,238	(13,531)	1,815,604
	5,446,131	1,075,965	(62,084)	6,460,012
Restricted:				
Cash and cash equivalents	370	-	-	370
Bonds	34,000	-	-	34,000
Mutual funds	10,581	-	(89)	10,492
	44,951	-	(89)	44,862
Total investments	$ 5,491,082	$ 1,075,965	$ (62,173)	$ 6,504,874

2018	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents	$ 145,756	$ -	$ -	$ 145,756
Available for sale:				
Corporate stocks	2,764,784	1,035,658	(87,413)	3,713,029
Fixed income securities	275,167	-	(2,733)	272,434
Preferreds/fixed Rate	457,604	2,482	(2,406)	457,680
Mutual funds	1,570,657	204,136	(58,162)	1,716,631
	5,213,968	1,242,276	(150,714)	6,305,530
Restricted:				
Cash and cash equivalents	2,450	-	-	2,450
Corporate stocks	10,348	-	(477)	9,871
Mutual funds	31,000	-	(41)	30,959
	43,798	-	(518)	43,280
Total investments	$ 5,257,766	$ 1,242,276	$ (151,232)	$ 6,348,810

NOTE 3 - INVESTMENTS (continued)

Investment return for investments available for sale, and assets limited as to use for the years ended October 31 is as follows:

	2019	2018
Investment income:		
Interest and dividend income, net of investment fees	$ 186,430	$ 152,566
Perpetual trust distributions	8,593	7,305
Net unrealized gains and losses on investments, other than trading securities	604,265	65,870
Investment income, net	$ 799,288	$ 225,741

Investment fees totaled $ 41,203 and $ 47,848 for the years ending October 31, 2019 and 2018, respectively.

NOTE 4 - PROMISES TO GIVE

Unconditional promises to give consist of the following

	2019	2018
Unrestricted	$ 32,127	$ 36,933
Restricted	29,974	38,517
Total unconditional promises to give	62,101	75,451
Less discount to net present value	-	-
	62,101	75,451
Less amounts due within one year	(62,101)	(75,451)
Amounts due in one to five years.	$ -	$ -

NOTE 5 – ASSETS LIMITED AS TO USE

At October 31, 2019 and 2018, $ 531,002 and $493,121, respectively, are held in a perpetual trust, the investment of which is determined by the trustee rather than Wendell Foster.

NOTE 6 - SHORT-TERM BORROWING ARRANGEMENTS

Line of Credit

At October 31, 2019 and 2018 Wendell Foster has a line of credit with a local bank to provide maximum borrowings of $ 600,000 secured by the building. There are no agreements between Wendell Foster and the bank, in writing or otherwise, to maintain compensating balances.

Advances under the line of credit are due on demand. Interest is payable monthly. The interest rate varied during the year and was 4.75% and 5.25% at October 31, 2019 and 2018, respectively. The line of credit is reviewed annually by the bank, and is due on demand.

The line of credit may be withdrawn under the following conditions: loan default, violation of loan agreement, and/or deterioration in Wendell Foster's financial condition.

The balance outstanding under the agreement in effect at October 31, 2019 and 2018 was $ 0.

Interest expense on the line of credit amounted to $ 0 for the years ended October 31, 2019 and 2018.

NOTE 7 - LONG-TERM DEBT

Long-term debt at October 31 consists of the following:

	2019	2018
Tax-Exempt Variable Rate Demand Health Care Revenue Bonds dated May 15, 2001, under loan agreement and mortgage, maturing serially through May 21, 2021, semi-annual sinking fund payments of $130,000 plus quarterly interest payments at the tax-exempt variable weekly rate (1.04% at October 31, 2018.)	$ -	$ -
Construction loan, dated July 15, 2019, payable on the unpaid principal balance, due in 12 monthly consecutive interest payments, beginning August 15, 2019 with an interest rate of 4.24%, then 119 monthly payments of $25,919 (principal and interest), due July 15, 2030, secured by 815 Triplett building.	-	-
Less unamortized debt issuance costs	(11,521)	-
	(11,521)	-
Less: current portion	-	-
Long-term debt, net of current portion	$ (11,521)	$ -

Interest incurred on the above notes amounted to $ 397 for the year ending October 31, 2019 and $22,697 for the year ending October 31, 2018.

NOTE 7 - LONG-TERM DEBT (continued)

Wendell Foster guaranteed the $5,000,000 Tax-Exempt Variable Rate Demand Health Care Revenue Bonds, Series 2001, issued by Daviess County, Kentucky, effective May 15, 2001. The bonds are secured by real estate, including all improvements thereon. Additional collateral and credit enhancement is provided by a Letter of Credit (LOC) in the amount of $ 304,014, which expired May 16, 2018. The LOC is a rolling commitment and is extended annually for an additional year, after requested by Wendell Foster and approved by the bank. LOC expenses, consisting primarily of a .075% LOC fee on the remaining balance on the bonds plus 110 days interest calculated at 10%, totaled $1,911 for the year ended October 31, 2018.

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Donor restricted contributions are as follows:

	2019	2018
Balance, beginning of year	$ 672,814	$ 700,762
Additions:		
CORF	9,002	20,809
Autism	7,371	18,545
ICF	27,135	103,944
WFC other	1,770	850
Day training	10,000	29,670
Recreation Department - Residents	91,945	45,241
Aktion Club	964	-
Safety training	3,500	-
ICF Sensory Park	5,500	-
New CORF Equipment	68,870	-
Change in value of perpetual trust	37,880	(15,301)
	263,937	203,758
Funds recognized as unrestricted in current year	199,724	231,706
Balance, end of year	$ 737,027	$ 672,814

Donor restricted net assets are available for the following purpose or periods as of October 31:

	2019	2018
CORF	$ 9,452	$ 7,894
ICF	3,795	18,646
ICF Sensory Park	500	-
Recreation Department - Residents	42,138	81,374
New CORF equipment	68,870	-
Aktion Club	20	-
Day training	39,670	30,198
Perpetual trust	572,582	534,702
	$ 737,027	$ 672,814

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS (continued)

Donor restricted net assets include assets held in a trust administered by a third-party trustee under which Wendell Foster is the income beneficiary, and the principal portion of endowment assets to be invested in perpetuity. The donor restricted perpetual net assets as of October 31 are as follows:

	2019	2018
Assets limited as to use (third-party trust) to be held in perpetuity, the income is unrestricted	$ 530,957	$ 493,077
Assets to be held in perpetuity, the income is unrestricted	41,625	41,625
Total perpetual trust assets	$ 572,582	$ 534,702

NOTE 9 - LEASES

Wendell Foster's leasing operations (as lessor) consist principally of the leasing of office, activity and parking facilities and rental homes. Property leased at October 31, 2019 and 2018 include a small portion of Wendell Foster's facilities that is currently not being utilized for services provided by Wendell Foster. All these leases have less than one year in duration remaining.

Wendell Foster's leasing operations (as lessee) during 2019 and 2018 consist of various equipment leases and rental homes. Total rent expense under these lease agreements for the years ended October 31, 2019 and 2018, totaled $ 26,895 and $27,735, respectively.

The future minimum lease payments under lessee operations at October 31, 2019 are as follows:

2020	$ 24,204
2021	16,328
2022	16,328
2023	10,328
2024	1,832
Total minimum lease payments	$ 69,020

NOTE 10 - THIRD PARTY REIMBURSEMENT

Wendell Foster is licensed with the Commonwealth of Kentucky, Cabinet for Health Services, Department for Medicaid Services, to provide an intermediate care facility with 63 beds.

In exchange for this service, Wendell Foster was reimbursed $ 506.92 for each bed day of service for the period July 1, 2017 through June 30, 2018, $ 542.74 for the period July 1, 2018 through June 30, 2019 and $ 571.07 for the period July 1, 2019 through October 31, 2019. For the year ended October 31, 2019 and 2018, reimbursements totaling $ 12,686,696 and $ 11,866,427, respectively, were received.

NOTE 10 - THIRD PARTY REIMBURSEMENT continued)

Wendell Foster is licensed by the Commonwealth of Kentucky, Cabinet for Health Services, Department for Medicaid Services, to provide staff in each of the seven licensed homes to qualified clients. This program is known as the Community Living Options program (CLO).

In exchange for this service, Wendell Foster was reimbursed $189.71 for each day of service beginning July 2018. For the year ended October 31, 2019 and 2018, reimbursements totaling $ 1,302,630 and $1,043,616 were received.

NOTE 11 - CONCENTRATIONS

<u>Lender</u>

Wendell Foster conducts the majority of its banking business with one commercial bank located in Owensboro, Kentucky.

<u>Revenues</u>

Wendell Foster is primarily supported through its intermediate care facility, comprehensive outpatient rehabilitation facility, and Community Living Options program, accounting for approximately 73.3%, 7.7%, and 8.6% of revenues for the year ended October 31, 2019 and 73.8%, 7.8%, and 7.2% of revenues for the year ended October 31, 2018.

NOTE 12 - RETIREMENT PLAN

Wendell Foster provides a tax-deferred annuity plan covering substantially all employees. Wendell Foster contributes 2% of the eligible employees' annual salaries and matches up to 3% of the eligible employees' voluntary contributions. Wendell Foster's expense related to this plan was $373,858 and $345,393 for 2019 and 2018, respectively.

NOTE 13 - RELATED PARTY TRANSACTIONS

Wendell Foster is involved in various transactions with board members including insurance coverage and office equipment purchases and maintenance. These related party transactions totaled $ 68,816 and $107,881 for the years ended October 31, 2019 and 2018, respectively, of which $ 0 and $ 6,307 was payable at each fiscal year end, respectively.

On April 13, 2019, Wendell Foster entered into a contract for the construction of a new Comprehensive Outpatient Rehabilitation Facility (CORF) building. The construction company is owned and operated by the spouse of the Vice President of Outpatient Services. The $2.7 million CORF must be completed by March 13, 2021. As of October 31, 2019, $573,941 had been paid to the construction company.

NOTE 14 – RISK MANAGEMENT

Wendell Foster maintains professional liability insurance with a commercial carrier for losses up to $1,000,000 for each professional incident and up to $2,000,000 in the aggregate. Wendell Foster also maintains general liability insurance with the same limits.

NOTE 14 – RISK MANAGEMENT (continued)

Wendell Foster is subject to various claims and lawsuits arising in the normal course of business. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the financial statements. Additionally, management is unaware of any unasserted claims that would have a material effect on the accompanying financial statements, however, claims from unknown incidents may be asserted arising from services provided to clients.

NOTE 15 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject Wendell Foster to credit risk consist principally of cash on deposit at financial institutions. Although uninsured cash balances existed at October 31, 2019 and 2018, Wendell Foster reduces this risk by placing its deposits with credit-worthy, high-quality financial institutions.

Wendell Foster grants credit without collateral to its clients, most of who are area residents and are insured under third-party payer agreements. The mix of receivables from clients and third-party payers at October 31, 2019 and 2018 was as follows:

	2019	2018
Medicaid	86.15%	88.45%
Clients	7.88%	7.11%
Other third-party payers	5.97%	4.44%
	100.00%	100.00%

NOTE 16 - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (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—Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in an active market. This level includes common stocks, corporate bonds or mutual funds based on the closing price reported in the active market where the securities are traded.

- Level 2—Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, inputs that are derived principally from or corroborated by observable market data by correlation, or other means.

- Level 3—Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NOTE 16 - FAIR VALUE MEASUREMENTS (continued)

Assets and liabilities itemized below were measured at fair value during the year ended using the market and income approaches. The market approach was used for Level 1 and level 2. The income approach was used for Level 3.

Fair values of assets and liabilities measured on a recurring basis at October 31, 2019 are as follows:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 95,929	$ 95,929	$ -	$ -
Corporate stocks	2,900,327	2,900,327	-	-
Fixed income sec.	798,353	798,353	-	-
Preferred/fixed rate	884,169	884,169	-	-
Mutual funds	1,826,096	1,826,096	-	-
Total investments	6,504,874	6,504,874	-	-
Beneficial interest in perpetual trust	531,002	-	-	531,002
Total Assets	$ 7,035,876	$ 6,504,874	$ -	$ 531,002

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Balance at November 1, 2018	$ 493,121
Total realized and unrealized gains:	
Change in value of perpetual trust	37,881
Balance October 31, 2019	$ 531,002

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Notes to the Financial Statements
October 31, 2019 and 2018

NOTE 16 - FAIR VALUE MEASUREMENTS (continued)

Fair values of assets and liabilities measured on a recurring basis at October 31, 2018 are as follows:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 148,206	$ 148,206	$ -	$ -
Corporate stocks	3,722,900	3,722,900	-	-
Fixed income sec.	272,434	272,434	-	-
Preferred/fixed rate	457,680	457,680	-	-
Mutual funds	1,747,590	1,747,590	-	-
Total investments	6,348,810	6,348,810	-	-
Beneficial interest in perpetual trust	493,121	-	-	493,121
Total Assets	$ 6,841,931	$ 6,348,810	$ -	$ 493,121

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Balance at November 1, 2017	$ 508,420
Total realized and unrealized gains:	
Change in value of perpetual trust	(15,299)
Balance October 31, 2018	$ 493,121

NOTE 16 - FAIR VALUE MEASUREMENTS (continued)

Fair value for the beneficial interest in a perpetual trust is measured using the fair value of the assets held in the trust as reported by the trustee as of October 31, 2019. The Organization considers the measurement of its beneficial interest in the trust to be a Level 3 measurement within the fair value hierarchy because even though that measurement is based on the unadjusted fair values of the trust assets reported by the trustee, the Organization will never receive those assets or have the ability to direct the trustee to redeem them.

NOTE 17 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

Financial assets, at year end:	
Cash	$ 3,198,486
Investments	7,035,876
Accounts receivable	1,908,096
Other receivables	325,966
Promises to give	62,101
Total financial assets, at year end	12,530,525
Less those unavailable for general expenditure within one year, due to:	
Donor restrictions for specific purposes	(164,445)
Trust assets, restricted perpetually	(530,956)
Trust under agreement	(45)
Trust assets, non-perpetual	(41,625)
Financial assets available to meet cash needs for general expenditures within one year	$ 11,738,577

The Organization's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Financial assets, at year end:	
Cash	$ 3,096,143
Investments	6,463,249
Accounts receivable	1,908,096
Otherreceivables	271,089
Total financial assets, at year end	$ 11,738,577

NOTE 17 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (continued)

Wendell Foster generates significant cash flows from its client services. Thus, financial assets are generally readily available for general expenditures within one year. In the event of unanticipated liquidity needs, Wendell Foster could use it substantial amount of cash reserves, collect outstanding accounts receivable, liquidate a portion of the investment reserves, draw on its line of credit from local financial institutions, or implement cost cutting measures to enhance operating cash flows.

NOTE 18 - THIRD PARTY BILLING FUNCTION

Wendell Foster performs Medicaid billing functions for Behavior Associates. These amounts were included in both revenues and expenses and were $ 331,861 and $ 318,530 for the years ended October 31, 2019 and 2018, respectively.

NOTE 19 – HEALTH SELF-INSURANCE PROGRAM

Wendell Foster has a self-insurance program for its employees' health care costs. Wendell Foster is liable in fiscal 2019 for losses on claims up to $ 50,000 per insured and $100,000 aggregate retention amount, with an aggregate excess loss amount, which varies based on participants but was $ 1,570,257 and $1,283,164 at October 31, 2019 and 2018, respectively. Wendell Foster has third party insurance coverage for any losses in excess of such amounts with an unlimited specific lifetime maximum per insured and a maximum annual reimbursement of $1,000,000.

Self-insurance costs are accrued based on claims reported as of the balance sheet date as well as claims incurred but not reported. The total accrued liability for self-insurance costs was $ 246,465 and $894,430 as of October 31, 2019 and 2018, respectively.

NOTE 20 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

On April 13, 2019, the Campus entered into an agreement with Hayden Construction Company, Inc. to construct a new Comprehensive Outpatient Rehabilitation Facility (CORF.) In consideration of the agreement, the Campus will pay Hayden $2,743,845. The new CORF is expected to be completed by March 13, 2021.

At October 31, 2019, the Campus had uncompleted construction contracts. The remaining commitment on these construction contracts was approximately $2,169,904.

NOTE 21 - SUBSEQUENT EVENTS

As of the date of this report, total draws on the construction loan were $337,821.

As of the date of this report, construction cost of the CORF building totaled $ 1,289,000.

Wendell Foster did not have any other subsequent events through March 3, 2020, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended October 31, 2019.

NOTE 22 - FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing Wendell Foster's programs and other activities is summarized on a functional basis. Expenses that can be directly identified with a specific program or support service are charged directly to that program or service. Costs common to multiple functions have been allocated among various functions benefited using a reasonable allocation method consistently applied. Each year the basis on which the costs are allocated is evaluated.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years.

A summary of expense by function for the year ended October 31, 2019, is as follows:

	Program Services							Supporting Services			
	Intermediate Care Facility	Outpatient Therapies	Community Living Arrangements	Day Services	Community Transportation	Assistive Technology	Total	Management and General	Fund Raising	Total	Total
Salaries and wages	$ 7,868,083	$ 573,842	$ 1,037,526	$ 513,857	$ 217,280	$ 82,533	$ 10,293,121	$ 1,832,328	$ -	$ 1,832,328	$ 12,125,449
Payroll taxes	599,995	42,876	79,328	39,719	16,600	6,230	784,748	136,018	-	136,018	920,766
Employee benefits	1,253,843	106,859	135,072	106,876	22,477	10,167	1,635,294	382,126	-	382,126	2,017,420
Occupancy	-	-	-	-	-	-	-	471,546	-	471,546	471,546
Supplies	535,134	7,143	3,648	3,545	3,952	119	553,541	23,790	27,648	51,438	604,979
Adult Foster/ Day Programs	72,389		197,905	1,412	-	-	271,706	-	-	-	271,706
Depreciation and amortization	529,011	6,569	43,005	3,699	53,494	6,000	642,175	3,533	-	3,533	645,708
Food and supplements	315,402	-	-	-	-	-	315,402	-	-	-	315,402
Behavioral therapy services	368,281	-	-	-	-	-	368,281	-	-	-	368,281
Health care provider tax	791,151	-	96,324	26,379	-	-	913,854	-	-	-	913,854
Other	412,578	87,707	186,017	48,111	72,100	37,782	843,898	753,665	36,836	790,501	1,634,399
Administrative cost allocation	2,809,696	149,415	251,706	167,903	53,340	2,290	3,434,350	(3,434,350)	-	(3,434,350)	-
	$ 15,555,563	$ 974,411	$ 2,030,531	$ 911,501	$ 439,243	$ 145,121	$ 20,056,370	$ 168,656	$ 64,484	$ 233,140	$ 20,289,510