

THE RAINBOW CONNECTION
(A Nonprofit Organization)

FINANCIAL STATEMENTS

DECEMBER 31, 2014
(With Independent Auditor's Report Thereon)

THE RAINBOW CONNECTION
(A Nonprofit Organization)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Rainbow Connection
(A Nonprofit Organization)

Report on the Financial Statements

We have audited the accompanying financial statements of The Rainbow Connection (A Nonprofit Organization), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and changes in net assets, functional expenses 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 audits 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.

Auditor's Responsibility (Continued)

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 The Rainbow Connection (A Nonprofit Organization) as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Troy, Michigan
February 26, 2015

THE RAINBOW CONNECTION
(A Nonprofit Organization)

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents (note 1)	\$ 522,872	\$ 466,296
Investments (notes 1 and 4)	868,589	994,589
Receivables:		
Donations receivable (note 3)	21,153	1,100
Interest receivable	1,662	1,156
Deposits	6,000	2,225
Total current assets	1,420,276	1,465,366
Property and equipment:		
At cost, less accumulated depreciation of \$297,957 in 2014 and \$263,719 in 2013 (note 5)	595,032	621,008
Total assets	<u>\$ 2,015,308</u>	<u>\$ 2,086,374</u>
 <u>Liabilities and Net Assets</u> 		
Current liabilities:		
Accounts payable	\$ 19,281	\$ 65,021
Accrued expenses	8,143	3,967
Total liabilities	27,424	68,988
Net assets (notes 1 and 6):		
Unrestricted	1,987,884	1,997,880
Temporarily restricted	-	19,506
Total net assets	1,987,884	2,017,386
Total liabilities and net assets	<u>\$ 2,015,308</u>	<u>\$ 2,086,374</u>

See accompanying notes to financial statements

THE RAINBOW CONNECTION
(A Nonprofit Organization)

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Total	%	Unrestricted	Temporarily Restricted	Total	%
Revenues and support:								
Public support:								
Contributions	\$ 619,856	\$ 1,000	\$ 620,856	29.3	\$ 561,686	\$ 3,173	\$ 564,859	25.3
Donated services (note 2)	691,001	-	691,001	32.7	732,748	-	732,748	32.9
Memorials and bequests	39,106	-	39,106	1.8	40,989	-	40,989	1.8
Special event revenue	720,654	-	720,654	34.1	792,810	-	792,810	35.6
Total public support	<u>2,070,617</u>	<u>1,000</u>	<u>2,071,617</u>	<u>97.9</u>	<u>2,128,233</u>	<u>3,173</u>	<u>2,131,406</u>	<u>95.6</u>
Interest income	37,484	-	37,484	1.8	69,638	-	69,638	3.1
Unrealized gain on investments	6,526	-	6,526	.3	28,871	-	28,871	1.3
Net assets released from restrictions	20,506	(20,506)	-	-	22,173	(22,173)	-	-
Total revenues and support	<u>2,135,133</u>	<u>(19,506)</u>	<u>2,115,627</u>	<u>100.0</u>	<u>2,248,915</u>	<u>(19,000)</u>	<u>2,229,915</u>	<u>100.0</u>
Expenses:								
Program services	1,828,943	-	1,828,943	86.4	1,915,809	-	1,915,809	85.9
Fundraising	208,626	-	208,626	9.9	220,500	-	220,500	9.9
General and administrative	107,560	-	107,560	5.1	103,871	-	103,871	4.7
Total expenses	<u>2,145,129</u>	<u>-</u>	<u>2,145,129</u>	<u>101.4</u>	<u>2,240,180</u>	<u>-</u>	<u>2,240,180</u>	<u>100.5</u>
Changes in net assets	(9,996)	(19,506)	(29,502)		8,735	(19,000)	(10,265)	
Net assets - beginning	<u>1,997,880</u>	<u>19,506</u>	<u>2,017,386</u>		<u>1,989,145</u>	<u>38,506</u>	<u>2,027,651</u>	
Net assets - ending	<u>\$ 1,987,884</u>	<u>\$ -</u>	<u>\$ 1,987,884</u>		<u>\$ 1,997,880</u>	<u>\$ 19,506</u>	<u>\$ 2,017,386</u>	

See accompanying notes to financial statements

THE RAINBOW CONNECTION
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STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014				2013			
	Program Services	Fundraising	General and Administrative	Total	Program Services	Fundraising	General and Administrative	Total
Employee compensation:								
Salaries - administrative	\$ 351,452	\$ 82,982	\$ 53,694	\$ 488,128	\$ 327,946	\$ 77,432	\$ 50,103	\$ 455,481
Payroll taxes	26,646	6,291	4,071	37,008	25,042	5,913	3,826	34,781
Total employee compensation	378,098	89,273	57,765	525,136	352,988	83,345	53,929	490,262
Other expenses:								
Rainbow wishes	549,450	-	-	549,450	613,803	-	-	613,803
Donated services (note 2)	673,734	-	17,267	691,001	716,526	-	16,222	732,748
Promotion expense	43,641	4,849	-	48,490	33,565	3,730	-	37,295
Automotive expense	10,953	576	-	11,529	10,041	529	-	10,570
Bank service charge	3,810	5,239	476	9,525	3,276	4,504	409	8,189
Depreciation expense	14,038	342	19,858	34,238	13,865	338	19,614	33,817
Insurance	3,334	833	1,389	5,556	3,165	791	1,319	5,275
Miscellaneous	4,815	903	301	6,019	5,102	956	319	6,377
Office expense	16,531	3,100	1,033	20,664	18,399	3,450	1,150	22,999
Postage and shipping	7,664	1,437	479	9,580	8,824	1,654	552	11,030
Professional fees	7,600	950	950	9,500	7,600	950	950	9,500
Repairs and maintenance	10,645	2,661	4,435	17,741	12,408	3,102	5,170	20,680
Equipment lease expense	3,496	656	218	4,370	3,186	597	199	3,982
Telephone	7,424	874	437	8,735	7,756	912	456	9,124
Special response expenses	22,101	-	-	22,101	24,606	-	-	24,606
Scholarship expense	20,000	-	-	20,000	19,000	-	-	19,000
Fundraising expense	48,018	96,035	1,455	145,508	57,267	114,534	1,735	173,536
Utilities	3,591	898	1,497	5,986	4,432	1,108	1,847	7,387
Total functional expenses	<u>\$ 1,828,943</u>	<u>\$ 208,626</u>	<u>\$ 107,560</u>	<u>\$ 2,145,129</u>	<u>\$ 1,915,809</u>	<u>\$ 220,500</u>	<u>\$ 103,871</u>	<u>\$ 2,240,180</u>

See accompanying notes to financial statements

THE RAINBOW CONNECTION
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STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Changes in net assets	\$ (29,502)	\$ (10,265)
Adjustments:		
Depreciation	34,238	33,817
Net realized and unrealized gain on investments	(6,526)	(28,871)
Changes in assets and liabilities:		
Increase in receivables	(20,559)	(600)
Increase in deposits	(3,775)	(1,725)
(Decrease) increase in accounts payable	(45,740)	5,165
Increase (decrease) in accrued expenses	4,176	(9,484)
	(38,186)	(1,698)
Total adjustments		
Net cash used in operating activities	(67,688)	(11,963)
Cash flows from investing activities:		
Acquisition of property and equipment	(8,262)	(3,411)
Proceeds from sale of investments	170,601	314,672
Purchase of investments	(659)	(284,000)
Interest income on investments	(37,416)	(69,400)
	124,264	(42,139)
Net cash provided from (used in) investing activities		
Net increase (decrease) in cash and cash equivalents	56,576	(54,102)
Cash and cash equivalents - beginning	466,296	520,398
Cash and cash equivalents - ending	\$ 522,872	\$ 466,296

See accompanying notes to financial statements

THE RAINBOW CONNECTION
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 1 - Nature of Business and Significant Accounting Policies

Nature of Business

The Rainbow Connection (A Nonprofit Organization) (the Organization) is a Michigan non-profit, public organization approved by the Internal Revenue Service to make dreams come true for Michigan children with life-threatening diseases and provide support services to the families. The Organization's sources of revenue are principally contributions and special fundraising events.

Cash and Cash Equivalents

The statements of cash flows classify changes in cash or cash equivalents (short-term, highly liquid investments readily convertible into cash with an original maturity of three months or less) according to operating, investing or financing activities. Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and temporary cash investments. The Organization maintains cash balances at high credit quality financial institutions. The Organization's accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Organization had cash balances of approximately \$250,000 and \$205,000 held at financial institutions in excess of the FDIC insurance limit for the years ended December 31, 2014 and 2013, respectively. The Organization places its temporary cash investments with high credit quality financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. The Organization believes no significant concentration of credit risk exists with respect to these cash investments.

Basis of Accounting

The Organization records revenues and support and expenses in the accompanying financial statements using the accrual basis of accounting. Donations are recorded when received or at the time the Organization has an established right to the donation and the amount is measurable.

Contributions

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received and measured at fair value. 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 contributions are reported as unrestricted support.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Investments

Generally accepted accounting principles established 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 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are described below:

Basis of Fair Value Measurements

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified contractual term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. See Note 4, Investments, for investment valuations.

Realized gains and losses on investment transactions are recorded as the difference between proceeds received and carrying value. Net unrealized appreciation or depreciation in the fair market value of investments is recorded as the change in carrying value of the investment portfolio from the beginning of the year or date of purchase to the end of the year.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Income Tax Status

The Organization is a not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Although the Organization was granted income tax exemption by the Internal Revenue Service, such exemption does not apply to “unrelated business taxable income”. No income tax was incurred during the years ended December 31, 2014 and 2013.

The Organization’s income tax filings are subject to audit by various taxing authorities. The Organization’s open audit periods are 2011 - 2014.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Expenses

The costs of providing program and supporting services have been reported on a functional basis in the statements of activities and changes in net assets. Expenses directly related to a specific program or supporting services are allocated accordingly. Indirect costs have been allocated between program services and general and administrative expenses based on estimates from management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Net Asset Classifications

Net assets of the Organization are classified as permanently restricted, temporarily restricted or unrestricted depending on the presence and characteristics of donor-imposed restrictions limiting the Organization’s ability to use or dispose of contributed assets. The Organization reports contributions of cash or other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. If such contributions are received and stipulations met during the same reporting period, the contribution is classified as unrestricted support.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including February 26, 2015, which is the date the financial statements were available to be issued.

Note 2 - Donated Services

Donated services and materials are reflected as contribution revenue and related expenses at their estimated fair values at the date of receipt. The Organization received the following donated services and materials during the years ended December 31, 2014 and 2013:

Description of Donation	2014	2013
Volunteer services at Wish parties, picnics and games for Wish children, Pathway of Angels maintenance, mailing and Board of Director services	\$ 34,850	\$ 33,461
Materials such as event tickets and other items that were then provided to current and previous Wish Children and their families as part of the Wish Enhancement Program	656,151	699,287
Total	\$ 691,001	\$ 732,748

Note 3 - Donations Receivable

Donations receivable consist of unconditional promises to give that the Organization will collect in 2015. The receivable consists of the following at December 31, 2014 and 2013:

Celebration of Dreams	\$ 5,075	\$ 1,100
Walk for Kids	3,785	-
Adopt-A-Dream	7,293	-
General Donations	5,000	-
	\$ 21,153	\$ 1,100

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 4 - Investments

The tables below segregate all financial assets as of December 31, 2014 and 2013 that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date:

	December 31, 2014			
	Fair Value Based on			
Assets Measured At Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobserv- able Inputs (Level 3)	
Mutual funds:				
Cash and money market	\$ 43,321	\$ 43,321	\$ -	\$ -
U.S. equities	190,573	190,573	-	-
International equities	59,887	59,887	-	-
Fixed income	277,483	277,483	-	-
Mixed assets	<u>297,325</u>	<u>297,325</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 868,589</u>	<u>\$ 868,589</u>	<u>\$ -</u>	<u>\$ -</u>

THE RAINBOW CONNECTION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 4 - Investments (Continued)

	December 31, 2013			
	Fair Value Based on			
Assets Measured At Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobserv- able Inputs (Level 3)	
Mutual funds:				
Cash and money market	\$ 75,846	\$ 75,846	\$ -	\$ -
U.S. equities	216,314	216,314	-	-
International equities	68,830	68,830	-	-
Fixed income	317,466	317,466	-	-
Mixed assets	316,133	316,133	-	-
Total investments	\$ 994,589	\$ 994,589	\$ -	\$ -

For the above mutual funds, the fair value was determined by reference to quoted market prices in active markets (Level 1) and other relevant information generated by market transactions.

THE RAINBOW CONNECTION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 5 - Property and Equipment

The principal categories of property and equipment may be summarized as follows:

	<u>2014</u>	<u>2013</u>
Land, building and building improvements	\$ 807,597	\$ 807,597
Furniture and equipment	68,668	60,406
Vehicles	<u>16,724</u>	<u>16,724</u>
Total cost	892,989	884,727
Less accumulated depreciation	<u>297,957</u>	<u>263,719</u>
Undepreciated cost	<u>\$ 595,032</u>	<u>\$ 621,008</u>

Property and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives (5 to 39 years) of the assets. Depreciation expense for the years ended December 31, 2014 and 2013 amounted to \$34,238 and \$33,817, respectively.

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2014 consist of \$-0-. Temporarily restricted net assets at December 31, 2013 consist of \$19,506, which is restricted for the College Scholarship Fund for Wish Children and special response programs.

* * * **End of Notes** * * *