

THE RAINBOW CONNECTION
(A Nonprofit Organization)

FINANCIAL STATEMENTS

DECEMBER 31, 2015
(With Independent Auditor's Report Thereon)

THE RAINBOW CONNECTION
(A Nonprofit Organization)

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets.....	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7

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, 2015 and 2014, 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, 2015 and 2014, 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.

A handwritten signature in black ink that reads "Doeren Mayhew". The signature is written in a cursive, flowing style.

Troy, Michigan
March 11, 2016

THE RAINBOW CONNECTION
(A Nonprofit Organization)

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

<u>Assets</u>	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents (note 1)	\$ 312,347	\$ 522,872
Investments (notes 1 and 4)	801,062	868,589
Receivables:		
Donations receivable (note 3)	11,689	21,153
Interest receivable	1,700	1,662
Deposits	4,700	6,000
Total current assets	1,131,498	1,420,276
Property and equipment:		
At cost, less accumulated depreciation of \$318,590 in 2015 and \$297,957 in 2014 (note 5)	575,266	595,032
Total assets	<u>\$ 1,706,764</u>	<u>\$ 2,015,308</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 77,372	\$ 19,281
Accrued expenses	6,111	8,143
Current portion of capital lease (notes 5 and 6)	4,100	-
Total current liabilities	87,583	27,424
Long-term liabilities:		
Capital lease (notes 5 and 6)	6,406	-
Net assets (note 1):		
Unrestricted	1,612,775	1,987,884
Total liabilities and net assets	<u>\$ 1,706,764</u>	<u>\$ 2,015,308</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, 2015 AND 2014

	<u>2015</u>				<u>2014</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>%</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>%</u>
Revenues and support:								
Public support:								
Contributions	\$ 523,919	\$ 1,150	\$ 525,069	25.0	\$ 619,856	\$ 1,000	\$ 620,856	29.3
Donated services (note 2)	808,274	-	808,274	38.5	691,001	-	691,001	32.7
Memorials and bequests	35,922	-	35,922	1.7	39,106	-	39,106	1.8
Special event revenue	760,453	-	760,453	36.2	720,654	-	720,654	34.1
Total public support	<u>2,128,568</u>	<u>1,150</u>	<u>2,129,718</u>	<u>101.4</u>	<u>2,070,617</u>	<u>1,000</u>	<u>2,071,617</u>	<u>97.9</u>
Interest income	34,495	-	34,495	1.6	37,484	-	37,484	1.8
Realized gain on investments	18,604	-	18,604	.8	-	-	-	-
Unrealized (loss) gain on investments	(82,561)	-	(82,561)	(3.8)	6,526	-	6,526	.3
Net assets released from restrictions	1,150	(1,150)	-	-	20,506	(20,506)	-	-
Total revenues and support	<u>2,100,256</u>	<u>-</u>	<u>2,100,256</u>	<u>100.0</u>	<u>2,135,133</u>	<u>(19,506)</u>	<u>2,115,627</u>	<u>100.0</u>
Expenses:								
Program services	2,133,726	-	2,133,726	101.6	1,828,943	-	1,828,943	86.4
Fundraising	214,664	-	214,664	10.2	208,626	-	208,626	9.9
General and administrative	126,975	-	126,975	6.0	107,560	-	107,560	5.1
Total expenses	<u>2,475,365</u>	<u>-</u>	<u>2,475,365</u>	<u>117.8</u>	<u>2,145,129</u>	<u>-</u>	<u>2,145,129</u>	<u>101.4</u>
Changes in net assets	(375,109)	-	(375,109)		(9,996)	(19,506)	(29,502)	
Net assets - beginning	1,987,884	-	1,987,884		1,997,880	19,506	2,017,386	
Net assets - ending	<u>\$ 1,612,775</u>	<u>\$ -</u>	<u>\$ 1,612,775</u>		<u>\$ 1,987,884</u>	<u>\$ -</u>	<u>\$ 1,987,884</u>	

See accompanying notes to financial statements

THE RAINBOW CONNECTION
(A Nonprofit Organization)

STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015				2014			
	Program Services	Fundraising	General and Administrative	Total	Program Services	Fundraising	General and Administrative	Total
Employee compensation:								
Salaries - administrative	\$ 341,225	\$ 72,090	\$ 67,283	\$ 480,598	\$ 351,452	\$ 82,982	\$ 53,694	\$ 488,128
Payroll taxes	25,900	5,472	5,107	36,479	26,646	6,291	4,071	37,008
Total employee compensation	367,125	77,562	72,390	517,077	378,098	89,273	57,765	525,136
Other expenses:								
Rainbow wishes	732,754	-	-	732,754	549,450	-	-	549,450
Donated services (note 2)	791,949	-	16,325	808,274	673,734	-	17,267	691,001
Promotion expense	42,978	4,775	-	47,753	43,641	4,849	-	48,490
Automotive expense	8,117	427	-	8,544	10,953	576	-	11,529
Bank service charge	9,108	12,524	1,138	22,770	3,810	5,239	476	9,525
Depreciation expense	14,936	364	21,129	36,429	14,038	342	19,858	34,238
Insurance	3,350	837	1,396	5,583	3,334	833	1,389	5,556
Miscellaneous	6,500	1,219	406	8,125	4,815	903	301	6,019
Office expense	18,543	3,477	1,159	23,179	16,531	3,100	1,033	20,664
Postage and shipping	9,164	1,718	573	11,455	7,664	1,437	479	9,580
Professional fees	9,331	1,167	1,167	11,665	7,600	950	950	9,500
Repairs and maintenance	16,162	4,041	6,735	26,938	10,645	2,661	4,435	17,741
Equipment lease expense	3,458	648	217	4,323	3,496	656	218	4,370
Telephone	9,886	1,163	582	11,631	7,424	874	437	8,735
Special response expenses	14,421	-	-	14,421	22,101	-	-	22,101
Scholarship expense	20,000	-	-	20,000	20,000	-	-	20,000
Fundraising expense	51,861	103,721	1,572	157,154	48,018	96,035	1,455	145,508
Interest expense	-	-	485	485	-	-	-	-
Utilities	4,083	1,021	1,701	6,805	3,591	898	1,497	5,986
Total functional expenses	<u>\$ 2,133,726</u>	<u>\$ 214,664</u>	<u>\$ 126,975</u>	<u>\$ 2,475,365</u>	<u>\$ 1,828,943</u>	<u>\$ 208,626</u>	<u>\$ 107,560</u>	<u>\$ 2,145,129</u>

See accompanying notes to financial statements

THE RAINBOW CONNECTION
(A Nonprofit Organization)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Cash flows from operating activities:		
Changes in net assets	\$ (375,109)	\$ (29,502)
Adjustments:		
Depreciation	36,429	34,238
Net realized and unrealized loss (gain) on investments	63,957	(6,526)
Changes in assets and liabilities:		
Decrease (increase) in donations receivable	9,426	(20,559)
Decrease (increase) in deposits	1,300	(3,775)
Increase (decrease) in accounts payable	58,091	(45,740)
(Decrease) increase in accrued expenses	(2,032)	4,176
Total adjustments	167,171	(38,186)
Net cash used in operating activities	(207,938)	(67,688)
Cash flows from investing activities:		
Acquisition of property and equipment	(4,158)	(8,262)
Proceeds from sale of investments	220,339	170,601
Purchase of investments	(182,850)	(659)
Interest income on investments	(33,919)	(37,416)
Net cash (used in) provided from investing activities	(588)	124,264
Cash flows from financing activities:		
Repayments on capital lease	(1,999)	-
Net (decrease) increase in cash and cash equivalents	(210,525)	56,576
Cash and cash equivalents - beginning	522,872	466,296
Cash and cash equivalents - ending	\$ 312,347	\$ 522,872
<u>Disclosure of Cash Flow Information</u>		
Equipment purchased with capital lease	\$ 12,506	\$ -

See accompanying notes to financial statements

THE RAINBOW CONNECTION
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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 \$46,000 and \$250,000 held at financial institutions in excess of the FDIC insurance limit for the years ended December 31, 2015 and 2014, 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.

THE RAINBOW CONNECTION
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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.

THE RAINBOW CONNECTION
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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, 2015 and 2014.

The Organization’s income tax filings are subject to audit by various taxing authorities. The Organization’s open audit periods are 2012 - 2015.

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 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. There were no temporarily restricted net assets as of December 31, 2015 and 2014.

THE RAINBOW CONNECTION
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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 March 11, 2016, which is the date the financial statements were available to be issued.

Note 2 - Donated Services

Donated services and materials are reflected as contribution related expenses at their estimated fair values at the date of receipt. The Organization received revenue and the following donated services and materials during the years ended December 31, 2015 and 2014:

Description of Donation	2015	2014
Volunteer services at Wish parties, picnics and games for Wish children, Pathway of Angels maintenance, mailing and Board of Director services	\$ 34,275	\$ 34,850
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	<u>773,999</u>	<u>656,151</u>
Total	<u>\$ 808,274</u>	<u>\$ 691,001</u>

Note 3 - Donations Receivable

Donations receivable consist of unconditional promises to give that the Organization will collect in 2016. The receivable consists of the following at December 31, 2015 and 2014:

Celebration of Dreams	\$ 2,150	\$ 5,075
Walk for Kids	-	3,785
Adopt-A-Dream	-	7,293
General Donations	8,955	5,000
Dobson	<u>584</u>	<u>-</u>
	<u>\$ 11,689</u>	<u>\$ 21,153</u>

THE RAINBOW CONNECTION
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 4 - Investments

The tables below segregate all financial assets as of December 31, 2015 and 2014 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, 2015			
	<u>Fair Value Based on</u>			
	<u>Assets</u>	<u>Quoted</u>	<u>Other</u>	<u>Unobserv-</u>
	<u>Measured</u>	<u>in Active</u>	<u>Observable</u>	<u>able</u>
	<u>At Fair</u>	<u>Markets</u>	<u>Inputs</u>	<u>Inputs</u>
	<u>Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Mutual funds:				
Cash and money market	\$ 41,315	\$ 41,315	\$ -	\$ -
U.S. equities	171,593	171,593	-	-
International equities	86,821	86,821	-	-
Fixed income	263,244	263,244	-	-
Mixed assets	<u>238,089</u>	<u>238,089</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 801,062</u>	<u>\$ 801,062</u>	<u>\$ -</u>	<u>\$ -</u>

THE RAINBOW CONNECTION
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 4 - Investments (Continued)

	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	297,325	297,325	-	-
Total investments	\$ 868,589	\$ 868,589	\$ -	\$ -

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
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 5 - Property and Equipment

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

	2015	2014
Land, building and building improvements	\$ 807,597	\$ 807,597
Furniture and equipment	69,535	68,668
Vehicles	16,724	16,724
Total cost	893,856	892,989
Less accumulated depreciation	318,590	297,957
Undepreciated cost	\$ 575,266	\$ 595,032

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, 2015 and 2014 amounted to \$36,429 and \$34,238, respectively.

Included in furniture and equipment are computers under a capital lease with a cost basis of \$12,506 and accumulated depreciation of approximately \$2,100 and \$-0- as of December 31, 2015 and 2014, respectively.

THE RAINBOW CONNECTION
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 6 - Capital Lease Obligations Payable

The Organization maintains computers under a capital lease. Monthly payments of \$365 are due through June 2018.

The future minimum lease payments under capital leases and the present value of the minimum lease payments as of December 31, 2015 are as follows:

2016	\$ 4,381
2017	4,381
2018	<u>2,191</u>
Total minimum lease payments	10,953
Less: Amount representing interest	<u>447</u>
Present value of minimum lease payments	<u>\$ 10,506</u>

At December 31, 2015, the present value of minimum lease payments due within one year is \$4,100.

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