

THE RAINBOW CONNECTION
(A Nonprofit Organization)

FINANCIAL STATEMENTS

DECEMBER 31, 2016
(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)

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, 2016 and 2015, 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Troy, Michigan
April 24, 2017

THE RAINBOW CONNECTION
(A Nonprofit Organization)

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents (note 1)	\$ 450,049	\$ 312,347
Investments (notes 1 and 4)	830,358	801,062
Receivables:		
Donations receivable (note 3)	6,355	11,689
Interest receivable	1,530	1,700
Deposits	15,500	4,700
Total current assets	1,303,792	1,131,498
Property and equipment:		
At cost, less accumulated depreciation of \$357,610 in 2016 and \$318,590 in 2015 (note 5)	536,246	575,266
Total assets	<u>\$ 1,840,038</u>	<u>\$ 1,706,764</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 51,808	\$ 77,372
Accrued expenses	14,079	6,111
Current portion of capital lease (notes 5 and 6)	4,236	4,100
Deferred revenue (note 1)	10,000	-
Total current liabilities	80,123	87,583
Long-term liabilities:		
Capital lease (notes 5 and 6)	2,170	6,406
Net assets (note 1):		
Unrestricted	1,757,745	1,612,775
Total liabilities and net assets	<u>\$ 1,840,038</u>	<u>\$ 1,706,764</u>

See accompanying notes to financial statements

THE RAINBOW CONNECTION
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STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	%	2015	%
Revenues and support:				
Public support:				
Contributions	\$ 822,266	33.2	\$ 525,069	25.0
Donated services (note 2)	780,547	31.5	808,274	38.5
Memorials and bequests	41,281	1.7	35,922	1.7
Special event revenue	767,515	31.0	760,453	36.2
Total public support	2,411,609	97.4	2,129,718	101.4
Interest income	30,984	1.3	34,495	1.6
Realized gain on investments	-	-	18,604	.9
Unrealized (loss) gain on investments	33,931	1.3	(82,561)	(3.9)
Total revenues and support	2,476,524	100.0	2,100,256	100.0
Expenses:				
Program services	1,871,170	75.6	2,020,448	96.2
Fundraising	115,484	4.7	128,282	6.1
Direct event expense	164,781	6.7	144,480	6.9
General and administrative	180,119	7.3	182,155	8.7
Total expenses	2,331,554	94.3	2,475,365	117.9
Changes in net assets	144,970		(375,109)	
Net assets - beginning	1,612,775		1,987,884	
Net assets - ending	\$ 1,757,745		\$ 1,612,775	

See accompanying notes to financial statements

THE RAINBOW CONNECTION
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STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Program Services	Fundraising	General and Administrative	Total	Program Services	Fundraising	General and Administrative	Total
Employee compensation:								
Salaries - administrative	\$ 360,010	\$ 76,058	\$ 70,988	\$ 507,056	\$ 341,225	\$ 72,090	\$ 67,283	\$ 480,598
Payroll taxes	25,723	5,435	5,072	36,230	25,900	5,472	5,107	36,479
Total employee compensation	385,733	81,493	76,060	543,286	367,125	77,562	72,390	517,077
Other expenses:								
Rainbow wishes	593,864	-	-	593,864	732,754	-	-	732,754
Donated services (note 2)	761,589	-	18,958	780,547	791,949	-	16,325	808,274
Promotion expense	-	4,625	41,626	46,251	-	4,775	42,978	47,753
Automotive expense	7,942	418	-	8,360	8,117	427	-	8,544
Bank service charge	-	5,801	4,747	10,548	-	12,524	10,246	22,770
Depreciation expense	15,998	390	22,632	39,020	14,936	364	21,129	36,429
Insurance	3,476	869	1,448	5,793	3,350	837	1,396	5,583
Miscellaneous	4,983	934	312	6,229	6,500	1,219	406	8,125
Office expense	17,205	3,226	1,075	21,506	18,543	3,477	1,159	23,179
Postage and shipping	8,568	1,607	535	10,710	9,164	1,718	573	11,455
Professional fees	-	4,750	4,750	9,500	-	5,832	5,833	11,665
Repairs and maintenance	12,949	3,237	5,395	21,581	16,162	4,041	6,735	26,938
Equipment lease expense	3,606	676	226	4,508	3,458	648	217	4,323
Telephone	8,830	1,039	519	10,388	9,886	1,163	582	11,631
Special response expenses	21,286	-	-	21,286	14,421	-	-	14,421
Scholarship expense	21,500	-	-	21,500	20,000	-	-	20,000
Fundraising expense	-	5,509	-	5,509	-	12,674	-	12,674
Interest expense	-	-	318	318	-	-	485	485
Utilities	3,641	910	1,518	6,069	4,083	1,021	1,701	6,805
Total functional expenses	\$ 1,871,170	\$ 115,484	\$ 180,119	\$ 2,166,773	\$ 2,020,448	\$ 128,282	\$ 182,155	\$ 2,330,885

See accompanying notes to financial statements

THE RAINBOW CONNECTION
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STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Changes in net assets	\$ 144,970	\$ (375,109)
Adjustments:		
Depreciation	39,020	36,429
Net realized and unrealized (gain) loss on investments	(33,931)	63,957
Changes in assets and liabilities:		
Decrease in donations and interest receivable	5,504	9,426
(Increase) decrease in deposits	(10,800)	1,300
(Decrease) increase in accounts payable	(25,564)	58,091
Increase (decrease) in accrued expenses	7,968	(2,032)
Increase in deferred revenue	10,000	-
Total adjustments	(7,803)	167,171
Net cash provided from (used in) operating activities	137,167	(207,938)
Cash flows from investing activities:		
Acquisition of property and equipment	-	(4,158)
Proceeds from sale of investments	33,784	220,339
Purchase of investments	-	(182,850)
Interest income on investments	(29,149)	(33,919)
Net cash provided from (used in) investing activities	4,635	(588)
Cash flows from financing activities:		
Repayments on capital lease	(4,100)	(1,999)
Net increase (decrease) in cash and cash equivalents	137,702	(210,525)
Cash and cash equivalents - beginning	312,347	522,872
Cash and cash equivalents - ending	\$ 450,049	\$ 312,347
<u>Disclosure of Cash Flow Information</u>		
Equipment purchased with capital lease	\$ -	\$ 12,506
Cash paid for interest	\$ 318	\$ 485

See accompanying notes to financial statements

THE RAINBOW CONNECTION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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 \$170,400 and \$46,000 held at financial institutions in excess of the FDIC insurance limit for the years ended December 31, 2016 and 2015, 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, 2016 AND 2015

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, 2016 AND 2015

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, 2016 and 2015.

The Organization’s income tax filings are subject to audit by various taxing authorities. The Organization’s open audit periods are 2013 - 2016.

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 and changes in net assets as net assets released from restrictions. Contributions with donor imposed time or purpose restrictions that are met in the same period as the gift are reported as unrestricted net assets. There were no temporarily restricted net assets as of December 31, 2016 and 2015.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Deferred Revenue

Deferred revenue represents contributions received in advance for special events set to occur during future periods.

Reclassification and Presentation

Certain balances in the 2015 presentation have been reclassified to conform to the 2016 presentation.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including April 24, 2017, 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, 2016 and 2015:

Description of Donation	2016	2015
Volunteer services at Wish parties, picnics and games for Wish children, Pathway of Angels maintenance, mailing and Board of Director services	\$ 39,203	\$ 34,275
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>741,344</u>	<u>773,999</u>
Total	<u>\$ 780,547</u>	<u>\$ 808,274</u>

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 3 - Donations Receivable

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

	2016	2015
Celebration of Dreams	\$ 1,505	\$ 2,150
Dream Makers Ball	300	-
General Donations	3,968	8,955
Dobson	582	584
	\$ 6,355	\$ 11,689

Note 4 - Investments

The tables below segregate all financial assets as of December 31, 2016 and 2015 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, 2016			
	Fair Value Based on			
Assets Measured At Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Mutual funds:				
Cash and money market	\$ 36,681	\$ 36,681	\$ -	\$ -
U.S. equities	192,205	192,205	-	-
International equities	87,731	87,731	-	-
Fixed income	265,481	265,481	-	-
Mixed assets	248,260	248,260	-	-
Total investments	\$ 830,358	\$ 830,358	\$ -	\$ -

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 4 - Investments (Continued)

	December 31, 2015			
	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	\$ 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	238,089	238,089	-	-
Total investments	\$ 801,062	\$ 801,062	\$ -	\$ -

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, 2016 AND 2015

Note 5 - Property and Equipment

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

	<u>2016</u>	<u>2015</u>
Land, building and building improvements	\$ 807,597	\$ 807,597
Furniture and equipment	69,535	69,535
Vehicles	<u>16,724</u>	<u>16,724</u>
Total cost	893,856	893,856
Less accumulated depreciation	<u>357,610</u>	<u>318,590</u>
Undepreciated cost	<u>\$ 536,246</u>	<u>\$ 575,266</u>

Property and equipment are recorded at cost. The Organization capitalizes assets with an initial cost of more than \$500. 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, 2016 and 2015 amounted to \$39,020 and \$36,429, respectively.

Included in furniture and equipment are computers under a capital lease with a cost basis of \$12,506 and accumulated depreciation of approximately \$6,200 and \$2,100 as of December 31, 2016 and 2015, respectively.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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, 2016 are as follows:

2017	\$ 4,381
2018	<u>2,191</u>
Total minimum lease payments	6,572
Less: Amount representing interest	<u>166</u>
Present value of minimum lease payments	<u>\$ 6,406</u>

At December 31, 2016, the present value of minimum lease payments due within one year is \$4,236.

* * * End of Notes * * *