THE RAINBOW CONNECTION

FINANCIAL STATEMENTS

DECEMBER 31, 2013

CONTENTS

DoerenMayhew
CPAs AND ADVISORS

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Independent Auditor's Report

To the Board of Directors of
The Rainbow Connection

Report on the Financial Statements

We have audited the accompanying financial statements of The Rainbow Connection (a Michigan non-profit organization), which comprise of the statements of financial position as of December 31, 2013 and 2012, 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.

DoerenMayhew

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 as of December 31, 2013 and 2012, 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.

Doeren Mayhew

DOEREN MAYHEW

March 1, 2014
Troy, Michigan

THE RAINBOW CONNECTION

STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31, 2013	December 31, 2012
Current Assets		
Cash and cash equivalents (note 1)	$ 466,296	$ 520,398
Investments (notes 1 and 4)	994,589	926,990
Receivables		
Donations receivable (note 3)	1,100	850
Interest receivable	1,156	806
Deposits	2,225	500
Total current assets	1,465,366	1,449,544
Property and Equipment		
At cost, less accumulated depreciation of $263,719 in 2013 and $229,902 in 2012 (note 5)	621,008	651,414
Total assets	$ 2,086,374	$ 2,100,958

LIABILITIES AND NET ASSETS

	2013	2012
Current Liabilities		
Accounts payable	$ 65,021	$ 59,856
Accrued expenses	3,967	13,451
Total current liabilities	68,988	73,307
Net Assets (notes 1 and 6)		
Unrestricted	1,997,880	1,989,145
Temporarily restricted	19,506	38,506
Total net assets	2,017,386	2,027,651
Total liabilities and net assets	$ 2,086,374	$ 2,100,958

See accompanying notes to financial statements

THE RAINBOW CONNECTION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year Ended December 31, 2013				Year Ended December 31, 2012			
	Unrestricted	Temporarily Restricted	Total	%	Unrestricted	Temporarily Restricted	Total	%
Revenues and Support								
Public support								
Contributions	$ 561,686	$ 3,173	$ 564,859	25.3	$ 615,587	$ 26,728	$ 642,315	28.0
Donated services (note 2)	732,748	-	732,748	32.9	763,630	-	763,630	33.3
Memorials and bequests	40,989	-	40,989	1.8	22,983	-	22,983	1.0
Special event revenue	792,810	-	792,810	35.6	771,802	-	771,802	33.7
Total public support	2,128,233	3,173	2,131,406	95.6	2,174,002	26,728	2,200,730	96.0
Interest income	69,638	-	69,638	3.1	31,852	-	31,852	1.4
Gain on disposal of property and equipment	-	-	-	-	4,370	-	4,370	.2
Unrealized gain on investments	28,871	-	28,871	1.3	55,741	-	55,741	2.4
Net assets released from restrictions	22,173	(22,173)	-	-	22,371	(22,371)	-	-
Total revenues and support	2,248,915	(19,000)	2,229,915	100.0	2,288,336	4,357	2,292,693	100.0
Expenses								
Program services	1,915,809	-	1,915,809	85.9	1,954,079	-	1,954,079	85.2
Fundraising	220,500	-	220,500	9.9	185,239	-	185,239	8.1
General and administrative	103,871	-	103,871	4.7	90,315	-	90,315	3.9
Total expenses	2,240,180	-	2,240,180	100.5	2,229,633	-	2,229,633	97.2
Changes in Net Assets	8,735	(19,000)	(10,265)		58,703	4,357	63,060	
Net Assets - Beginning	1,989,145	38,506	2,027,651		1,930,442	34,149	1,964,591	
Net Assets - Ending	$ 1,997,880	$ 19,506	$ 2,017,386		$ 1,989,145	$ 38,506	$ 2,027,651	

See accompanying notes to financial statements

THE RAINBOW CONNECTION

STATEMENTS OF FUNCTIONAL EXPENSES

	Year Ended December 31, 2013				Year Ended December 31, 2012			
	Program Services	Fundraising	General and Administrative	Total	Program Services	Fundraising	General and Administrative	Total
Employee Compensation								
Salaries - administrative	$ 327,946	$ 77,432	$ 50,103	$ 455,481	$ 343,029	$ 55,054	$ 25,410	$ 423,493
Payroll taxes	25,042	5,913	3,826	34,781	25,737	4,131	1,906	31,774
Total employee compensation	352,988	83,345	53,929	490,262	368,766	59,185	27,316	455,267
Other Expenses								
Rainbow wishes	613,803	-	-	613,803	637,347	-	-	637,347
Donated services (note 2)	716,526	-	16,222	732,748	733,085	-	30,545	763,630
Promotion expense	33,565	3,730	-	37,295	39,422	4,380	-	43,802
Automotive expense	10,041	529	-	10,570	11,197	589	-	11,786
Bank service charge	3,276	4,504	409	8,189	3,168	4,355	396	7,919
Depreciation expense	13,865	338	19,614	33,817	12,233	-	18,349	30,582
Insurance	3,165	791	1,319	5,275	2,930	732	1,221	4,883
Miscellaneous	5,102	956	319	6,377	4,296	806	269	5,371
Office expense	18,399	3,450	1,150	22,999	16,886	3,166	1,055	21,107
Postage and shipping	8,824	1,654	552	11,030	8,787	1,648	549	10,984
Professional fees	7,600	950	950	9,500	11,440	1,430	1,430	14,300
Repairs and maintenance	12,408	3,102	5,170	20,680	12,841	3,210	5,350	21,401
Equipment lease expense	3,186	597	199	3,982	3,157	592	197	3,946
Telephone	7,756	912	456	9,124	8,025	1,505	502	10,032
Special response expenses	24,606	-	-	24,606	27,138	-	-	27,138
Scholarship expense	19,000	-	-	19,000	14,500	-	-	14,500
Fundraising expense	57,267	114,534	1,735	173,536	34,660	102,591	1,386	138,637
Utilities	4,432	1,108	1,847	7,387	4,201	1,050	1,750	7,001
Total functional expenses	$ 1,915,809	$ 220,500	$ 103,871	$ 2,240,180	$ 1,954,079	$ 185,239	$ 90,315	$ 2,229,633

See accompanying notes to financial statements

THE RAINBOW CONNECTION

STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2013	Year Ended December 31, 2012
Cash Flows From Operating Activities:		
Changes in net assets	$ (10,265)	$ 63,060
Adjustments:		
Depreciation	33,817	30,582
Gain on disposal of property and equipment	-	(4,370)
Net realized and unrealized gain on investments	(28,871)	(55,741)
Changes in assets and liabilities:		
Decrease (increase) in receivables	(600)	19,488
Decrease in prepaid expenses	-	4,345
Decrease (increase) in deposits	(1,725)	2,500
Increase in accounts payable	5,165	26,844
Increase (decrease) in accrued expenses	(9,484)	3,815
Decrease in deferred revenue	-	(137,500)
Total adjustments	(1,698)	(110,037)
Net cash used in operating activities	(11,963)	(46,977)
Cash Flows From Investing Activities:		
Acquisition of property and equipment	(3,411)	(37,630)
Proceeds from sale of investments	314,672	9,000
Purchase of investments	(284,000)	(6,700)
Interest income on investments	(69,400)	(30,852)
Net cash used in investing activities	(42,139)	(66,182)
Net Decrease in Cash and Cash Equivalents	(54,102)	(113,159)
Cash and Cash Equivalents - Beginning	520,398	633,557
Cash and Cash Equivalents - Ending	$ 466,296	$ 520,398

See accompanying notes to financial statements

Note 1 - Nature of Business and Significant Accounting Policies

Nature of Business

The Rainbow Connection (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. During 2012, non-interest bearing checking accounts were fully insured under the Frank-Dodd Act. However, this coverage expired December 31, 2012. The Organization had cash balances of approximately $205,000 and $-0- held at financial institutions in excess of the FDIC insurance limit for the years ended December 31, 2013 and 2012, 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.

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

Investments

Generally accepted accounting principles established a fair value hierarchy for valuing investments that places the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs, and requires fair value measurements to be separately disclosed by level within the hierarchy. The three levels of the fair value hierarchy are described below:

Basis of Fair Value Measurements

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

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.

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, 2013 and 2012.

The Organization's income tax filings are subject to audit by various taxing authorities. The Organization's open audit periods are 2010 - 2013.

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.

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

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.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including March 1, 2014, which is the date the financial statements were available to be issued.

THE RAINBOW CONNECTION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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, 2013 and 2012:

Description of Donation	December 31, 2013	December 31, 2012
Volunteer services at Wish parties, picnics and games for Wish children, Pathway of Angels maintenance, mailing and Board of Director services	$ 33,461	$ 38,349
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	699,287	725,281
Total	$ 732,748	$ 763,630

Note 3 - Donations Receivable

Donations receivable consist of unconditional promises to give that the Organization will collect in 2013. The receivable consists of the following at December 31, 2013 and 2012:

Celebration of Dreams	$ 1,100	$ -
Dobson	-	850
	$ 1,100	$ 850

Note 4 - Investments

Generally accepted accounting principles define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Assets measured at fair value on a recurring basis are summarized below:

	December 31, 2013			
	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	$ 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	$ -	$ -

Note 4 - Investments - Continued

	December 31, 2012			
	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	$ 33,619	$ 33,619	$ -	$ -
U.S. Equities	293,681	293,681	-	-
International Equities	56,502	56,502	-	-
Fixed Income	470,974	470,974	-	-
Mixed Assets	72,214	72,214	-	-
Total investments	$ 926,990	$ 926,900	$ -	$ -

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.

Note 5 - Property and Equipment

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

	December 31, 2013	December 31, 2012
Land, building and building improvements	$ 807,597	$ 807,597
Furniture and equipment	60,406	56,995
Vehicles	16,724	16,724
Total cost	884,727	881,316
Less accumulated depreciation	263,719	229,902
Undepreciated cost	$ 621,008	$ 651,414

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, 2013 and 2012 amounted to $33,817 and $30,582, respectively.

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2013 consist of $19,506, which is restricted for the College Scholarship Fund for Wish Children. Temporarily restricted net assets at December 31, 2012 consist of $38,506, which is restricted for the College Scholarship Fund for Wish Children and special response programs.