

THE RAINBOW CONNECTION
(A Nonprofit Organization)

FINANCIAL STATEMENTS

DECEMBER 31, 2017
(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, 2017 and 2016, 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 (A Nonprofit Organization) as of December 31, 2017 and 2016, 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.



Troy, Michigan
March 24, 2018

THE RAINBOW CONNECTION
(A Nonprofit Organization)

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents (note 1)	\$ 273,764	\$ 450,049
Investments (notes 1 and 4)	871,873	830,358
Receivables:		
Donations receivable (note 3)	8,729	6,355
Interest receivable	761	1,530
Deposits	10,000	15,500
Total current assets	1,165,127	1,303,792
Property and equipment:		
At cost, less accumulated depreciation of \$390,408 in 2017 and \$357,610 in 2016 (note 5)	541,481	536,246
Total assets	\$ 1,706,608	\$ 1,840,038
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 33,705	\$ 51,808
Accrued expenses	8,306	14,079
Current portion of capital lease (notes 5 and 6)	2,829	4,236
Deferred revenue (note 1)	6,250	10,000
Total current liabilities	51,090	80,123
Long-term liabilities:		
Capital lease (notes 5 and 6)	1,001	2,170
Net assets (note 1):		
Unrestricted	1,654,517	1,757,745
Total liabilities and net assets	\$ 1,706,608	\$ 1,840,038

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, 2017 AND 2016

	2017	%	2016	%
Revenues and support:				
Public support:				
Contributions	\$ 509,408	18.9	\$ 822,266	33.2
Donated services (note 2)	1,168,438	43.5	780,547	31.5
Memorials and bequests	30,685	1.1	41,281	1.7
Special event revenue	913,727	33.9	767,515	31.0
Total public support	2,622,258	97.4	2,411,609	97.4
Interest income	31,353	1.2	30,984	1.3
Unrealized gain on investments	39,483	1.4	33,931	1.3
Total revenues and support	2,693,094	100.0	2,476,524	100.0
Expenses:				
Program services	2,405,897	89.3	1,871,170	75.6
Fundraising	143,539	5.3	115,484	4.7
Special event expense	136,346	5.1	164,781	6.7
General and administrative	110,540	4.1	180,119	7.3
Total expenses	2,796,322	103.8	2,331,554	94.3
Changes in net assets	(103,228)		144,970	
Net assets - beginning	1,757,745		1,612,775	
Net assets - ending	\$ 1,654,517		\$ 1,757,745	

See accompanying notes to financial statements

THE RAINBOW CONNECTION
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STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017				2016			
	Program Services	Fundraising	General and Administrative	Total	Program Services	Fundraising	General and Administrative	Total
Employee compensation								
Salaries - administrative	\$ 400,986	\$ 91,816	\$ 49,519	\$ 542,321	\$ 360,010	\$ 76,058	\$ 70,988	\$ 507,056
Payroll taxes	28,012	6,414	3,459	37,885	25,723	5,435	5,072	36,230
Total employee compensation	428,998	98,230	52,978	580,206	385,733	81,493	76,060	543,286
Other expenses								
Rainbow wishes	717,468	-	-	717,468	593,864	-	-	593,864
Donated services (note 2)	1,114,498	-	19,440	1,133,938	761,589	-	18,958	780,547
Promotion expense	19,936	2,215	-	22,151	-	4,625	41,626	46,251
Automotive expense	8,469	446	-	8,915	7,942	418	-	8,360
Bank service charge	4,711	23,556	3,141	31,408	-	5,801	4,747	10,548
Depreciation expense	15,145	370	21,425	36,940	15,998	390	22,632	39,020
Insurance	3,628	907	1,512	6,047	3,476	869	1,448	5,793
Miscellaneous	3,953	741	247	4,941	4,983	934	312	6,229
Office expense	14,916	2,797	932	18,645	17,205	3,226	1,075	21,506
Postage and shipping	6,299	1,181	394	7,874	8,568	1,607	535	10,710
Professional fees	6,000	2,000	2,000	10,000	-	4,750	4,750	9,500
Repairs and maintenance	14,485	3,621	6,036	24,142	12,949	3,237	5,395	21,581
Equipment lease expense	3,000	563	187	3,750	3,606	676	226	4,508
Telephone	10,202	1,200	600	12,002	8,830	1,039	519	10,388
Special response expenses	7,661	-	-	7,661	21,286	-	-	21,286
Scholarship expense	23,000	-	-	23,000	21,500	-	-	21,500
Fundraising expense	-	4,830	-	4,830	-	5,509	-	5,509
Interest expense	-	-	178	178	-	-	318	318
Utilities	3,528	882	1,470	5,880	3,641	910	1,518	6,069
Total functional expenses (note 1)	\$ 2,405,897	\$ 143,539	\$ 110,540	\$ 2,659,976	\$ 1,871,170	\$ 115,484	\$ 180,119	\$ 2,166,773

See accompanying notes to financial statements

THE RAINBOW CONNECTION
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STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Changes in net assets	\$ (103,228)	\$ 144,970
Adjustments:		
Depreciation	36,940	39,020
Net realized and unrealized gain on investments	(39,483)	(33,931)
Donated equipment	(34,500)	-
Changes in assets and liabilities:		
(Increase) decrease in donations and interest receivable	(1,605)	5,504
Decrease (increase) in deposits	5,500	(10,800)
Decrease in accounts payable	(18,103)	(25,564)
(Decrease) increase in accrued expenses	(5,773)	7,968
(Decrease) increase in deferred revenue	(3,750)	10,000
Total adjustments	(60,774)	(7,803)
Net cash (used in) provided from operating activities	(164,002)	137,167
Cash flows from investing activities:		
Acquisition of property and equipment	(5,661)	-
Proceeds from sale of investments	28,324	33,784
Interest income on investments	(30,356)	(29,149)
Net cash (used in) provided from investing activities	(7,693)	4,635
Cash flows from financing activities:		
Repayments on capital lease	(4,590)	(4,100)
Net (decrease) increase in cash and cash equivalents	(176,285)	137,702
Cash and cash equivalents - beginning	450,049	312,347
Cash and cash equivalents - ending	\$ 273,764	\$ 450,049
<u>Disclosure of Cash Flow Information</u>		
Equipment purchased with capital lease	\$ 2,014	\$ -
Donated equipment	\$ 34,500	\$ -
Cash paid for interest	\$ 178	\$ 318

See accompanying notes to financial statements

THE RAINBOW CONNECTION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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 \$-0- and \$170,400 held at financial institutions in excess of the FDIC insurance limit for the years ended December 31, 2017 and 2016, 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, 2017 AND 2016

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, 2017 AND 2016

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, 2017 and 2016.

The Organization’s income tax filings are subject to audit by various taxing authorities. The Organization’s open audit periods are 2014 - 2017.

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. Program services includes \$21,481 of special event expenses for wish families to attend the Organization’s various special events. 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, 2017 and 2016.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including March 24, 2018, 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, 2017 and 2016:

Description of Donation	2017	2016
Volunteer services at Wish parties, picnics and games for Wish children, Pathway of Angels maintenance, mailing and Board of Director services	\$ 42,134	\$ 39,203
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>1,091,804</u>	<u>741,344</u>
Total	<u>\$ 1,133,938</u>	<u>\$ 780,547</u>

Donated goods and services revenue also includes \$34,500 of donated equipment that was capitalized and is included in property and equipment on the statements of financial position as of December 31, 2017.

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DECEMBER 31, 2017 AND 2016

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, 2017 and 2016:

	2017	2016
Celebration of Dreams	\$ 390	\$ 1,505
Dream Makers Ball	200	300
General Donations	4,039	3,968
Dobson	4,100	582
	\$ 8,729	\$ 6,355

Note 4 - Investments

The tables below segregate all financial assets as of December 31, 2017 and 2016 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, 2017			
	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	\$ 38,660	\$ 38,660	\$ -	\$ -
U.S. equities	207,601	207,601	-	-
International equities	102,252	102,252	-	-
Fixed income	266,244	266,244	-	-
Mixed assets	257,116	257,116	-	-
Total investments	\$ 871,873	\$ 871,873	\$ -	\$ -

THE RAINBOW CONNECTION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 4 - Investments (Continued)

	December 31, 2016			
	Fair Value Based on			
	Assets	Quoted	Other	Unobserv-
	Measured	Prices	Observable	able
At Fair	in Active	Inputs	Inputs	
Value	Markets	(Level 2)	(Level 3)	
(Level 1)	(Level 1)	(Level 2)	(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	\$ -	\$ -

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.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 5 - Property and Equipment

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

	2017	2016
Land, building and building improvements	\$ 807,597	\$ 807,597
Furniture and equipment	79,568	69,535
Vehicles	44,724	16,724
Total cost	931,889	893,856
Less accumulated depreciation	390,408	357,610
Undepreciated cost	\$ 541,481	\$ 536,246

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, 2017 and 2016 amounted to \$36,940 and \$39,020, respectively.

Included in furniture and equipment are computers under a capital lease with a cost basis of \$14,520 and accumulated depreciation of approximately \$10,585 and \$6,200 as of December 31, 2017 and 2016, respectively.

THE RAINBOW CONNECTION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 6 - Capital Lease Obligations Payable

The Organization maintains computers under a capital lease. Monthly payments of \$365 are due through June 2018. In August of the current year, the Organization entered into an additional capital lease for a computer requiring monthly payments of \$59 due through May 2020.

The future minimum lease payments under capital leases and the present value of the minimum lease payments as of December 31, 2017 are as follows:

2018	\$	2,899
2019		708
2020		<u>354</u>
Total minimum lease payments		3,961
Less: Amount representing interest		<u>131</u>
Present value of minimum lease payments		<u>\$ 3,830</u>

At December 31, 2017, the present value of minimum lease payments due within one year is \$2,829.

* * * End of Notes * * *