

**THE RAINBOW CONNECTION**  
**(A Nonprofit Organization)**

FINANCIAL STATEMENTS

DECEMBER 31, 2018  
*(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, 2018 and 2017, 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, 2018 and 2017, 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.

**Emphasis of Matter**

As discussed in Note 1 to the financial statements, in 2018, The Rainbow Connection adopted Accounting Standards Update (ASU) 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements for Not-For-Profit Entities. Our opinion is not modified with respect to that matter.



Troy, Michigan  
April 23, 2019

**THE RAINBOW CONNECTION**  
**(A Nonprofit Organization)**

**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2018 AND 2017**

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents (note 1)	\$ 485,646	\$ 273,764
Investments (notes 1 and 4)	802,711	871,873
Receivables:		
Donations receivable (note 3)	8,791	8,729
Interest receivable	1,992	761
Grants receivable (note 9)	30,000	-
Deposits	1,000	10,000
Total current assets	1,330,140	1,165,127
Grants receivable (note 9)	30,000	-
Property and equipment:		
At cost, less accumulated depreciation of \$393,917 in 2018 and \$390,408 in 2017 (note 5)	516,926	541,481
Total assets	<u>\$ 1,877,066</u>	<u>\$ 1,706,608</u>
<b><u>Liabilities and Net Assets</u></b>		
Current liabilities:		
Accounts payable	\$ 8,272	\$ 33,705
Accrued expenses	8,766	8,306
Current portion of capital lease (notes 5 and 6)	683	2,829
Deferred revenue (note 1)	19,622	6,250
Total current liabilities	37,343	51,090
Long-term liabilities:		
Capital lease (notes 5 and 6)	350	1,001
Net assets (note 1 and 7):		
Without donor restrictions	1,720,234	1,654,517
With donor restrictions	119,139	-
Total net assets	<u>1,839,373</u>	<u>1,654,517</u>
Total liabilities and net assets	<u>\$ 1,877,066</u>	<u>\$ 1,706,608</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, 2018 AND 2017**

	2018				2017			
	Without Donor Restrictions	With Donor Restrictions	Total	%	Without Donor Restrictions	With Donor Restrictions	Total	%
Revenues and support:								
Public support:								
Contributions	\$ 629,826	\$ 90,014	\$ 719,840	23.4	\$ 509,408	\$ -	\$ 509,408	18.9
Donated assets and services (note 2)	1,105,893	-	1,105,893	41.0	1,168,438	-	1,168,438	43.5
Memorials and bequests	8,885	-	8,885	.4	30,685	-	30,685	1.1
Special event revenue	988,285	29,125	1,017,410	36.7	913,727	-	913,727	33.9
Total public support	2,732,889	119,139	2,852,028	101.5	2,622,258	-	2,622,258	97.4
Interest income	43,543	-	43,543	1.6	31,353	-	31,353	1.2
Loss on disposition of property and equipment	(1,337)	-	(1,337)	-	-	-	-	-
Unrealized (loss) gain on investments	(80,486)	-	(80,486)	(3.1)	39,483	-	39,483	1.4
Total revenues and support	2,694,609	119,139	2,813,748	<u>100.0</u>	2,693,094	-	2,693,094	<u>100.0</u>
Expenses:								
Program services	2,254,242	-	2,254,242	83.7	2,405,897	-	2,405,897	89.3
Fundraising	133,910	-	133,910	5.0	143,539	-	143,539	5.3
Special event expense	134,746	-	134,746	5.0	136,346	-	136,346	5.1
General and administrative	105,994	-	105,994	3.9	110,540	-	110,540	4.1
Total expenses	2,628,892	-	2,628,892	<u>97.6</u>	2,796,322	-	2,796,322	<u>103.8</u>
Changes in net assets	65,717	119,139	184,856		(103,228)	-	(103,228)	
Net assets - beginning	1,654,517	-	1,654,517		1,757,745	-	1,757,745	
Net assets - ending	<u>\$ 1,720,234</u>	<u>\$ 119,139</u>	<u>\$ 1,839,373</u>		<u>\$ 1,654,517</u>	<u>\$ -</u>	<u>\$ 1,654,517</u>	

See accompanying notes to financial statements

**THE RAINBOW CONNECTION**  
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**STATEMENTS OF FUNCTIONAL EXPENSES**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018				2017			
	Program Services	Fundraising	General and Administrative	Total	Program Services	Fundraising	General and Administrative	Total
Employee compensation:								
Salaries - administrative	\$ 420,768	\$ 85,537	\$ 40,147	\$ 546,452	\$ 400,986	\$ 91,816	\$ 49,519	\$ 542,321
Payroll taxes	29,841	6,116	2,972	38,929	28,012	6,414	3,459	37,885
Total employee compensation	450,609	91,653	43,119	585,381	428,998	98,230	52,978	580,206
Other expenses:								
Rainbow wishes	590,152	-	-	590,152	717,468	-	-	717,468
Donated services (note 2)	1,065,257	-	28,936	1,094,193	1,114,498	-	19,440	1,133,938
Promotion expense	34,934	3,882	-	38,816	19,936	2,215	-	22,151
Automotive expense	8,180	431	-	8,611	8,469	446	-	8,915
Bank service charge	4,153	20,766	2,769	27,688	4,711	23,556	3,141	31,408
Depreciation expense	19,214	190	18,643	38,047	15,145	370	21,425	36,940
Insurance	3,530	882	1,470	5,882	3,628	907	1,512	6,047
Miscellaneous	2,554	479	160	3,193	3,953	741	247	4,941
Office expense	15,522	2,910	970	19,402	14,916	2,797	932	18,645
Postage and shipping	6,576	1,233	411	8,220	6,299	1,181	394	7,874
Professional fees	6,000	2,000	2,000	10,000	6,000	2,000	2,000	10,000
Repairs and maintenance	11,858	2,965	4,941	19,764	14,485	3,621	6,036	24,142
Equipment lease expense	3,894	730	243	4,867	3,000	563	187	3,750
Telephone	10,678	1,257	628	12,563	10,202	1,200	600	12,002
Special response expenses	1,784	-	-	1,784	7,661	-	-	7,661
Scholarship expense	15,500	-	-	15,500	23,000	-	-	23,000
Fundraising expense	-	3,570	-	3,570	-	4,830	-	4,830
Interest expense	-	-	101	101	-	-	178	178
Utilities	3,847	962	1,603	6,412	3,528	882	1,470	5,880
Total functional expenses (note 1)	<u>\$ 2,254,242</u>	<u>\$ 133,910</u>	<u>\$ 105,994</u>	<u>\$ 2,494,146</u>	<u>\$ 2,405,897</u>	<u>\$ 143,539</u>	<u>\$ 110,540</u>	<u>\$ 2,659,976</u>

See accompanying notes to financial statements

**THE RAINBOW CONNECTION**  
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**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
Cash flows from operating activities:		
Changes in net assets	\$ 184,856	\$ (103,228)
Adjustments:		
Depreciation	38,047	36,940
Net realized and unrealized loss (gain) on investments	80,486	(39,483)
Donated equipment	(11,700)	(34,500)
Loss on disposition of property and equipment	1,337	-
Changes in assets and liabilities:		
Increase in donations and interest receivable	(1,293)	(1,605)
Increase in grants receivable	(60,000)	-
Decrease in deposits	9,000	5,500
Decrease in accounts payable	(25,433)	(18,103)
Increase (decrease) in accrued expenses	460	(5,773)
Increase (decrease) in deferred revenue	13,372	(3,750)
Total adjustments	44,276	(60,774)
Net cash provided from (used in) operating activities	229,132	(164,002)
Cash flows from investing activities:		
Acquisition of property and equipment	(3,129)	(5,661)
Proceeds from sale of investments	31,587	28,324
Interest income on investments	(42,911)	(30,356)
Net cash used in investing activities	(14,453)	(7,693)
Cash flows from financing activities:		
Repayments on capital lease	(2,797)	(4,590)
Net increase (decrease) in cash and cash equivalents	211,882	(176,285)
Cash and cash equivalents - beginning	273,764	450,049
Cash and cash equivalents - ending	\$ 485,646	\$ 273,764
<b><u>Disclosure of Cash Flow Information</u></b>		
Equipment purchased with capital lease	\$ -	\$ 2,014
Donated equipment	\$ 11,700	\$ 34,500
Cash paid for interest	\$ 101	\$ 178

See accompanying notes to financial statements



**THE RAINBOW CONNECTION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

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**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 medical conditions 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 \$231,100 and \$0- held at financial institutions in excess of the FDIC insurance limit for the years ended December 31, 2018 and 2017, 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 net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other contributions are reported as net assets without donor restrictions.

**THE RAINBOW CONNECTION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

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**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, 2018 AND 2017**

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**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, 2018 and 2017.

The Organization’s income tax filings are subject to audit by various taxing authorities. The Organization’s open audit periods are 2015 - 2018.

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 \$20,877 and \$21,481 of special event expenses for wish families to attend the Organization’s various special events during the years ended December 31, 2018 and 2017. 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.

Grants Receivable

Grants receivable are stated based on contracted rates. No allowance for uncollectible accounts has been provided. Management has evaluated the accounts based on historical experience and review of current status and believes they are all collectible.

Long-term grants receivable represent amounts not expected to be collected from grantors within the next year.

**THE RAINBOW CONNECTION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

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

Net Asset Classifications

Net assets of the Organization are classified as with or without donor restrictions 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 with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 net assets without donor restrictions.

Deferred Revenue

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

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements for Not-For-Profit Entities. ASU 2016-14 improves the net asset classification requirements and disclosure requirements regarding liquidity, financial performance, and cash flows. ASU 2016-14 requires retroactive application and is effective for fiscal years beginning after December 15, 2017. These financial statements reflect adoption of ASU 2016-14.

Reclassification

Certain amounts in the December 31, 2017 financial statements have been reclassified to conform to the presentation of the December 31, 2018 financial statements. These reclassifications had no effect on the December 31, 2017 changes in its net assets or cash flows as previously reported.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including April 23, 2019, which is the date the financial statements were available to be issued.

**THE RAINBOW CONNECTION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**Note 2 - Donated Assets and 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, 2018 and 2017:

Description of Donation	2018	2017
Volunteer services at Wish parties, picnics and games for Wish children, Pathway of Angels maintenance, mailing and Board of Director services	\$ 84,611	\$ 42,134
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>1,009,582</u>	<u>1,091,804</u>
Total	<u>\$ 1,094,193</u>	<u>\$ 1,133,938</u>

Donated assets and services revenue also includes \$11,700 and \$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, 2018 and 2017.

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**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, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Celebration of Dreams	\$ 420	\$ 390
Dream Makers Ball	-	200
General Donations	8,371	4,039
Dobson	-	4,100
	<u>\$ 8,791</u>	<u>\$ 8,729</u>

**Note 4 - Investments**

The tables below segregate all financial assets as of December 31, 2018 and 2017 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:

	<b>December 31, 2018</b>			
	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	\$ 49,984	\$ -	\$ 49,984	\$ -
U.S. equities	177,357	177,357	-	-
International equities	85,608	85,608	-	-
Fixed income	255,872	255,872	-	-
Mixed assets	233,890	233,890	-	-
Total investments	<u>\$ 802,711</u>	<u>\$ 752,727</u>	<u>\$ 49,984</u>	<u>\$ -</u>

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**Note 4 - Investments (Continued)**

	<b>December 31, 2017</b>			
	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	\$ 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	\$ 833,213	\$ 38,660	\$ -

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. Cash and money market are categorized as Level 2 investments since they are not actively traded.

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**NOTES TO FINANCIAL STATEMENTS**  
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**Note 5 - Property and Equipment**

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

	<b>2018</b>	<b>2017</b>
Land, building and building improvements	\$ 807,597	\$ 807,597
Furniture and equipment	75,246	79,568
Vehicles	28,000	44,724
Total cost	910,843	931,889
Less accumulated depreciation	393,917	390,408
Undepreciated cost	\$ 516,926	\$ 541,481

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, 2018 and 2017 amounted to \$38,047 and \$36,940, respectively.

Included in furniture and equipment are computers under a capital lease with a cost basis of \$14,520 and accumulated depreciation of approximately \$13,322 and \$10,585 as of December 31, 2018 and 2017, respectively.



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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**Note 6 - Capital Lease Obligations Payable**

The Organization maintains computers under a capital lease. Monthly payments of \$365 were due through June 2018. The Organization also 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, 2018 are as follows:

2019		\$ 708
2020		<u>354</u>
Total minimum lease payments		1,062
Less: Amount representing interest		<u>29</u>
Present value of minimum lease payments		<u>\$ 1,033</u>

At December 31, 2018, the present value of minimum lease payments due within one year is \$683.

**Note 7 - Net Assets With Donor Restrictions**

Net assets with donor restrictions as of December 31, 2018 and 2017 are for the following purposes:

	<u>2018</u>	<u>2017</u>
Restricted for specific purposes:		
Impact kits	\$ 90,014	\$ -
Scholarships for wish children	10,000	-
Walk for Kids	<u>19,125</u>	<u>-</u>
	<u>\$ 119,139</u>	<u>\$ -</u>

**THE RAINBOW CONNECTION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**Note 8 - Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<b>2018</b>	<b>2017</b>
Total current assets	\$ 1,330,140	\$ 1,165,127
Less those unavailable for general expenditure within one year, due to:		
Restricted by donor with time or purpose restrictions	(119,139)	-
Less deposits	(1,000)	(10,000)
Total	<b>\$ 1,210,001</b>	<b>\$ 1,155,127</b>

Financial assets in the amount of \$1,210,001 are available for general expenditure without donor or other restrictions limiting their use for the year ended December 31, 2018. If funds to cover the cost of current liabilities are backed out, a net amount of \$1,172,658 is available. Should a severe shortage of liquid assets occur, the Organization could liquidate a portion of its investment portfolio, which totaled approximately \$803,000 as of December 31, 2018.

**Note 9 - Grants Receivable**

Payments on grants receivable at December 31, 2018 are expected to be received in the years as described in the table below:

2019	\$ 30,000
2020	30,000
Total	<b>\$ 60,000</b>

No discount was recorded for the year ended December 31, 2018.

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