

Rainbow Days, Inc.  
Financial Statements  
August 31, 2015 and 2014

# Rainbow Days, Inc.

## Financial Statements

August 31, 2015 and 2014

### Table of Contents

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	<u>Page</u>
Independent Auditors' Report	1
Statements of Financial Position, August 31, 2015 and 2014	4
Statement of Activities, For the year ended August 31, 2015	5
Statement of Activities, For the year ended August 31, 2014	6
Statements of Cash Flows, For the years ended August 31, 2015 and 2014	7
Statement of Functional Expenses, For the year ended August 31, 2015	9
Statement of Functional Expenses, For the year ended August 31, 2014	10
Notes to Financial Statements	11
Supplemental Schedules: Not a required part of the basic financial statements:	
Schedule of Expenditures of Federal/State Awards, For the year ended August 31, 2015	20
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	24
Schedule of Findings and Questioned Costs, For the year ended August 31, 2015	27



ALBRIGHT, HILL & SUMPTER  
CERTIFIED PUBLIC ACCOUNTANTS  
A Professional Corporation

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Independent Auditors' Report

Board of Directors  
Rainbow Days, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Rainbow Days, Inc. (a non-profit organization), which comprise the Statements of Financial Position as of August 31, 2015 and 2014, and the related Statements of Activities, Cash Flows, and Functional Expenses, and the related notes to the financial statements for the years then ended.

**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 error or fraud.

**Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of 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 of material misstatements.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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

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accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 Rainbow Days, Inc., as of August 31, 2015 and 2014, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

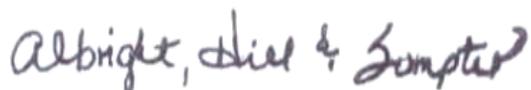
### **Other Matters**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal/State Awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2015, on our consideration of Rainbow Days, Inc.'s internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rainbow Days, Inc.'s control over financial reporting and compliance.

In accordance with the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, we have also issued our report dated November 1, 2015, on our consideration of Rainbow Days, Inc.'s compliance and internal control over compliance. The purpose of that report is to express an opinion on compliance with the types of compliance requirements required by OMB Circular A-133 that could have a direct and material effect on each of Rainbow Days, Inc.'s major programs and to describe the scope of our testing of internal control over compliance and the results of that testing and not to provide an opinion on internal control over compliance.



Albright, Hill & Sumpter, PC  
Certified Public Accountants

November 1, 2015

Rainbow Days, Inc.  
Statements of Financial Position  
August 31, 2015 and 2014

<u>ASSETS</u>		
	<u>2015</u>	<u>2014</u>
Current assets		
Cash and cash equivalents	\$ 221,579	\$ 211,737
Investments	389,708	430,620
Grants receivable	116,153	185,226
Accounts receivable	109,218	15,178
Prepaid expenses	816	4,294
Total current assets	<u>837,474</u>	<u>847,055</u>
Fixed assets		
Property and equipment	77,554	74,324
Accumulated depreciation	(72,322)	(69,819)
Total fixed assets	<u>5,232</u>	<u>4,505</u>
Other assets		
Deposits	9,447	9,447
Total assets	<u>\$ 852,153</u>	<u>\$ 861,007</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Accounts payable and accrued expenses	\$ 27,999	\$ 50,215
Accrued rent	15,758	-
Total current liabilities	<u>43,757</u>	<u>50,215</u>
Accrued rent - long-term	14,950	-
Total liabilities	<u>58,707</u>	<u>50,215</u>
Net assets		
Unrestricted	705,113	697,459
Temporarily restricted	85,833	110,833
Permanently restricted	2,500	2,500
Total net assets	<u>793,446</u>	<u>810,792</u>
Total liabilities and net assets	<u>\$ 852,153</u>	<u>\$ 861,007</u>

The accompanying notes are an integral part of these statements.

Rainbow Days, Inc.  
Statement of Activities  
For the year ended August 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support				
Contributions	\$ 542,368	\$ -	\$ -	\$ 542,368
United Way	16,144	103,000	-	119,144
In-kind donations	240,314	-	-	240,314
Government grant revenue	644,501	-	-	644,501
Capital campaign	-	-	-	-
Total public support	<u>1,443,327</u>	<u>103,000</u>	<u>-</u>	<u>1,546,327</u>
Revenue				
Fees for service	212,467	-	-	212,467
Special event revenue	265,112	-	-	265,112
Investment return	(9,990)	-	-	(9,990)
Other income	34,350	-	-	34,350
Total revenue	<u>501,939</u>	<u>-</u>	<u>-</u>	<u>501,939</u>
Total	1,945,266	103,000	-	2,048,266
Net assets released from restrictions	<u>128,000</u>	<u>(128,000)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>2,073,266</u>	<u>(25,000)</u>	<u>-</u>	<u>2,048,266</u>
Expenses				
Program services	1,644,224	-	-	1,644,224
General and administrative	170,404	-	-	170,404
Fund raising	250,984	-	-	250,984
Total expenses	<u>2,065,612</u>	<u>-</u>	<u>-</u>	<u>2,065,612</u>
Change in net assets	7,654	(25,000)	-	(17,346)
Net assets, beginning of year	697,459	110,833	2,500	810,792
Net assets, end of year	<u>\$ 705,113</u>	<u>\$ 85,833</u>	<u>\$ 2,500</u>	<u>\$ 793,446</u>

The accompanying notes are an integral part of this statement.

Rainbow Days, Inc.  
Statement of Activities  
For the year ended August 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support				
Contributions	\$ 609,598	\$ 25,000	\$ -	\$ 634,598
United Way	41,397	85,833	-	127,230
In-kind donations	217,082	-	-	217,082
Government grant revenue	782,409	-	-	782,409
Capital campaign	1,904	-	-	1,904
Total public support	<u>1,652,390</u>	<u>110,833</u>	<u>-</u>	<u>1,763,223</u>
Revenue				
Fees for service	164,099	-	-	164,099
Special event revenue	174,741	-	-	174,741
Investment return	32,136	-	-	32,136
Other income	8,253	-	-	8,253
Total revenue	<u>379,229</u>	<u>-</u>	<u>-</u>	<u>379,229</u>
Total	2,031,619	110,833	-	2,142,452
Net assets released from restrictions	<u>85,833</u>	<u>(85,833)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>2,117,452</u>	<u>25,000</u>	<u>-</u>	<u>2,142,452</u>
Expenses				
Program services	1,645,566	-	-	1,645,566
General and administrative	262,753	-	-	262,753
Fund raising	188,712	-	-	188,712
Total expenses	<u>2,097,031</u>	<u>-</u>	<u>-</u>	<u>2,097,031</u>
Change in net assets	20,421	25,000	-	45,421
Net assets, beginning of year	677,038	85,833	2,500	765,371
Net assets, end of year	<u>\$ 697,459</u>	<u>\$ 110,833</u>	<u>\$ 2,500</u>	<u>\$ 810,792</u>

The accompanying notes are an integral part of this statement.

Rainbow Days, Inc.  
 Statements of Cash Flows  
 For the years ended August 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (17,346)	\$ 45,421
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	2,503	-
Realized and unrealized loss (gain) on investments	26,486	(20,976)
Reinvested dividends	(14,988)	(9,273)
Decrease (increase) in assets:		
Grants receivable	69,073	20,825
Accounts receivable	(94,040)	(5,252)
Prepaid expenses	3,478	(3,923)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(22,216)	34,670
Accrued rent	30,708	(6,899)
Net cash (used in) provided by operating activities	(16,342)	54,593
Cash flows from investing activities		
Additions to property, equipment, and improvements	(3,230)	(4,505)
Purchase of investments	(137,895)	(101,217)
Proceeds from sale and redemption of investments	167,309	92,531
Net cash provided by (used in) investing activities	26,184	(13,191)
Net change in cash and cash equivalents	9,842	41,402
Cash and cash equivalents, beginning of year	211,737	170,335
Cash and cash equivalents, end of year	\$ 221,579	\$ 211,737
Supplemental non-cash flow information:		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

The accompanying notes are an integral part of these statements.

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Rainbow Days, Inc.  
Statement of Functional Expenses  
For the year ended August 31, 2015

	Program Services	General and Administrativ	Fund Raising	Total Expenses
Salaries	\$ 761,515	\$ 58,279	\$ 172,276	\$ 992,070
Employee benefits	118,945	5,406	25,841	150,192
Travel and training	42,470	7,944	-	50,414
Supplies	273,836	9,328	-	283,164
Occupancy	143,715	5,988	-	149,703
Telephone	24,588	4,500	-	29,088
Postage	3,165	2,141	2,848	8,154
Printing	9,152	-	-	9,152
Dues and subscriptions	2,468	5,420	-	7,888
Equipment lease	4,604	649	-	5,253
Consultant fees	11,603	147	-	11,750
Admin and other operating	42,580	16,333	-	58,913
Drug screen and CBC	6,394	430	-	6,824
Professional and contract	159,078	42,692	39,177	240,947
Depreciation	2,503	-	-	2,503
Insurance	11,118	3,753	-	14,871
Bad debts	-	140	-	140
Camp facilities and transportation expenses	25,400	143	-	25,543
Board and staff development	1,090	7,111	-	8,201
Special events expense	-	-	10,842	10,842
Total	<u>\$ 1,644,224</u>	<u>\$ 170,404</u>	<u>\$ 250,984</u>	<u>\$ 2,065,612</u>

The accompanying notes are an integral part of this statement.

Rainbow Days, Inc.  
Statement of Functional Expenses  
For the year ended August 31, 2014

	Program Services	General and Administrative	Fund Raising	Total Expenses
Salaries	\$ 842,290	\$ 36,633	\$ 102,902	\$ 981,825
Employee benefits	137,834	9,643	16,464	163,941
Travel and training	43,940	11,226	341	55,507
Supplies	199,078	86,018	-	285,096
Occupancy	105,411	10,884	-	116,295
Telephone	19,598	7,176	-	26,774
Postage	4,830	8,528	1,995	15,353
Printing	27,497	11,350	485	39,332
Dues and subscriptions	2,141	6,910	-	9,051
Equipment lease	10,114	1,780	-	11,894
Consultant fees	9,506	1,744	-	11,250
Admin and other operating	3,423	21,918	18,508	43,849
Drug screen and CBC	7,400	175	-	7,575
Professional and contract	192,125	38,708	14,344	245,177
Depreciation	-	-	-	-
Insurance	7,598	4,145	-	11,743
Bad debts	-	-	-	-
Camp facilities and transportation expenses	32,088	-	-	32,088
Board and staff development	693	5,915	-	6,608
Special events expense	-	-	33,673	33,673
Total	<u>\$ 1,645,566</u>	<u>\$ 262,753</u>	<u>\$ 188,712</u>	<u>\$ 2,097,031</u>

The accompanying notes are an integral part of this statement.

**Rainbow Days, Inc.**  
**Notes to Financial Statements**  
**August 31, 2015 and 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT POLICIES**

In fulfilling its responsibility for the preparation of Rainbow Days, Inc.'s (the Organization) financial statements and disclosures, management selects accounting principles generally accepted in the United States of America and adopts methods for their application. The application of accounting principles requires the estimating, matching and timing of revenue and costs in the determination of support and expenditures. It is also necessary for management to determine, measure, allocate and make certain assumptions regarding resources and obligations within the financial process according to those principles. Below is a summary of certain significant accounting policies selected by management.

**Basis of Presentation**

The Statement of Activities is a statement of the various financial activities and changes to net assets during the current reporting period. It does not purport to represent the results of operations, nor of net income or loss for the period, since the primary objective of the Organization is not to achieve a "profit" but to provide professional and educational services to the general public. The Organization records income from grants in the period in which the expenditures are incurred in compliance with the terms of the grants.

Net assets are classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions in accordance with guidance provided by the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958, *Financial Statements of Not-for-Profit Entities*. The various categories are described as follows:

Unrestricted funds - represent resources that are available for the support of the Organization's operations. Restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted contributions.

Temporarily restricted funds - include grants, gifts and other program income expendable only for purposes specified or approved by the grantor or donor.

Permanently restricted funds - include grants and gifts given for the purpose of establishing an endowment.

**Revenue Recognition**

The Organization accounts for contributions in accordance with FASB ASC 958. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and nature of any donor

**Rainbow Days, Inc.**  
**Notes to Financial Statements**  
**August 31, 2015 and 2014**

restrictions. All donor restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restrictions.

When a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted or permanently restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. If the restriction is met or expires in the same year the contribution is received, the amount is classified as unrestricted.

Program service fees are recognized as revenue when the service is performed.

Donated materials and services are recorded at estimated fair value at the date of donation.

Investments

Investments are reported at estimated fair value based on quoted market prices as of August 31, 2015 and 2014.

Receivables and Bad Debts

Receivables consist of two general categories:

1. Grants receivable - represent funds due from government agencies and other grantor organizations.
2. Accounts receivable - represent funds due from consumers for services provided.

Of the total grants and accounts receivables at August 31, 2015 and 2014, approximately 43% and 40% were due from United Way of Metropolitan Dallas, respectively.

Bad debts are accounted for using the reserve method. Management periodically reviews accounts/grants receivable on an account-by-account basis concentrating on accounts more than ninety (90) days old. Management considers the Organization's past history with the consumer/grantor, current contact information and the size of the account in evaluating the reserve requirements. Accounts are written off when it appears collection efforts will not be successful. Management has established a reserve for uncollectible pledges of \$0 and \$0 for 2015 and 2014, respectively. Bad debt expense for 2015 and 2014 was \$140 and \$0, respectively.

**Rainbow Days, Inc.**  
**Notes to Financial Statements**  
**August 31, 2015 and 2014**

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at estimated fair value at the date of receipt, if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of three to eight (3-8) years. The cost of maintenance and repairs is charged to expense as incurred. The Organization capitalizes all property and equipment with a cost over \$1,000.

Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or estimated fair value, less costs to sell.

Compensated Absences

Employees of the Organization are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service and other factors. It is impracticable to estimate the amount of compensation for future absences, and, accordingly, no liability has been recorded in the accompanying financial statements. The Organization's policy is to recognize the cost of compensated absences when actually paid to employees.

Functional Expense Allocation

Expenses are allocated to program services and general and administrative based on amounts allocable per the grant contracts. Salary is allocated to fund raising based on job description.

Statements of Cash Flows

The Statements of Cash Flows is presented using the "indirect method." For the purpose of these statements, the Organization considers all cash on hand, cash in checking accounts, money market funds and other similar instruments with initial maturities of three months or less as cash.

Accounting Estimates and Assumptions

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates and assumptions primarily relate to valuation of investments, receivables and in-kind donations and the allocation of functional expenses. Accordingly, actual results may differ from estimated amounts.

**Rainbow Days, Inc.**  
**Notes to Financial Statements**  
 August 31, 2015 and 2014

Schedule of Expenditures of Federal/State Awards

The accompanying Schedule of Expenditures of Federal/State Awards includes the federal and state grant activities of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.

NOTE 2 – NATURE AND PURPOSE

Rainbow Days, Inc. is a not-for-profit Texas corporation based in Dallas, Texas. The Organization's mission is to inspire and prepare children to live a life filled with hope and promise. Such mission is accomplished by offering educational support groups for children, youth and parents; providing educational seminars and workshops; coordinating and implementing life enrichment activities for children living in homeless shelters and providing state and national training services to other agencies, school professionals and volunteers. These activities are primarily supported through donor contributions, government grants and the United Way.

The Internal Revenue Service recognizes Rainbow Days, Inc. as a non-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization is not classified as a private foundation.

NOTE 3 – INVESTMENTS

Investments are classified as short-term based on maturity or management intentions. As of August 31, 2015 and 2014, the Organization's investments consisted of the following:

	2015		
	Cost	Unrealized Gain (Loss)	Estimated Fair Value
Stocks	\$ 43,954	\$ (2,549)	\$ 41,405
Exchange traded and closed end funds	106,934	(1,577)	105,357
Mutual funds	247,147	(4,201)	242,946
	\$ 398,035	\$ (8,327)	\$ 389,708

**Rainbow Days, Inc.**  
**Notes to Financial Statements**  
August 31, 2015 and 2014

	2014		
	Cost	Unrealized Gain (Loss)	Estimated Fair Value
Stocks	\$ 42,895	\$ 4,156	\$ 47,051
Exchange traded and closed end funds	143,661	(6,143)	137,518
Mutual funds	237,277	8,774	246,051
	\$ 423,833	\$ 6,787	\$ 430,620

Economic conditions continue to result in significant volatility in the financial markets. Such volatility could have a significant impact on the estimated fair value of the investments subsequent to August 31, 2015.

Investment return for the years ended August 31, 2015 and 2014 was as follows:

	2015	2014
Interest and dividends	\$ 20,885	\$ 15,458
Realized gains (losses)	(9,352)	4,268
Change in unrealized gains/losses	(17,134)	16,708
Less: investment fees	(4,389)	(4,298)
Investment return	\$ (9,990)	\$ 32,136

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment consist of furniture and office equipment. Depreciation expense was \$2,503 and \$0 for the years ended August 31, 2015 and 2014, respectively.

**NOTE 5 – RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets were available for program and support services as follows:

	2015	2014
Time restricted		
United Way	\$ 85,833	\$ 85,833
Other grants	-	25,000
	\$ 85,833	\$ 110,833

**NOTE 6 – DONATED SERVICES AND MATERIALS**

A number of unpaid volunteers have made significant contributions of their time by providing counseling and educational services and assisting in the Organization's fund raising activities. For the years ended August 31, 2015 and 2014, volunteers are

**Rainbow Days, Inc.**  
**Notes to Financial Statements**  
August 31, 2015 and 2014

estimated to have donated 3,500 and 3,428 hours, respectively. Management estimates the value of volunteer services to be \$82,000 and \$80,215 for the years ended August 31, 2015 and 2014, respectively. These estimates are based on an annual analysis provided by the Independent Sector, a non-profit, non-partisan coalition of charitable groups, using average hourly earnings information determined by the U.S. Bureau of Labor Statistics. The value of this contributed time is not reflected in these financial statements.

In-kind donation expenses are valued at estimated fair value and were as follows:

	2015	2014
Special events	\$ 9,185	\$ -
Supplies	197,630	205,121
Occupancy	23,800	-
Other	9,699	11,961
	\$ 240,314	\$ 217,082

**NOTE 7 – RETIREMENT PLAN**

The Organization sponsors a 403(b) retirement plan. Substantially all full-time employees are eligible for participation after meeting certain minimum eligibility requirements. For 2015 and 2014, the Organization contributed 3% of gross salaries to the plan based on available funds. The total contribution for 2015 and 2014 was \$0 and \$0.

**NOTE 8 – CREDIT CONCENTRATION**

During 2015 and 2014, 32% and 37% of support and revenue was received from various continuation grants. Such grants are administered by the U.S. Department of Health and Human Services, the Department of State Health Services, the Department of Housing and Urban Development and the Texas Office of the Governor Criminal Justice Division. Continued funding from these sources at current levels is dependent upon various factors. Such factors include economic conditions, compliance with grant provisions, continued government approval, new legislations, donor satisfaction and public perception of mission effectiveness and relative importance.

**NOTE 9 – COMMITMENTS**

The Organization leases facilities used in its operations pursuant to a lease agreement dated September 1, 2014. This lease is for a term of 88 months expiring December 31, 2021 with no rent due for the first four months. The Organization also leases various equipment.

**Rainbow Days, Inc.**  
**Notes to Financial Statements**  
August 31, 2015 and 2014

Rent expense is accounted for on a straight-line basis over the life of the lease. As of August 31, 2015 and 2014, \$30,708 and \$0 has been accrued for rent expense, respectively. The following is a schedule of minimum lease payments required under these leases as of August 31, 2015:

<u>Year Ended August 31,</u>	<u>Amount</u>
2016	\$ 111,738
2017	111,738
2018	111,738
2019	111,738
2020	111,316
2021 and future years	<u>142,229</u>
Total	<u><u>\$ 700,497</u></u>

**NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

Cash, receivables, accounts payable and accrued expenses approximate their respective fair values as of August 31, 2015 and 2014, due to the short maturity of these instruments.

Financial Accounting Standards Board (FASB) ASC 820, *Fair Value Measurements*, establishes a framework for measuring value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted fair prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1– Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2– Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices of identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means; and

Rainbow Days, Inc.  
Notes to Financial Statements  
August 31, 2015 and 2014

- 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.

The assets' or liabilities' fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

*Equity securities and exchange traded and closed end funds:*

Quoted market prices.

*Mutual funds:*

Valued at the net asset value (NAV) per unit at year end.

The methods described above may produce fair value estimates that may not be indicative of net realizable value or reflective of future estimated fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at estimated fair value as of August 31, 2015 and 2014:

	2015			
	Level 1	Level 2	Level 3	Total
Stocks	\$ 41,405	\$ -	\$ -	\$ 41,405
Exchange traded and closed end funds	105,357	-	-	105,357
Mutual funds	-	242,946	-	242,946
Total	<u>\$146,762</u>	<u>\$242,946</u>	<u>\$ -</u>	<u>\$389,708</u>

Rainbow Days, Inc.  
Notes to Financial Statements  
August 31, 2015 and 2014

	2014			Total
	Level 1	Level 2	Level 3	
Stocks	\$ 47,051	\$ -	\$ -	\$ 47,051
Exchange traded and closed end funds	137,518	-	-	137,518
Mutual funds	-	246,051	-	246,051
Total	\$184,569	\$246,051	\$ -	\$430,620

NOTE 11 – DISCLOSURES ABOUT UNCERTAINTY IN INCOME TAXES UNDER FASB ASC 740

The Organization files an annual federal information return. With few exceptions, the Organization is no longer subject to U.S. federal income tax examinations by tax authorities for years ending before August 31, 2012.

The Organization has adopted the provisions of FASB ASC 740, *Accounting for Uncertainty in Income Taxes*. There were no unrecognized tax benefits as of August 31, 2015 and 2014.

The Organization recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expense. There were no such interest and penalties for 2015 and 2014.

NOTE 12 – LINE OF CREDIT

The Organization has obtained a line of credit with a maximum allowable draw of \$277,000. The line is secured by the Organization's investments and carries an interest rate of the corresponding PLA index plus 4.00%. As of August 31, 2015, no amounts have been drawn.

NOTE 13 – SUBSEQUENT EVENTS

Management has reviewed events occurring subsequent to August 31, 2015 through the issue date of the financial statements, November 1, 2015. Based on this review, no events have occurred requiring disclosure.

Rainbow Days, Inc.  
Schedule of Expenditures of Federal/State Awards  
For the year ended August 31, 2015

Federal/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures	
U.S. Department of Health and Human Services Pass-Through Programs:				
Texas Department of State Health Services:				
Substance Abuse Treatment and Prevention Block Grant	93.959	Contract # 2015-046108	\$ 169,742	\$30,258
Substance Abuse Treatment and Prevention Block Grant	93.959	Contract # 2015-046102	319,095	55,905
Total Texas Department of State Health Services			488,837	86,163
U.S. Department of Justice Pass-Through Programs:				
State of Texas, Office of the Governor, Criminal Justice Division: Juvenile Justice and Delinquency Prevention				
Juvenile Offender Reduction Initiative	16.540	Contract # 1490616	69,501	-
Total			\$ 558,338	\$86,163

The accompanying notes are an integral part of this schedule.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

Finance/Audit Committee  
Rainbow Days, Inc.  
Attn: Cathey Brown – Chief Executive Officer  
8150 North Central Expressway, Suite M1003  
Dallas, Texas 75206

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of Rainbow Days, Inc., which comprise the Statements of Financial Position as of August 31, 2015, and the related Statements of Activities, Functional Expenses, Cash Flows and the related notes to the financial statements for the year then ended and have issued our report thereon dated November 1, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rainbow Days, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Rainbow Days, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Rainbow Days, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Rainbow Days, Inc.'s financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of

Finance/Audit Committee  
Rainbow Days, Inc.

deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

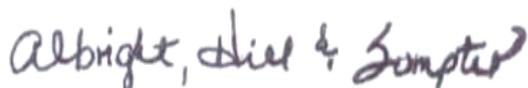
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rainbow Days, Inc.'s financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of Rainbow Days, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rainbow Days, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Albright, Hill & Sumpter, PC  
Certified Public Accountants

November 1, 2015



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133

Independent Auditors' Report

Finance/Audit Committee  
Rainbow Days, Inc.  
Attn: Cathey Brown – Chief Executive Officer  
8150 North Central Expressway, Suite M1003  
Dallas, Texas 75206

Compliance

Report on Compliance for Each Major Federal Program

We have audited Rainbow Days, Inc.'s compliance with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular *A-133, Compliance Supplement* that could have a direct and material effect on each of Rainbow Days, Inc.'s major federal programs for the year ended August 31, 2015. Rainbow Days, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Rainbow Days, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct effect on a major federal program. An audit includes

Finance/Audit Committee  
Rainbow Days, Inc.

examining, on a test basis, evidence about Rainbow Days, Inc.'s compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Rainbow Days, Inc.'s compliance.

#### Opinion on Each Major Federal Program

In our opinion, Rainbow Days, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2015.

#### Report on Internal Control over Compliance

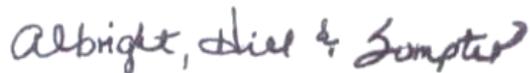
Management of Rainbow Days, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Rainbow Days, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Rainbow Days, Inc.'s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance.

Finance/Audit Committee  
Rainbow Days, Inc.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Albright, Hill & Sumpter, PC  
Certified Public Accountants

November 1, 2015

Rainbow Days, Inc.  
 Schedule of Findings and Questioned Costs  
 For the year ended August 31, 2015

**Section I - Summary of Auditors' Results**

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	__ Yes <u>X</u> No
Significant deficiency(ies) identified?	__ Yes <u>X</u> No
Noncompliance material to financial statements noted?	__ Yes <u>X</u> No

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	__ Yes <u>X</u> No
Significant deficiency(ies) identified?	__ Yes <u>X</u> No
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	__ Yes <u>X</u> No
Identification of major program:	
CFDA #93.959 - Substance Abuse Treatment and Prevention block Grant	
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	<u>X</u> Yes    __ No

**Section II - Financial Statement Findings**

There were no findings related to the financial statements required to be reported under generally accepted government auditing standards.

**Section III - Federal Award Findings and Questioned Costs**

There were no findings related to the federal awards expended required to be reported under generally accepted government auditing standards.