RAINBOW ACRES
(A NONPROFIT CORPORATION)

FINANCIAL STATEMENTS

Years Ended December 31, 2016 and 2015

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Solving Accounting, Audit & Tax Puzzles

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees and
Audit Committee of
Rainbow Acres

We have audited the accompanying financial statements of Rainbow Acres (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, 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 audit 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.

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 Acres as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Schutte & Hilgendorf

Prescott, Arizona
November 22, 2017

RAINBOW ACRES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

ASSETS	2016	2015
Current Assets		
Cash and cash equivalents (Note 2)	$ 966,861	$ 534,447
Cash restricted for Rancher funds	36,273	27,614
Accounts receivable (Note 2)	43,072	48,930
Pledges receivable, net of allowance and discount of $9,727 for 2015 and 2016 (Note 2 & 3)	189,826	67,436
Prepaid expenses (Note 6)	22,255	23,309
Inventory (Note 2)	4,120	5,163
Total current assets	1,262,407	706,899
Property and equipment, net (Note 2 & 7)	11,254,118	11,443,196
Other Assets		
Cash surrender value of life insurance policies (Note 8)	28,573	31,068
Security deposit (Note 15)	32,750	32,750
Cash restricted for endowments (Note 5)	5,000	21,500
Endowment investments (Note 4 & 5)	2,253,309	2,267,794
Total other assets	2,319,632	2,353,112
TOTAL ASSETS	$ 14,836,157	$ 14,503,207
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 115,816	$ 86,440
Accrued liabilities	231,101	181,047
Retirement plan contributions payable	241,833	312,032
Prepaid ranchers' fees	174,814	166,668
Rancher funds - passthrough	13,841	13,164
Lines of credit (Note 10)	-	270,000
Total current liabilities	777,405	1,029,351
Deposits (Note 9)	129,085	127,410
TOTAL LIABILITIES	906,490	1,156,761
NET ASSETS		
Unrestricted		
Undesignated	9,824,695	9,822,862
Board designated	512,101	499,814
Temporarily restricted (Note 12)	1,514,240	1,221,639
Permanently restricted (Note 12)	2,078,631	1,802,131
TOTAL NET ASSETS	13,929,667	13,346,446
TOTAL LIABILITIES AND NET ASSETS	$ 14,836,157	$ 14,503,207

RAINBOW ACRES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT				
Operating Revenue				
Fees for services to ranchers	$ 3,937,016	$ -	$ -	$ 3,937,016
Less: scholarships and discounts	(1,357,573)	-	-	(1,357,573)
Net fees for services to ranchers	2,579,443	-	-	2,579,443
Contributions	1,114,337	1,259,729	276,500	2,650,566
Grants	-	22,695	-	22,695
In-kind donations	38,934	-	-	38,934
Interest and dividend income	10,595	57,724	-	68,319
Other revenues	61,105	-	-	61,105
	3,804,414	1,340,148	276,500	5,421,062
Non-operating gains/(losses)				
Realized/unrealized gain(loss) on investments	22,147	131,387	-	153,534
Gain/(loss) on sale of property and equipment	(511)	-	-	(511)
Gain/(loss) on value of life insurance policies	-	(2,495)	-	(2,495)
Total revenue, support, gains	3,826,050	1,469,040	276,500	5,571,590
Reclassification and release from net asset restrictions	1,176,439	(1,176,439)	-	-
TOTAL REVENUE, GAINS, RECLASSIFICATIONS AND RELEASES FROM RESTRICTIONS	5,002,489	292,601	276,500	5,571,590
EXPENSES				
Program services	3,702,341	-	-	3,702,341
Management and administration	550,015	-	-	550,015
Fund raising and development	736,013	-	-	736,013
TOTAL EXPENSES	4,988,369	-	-	4,988,369
INCREASE(DECREASE) IN NET ASSETS	14,120	292,601	276,500	583,221
NET ASSETS, BEGINNING OF THE YEAR	10,322,676	1,221,639	1,802,131	13,346,446
NET ASSET, END OF YEAR	$ 10,336,796	$ 1,514,240	$ 2,078,631	$ 13,929,667

See notes to financial statements

RAINBOW ACRES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT				
Operating Revenue				
Fees for services to ranchers	$ 3,840,654	$ -	$ -	$ 3,840,654
Less: scholarships and discounts	(1,334,376)	-	-	(1,334,376)
Net fees for services to ranchers	2,506,278	-	-	2,506,278
Contributions	539,028	1,422,524	172,775	2,134,327
Grants	24,882	-	-	24,882
In-kind donations	26,754	-	-	26,754
Interest and dividend income	18,278	47,316	-	65,594
Other revenues	57,388	49	-	57,437
	3,172,608	1,469,889	172,775	4,815,272
Non-operating gains/(losses)				
Realized/unrealized gain(loss) on investments	42,418	(108,061)	-	(65,643)
Gain/(loss) on sale of property and equipment	3,750	-	-	3,750
Gain/(loss) on value of life insurance policies	-	(2,044)	-	(2,044)
Total revenue, support, gains	3,218,776	1,359,784	172,775	4,751,335
Reclassification and release from net asset restrictions	1,419,302	(1,456,058)	36,756	-
TOTAL REVENUE, GAINS, RECLASSIFICATIONS AND RELEASES FROM RESTRICTIONS	4,638,078	(96,274)	209,531	4,751,335
EXPENSES				
Program services	3,614,924	-	-	3,614,924
Management and administration	564,961	-	-	564,961
Fund raising and development	770,246	-	-	770,246
TOTAL EXPENSES	4,950,131	-	-	4,950,131
INCREASE(DECREASE) IN NET ASSETS	(312,053)	(96,274)	209,531	(198,796)
NET ASSETS, BEGINNING OF THE YEAR	10,634,729	1,317,913	1,592,600	13,545,242
NET ASSET, END OF YEAR	$ 10,322,676	$ 1,221,639	$ 1,802,131	$ 13,346,446

RAINBOW ACRES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	PROGRAM SERVICES	MANAGEMENT & GENERAL	FUNDRAISING & DEVELOPMENT	TOTAL
Advertising and public relations (Note 2)	$ 5,659	$ 711	$ 13,781	$ 20,151
Bank and investment fees	-	22,984	-	22,984
Computer expense	-	4,153	4,333	8,486
Conferences, conventions, and meetings	-	13,125	846	13,971
Depreciation	393,838	8,035	3,704	405,577
Dues and subscriptions	1,755	12,270	689	14,714
Employee benefits	256,145	30,487	28,129	314,761
Equipment rental and maintenance	596	4,107	1,059	5,762
Housing allowances	-	16,267	31,133	47,400
Insurance	133,228	13,761	8,335	155,324
Interest (Note 10)	22,370	-	-	22,370
Licenses and permits	10,593	10	-	10,603
Occupancy	341,348	4,539	2,684	348,571
Payroll taxes	149,175	23,475	36,578	209,228
Printing and postage	327	4,432	27,695	32,454
Professional fees	-	38,426	15,271	53,697
Program expenses - Ranchers				
Cable	18,310	-	-	18,310
Activities and supplies	8,385	-	-	8,385
Food	159,688	-	-	159,688
Greenhouse	493	-	-	493
Health,wellness and development	14,848	-	-	14,848
Household supplies	6,574	-	-	6,574
Tetra program	8,108	-	-	8,108
Travel, trips	14,584	-	-	14,584
Retirement plan contributions (Note 13)	67,044	14,711	-	81,755
Salaries and wages	1,962,921	302,691	496,293	2,761,905
Special events	12,718	-	-	12,718
Supplies	2,177	7,523	2,091	11,791
Telecommunications	12,516	8,320	1,837	22,673
Training and development	8,386	14,675	285	23,346
Travel and transportation	47,535	2,989	60,057	110,581
Vehicle	32,241		-	32,241
Miscellaneous	10,779	2,324	1,213	14,316
	$ 3,702,341	$ 550,015	$ 736,013	$ 4,988,369
	74.2%	11.0%	14.8%	

RAINBOW ACRES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	PROGRAM SERVICES	MANAGEMENT & GENERAL	FUNDRAISING & DEVELOPMENT	TOTAL
Advertising and public relations (Note 2)	$ 1,485	$ 2,876	$ 20,427	$ 24,788
Bad debt expense	-	5,118	-	5,118
Bank and investment fees	-	19,226	-	19,226
Computer expense	-	5,566	7,486	13,052
Conferences, conventions, and meetings	2,057	4,475	4,548	11,080
Contract services	-	4,899	-	4,899
Depreciation	379,890	8,050	3,570	391,510
Dues and subscriptions	891	8,307	4,760	13,958
Employee benefits	266,503	29,930	23,680	320,113
Equipment rental and maintenance	1,692	4,816	1,272	7,780
Housing allowances	8,133	8,133	31,134	47,400
Insurance	125,475	28,385	10,270	164,130
Interest (Note 10)	7,666	-	-	7,666
Licenses and permits	10,087	121	-	10,208
Occupancy	366,287	4,434	2,559	373,280
Payroll taxes	148,283	24,647	38,014	210,944
Printing and postage	1,292	2,796	22,371	26,459
Professional fees	-	13,340	54,419	67,759
Program expenses - Ranchers				
Cable	15,256	-	-	15,256
Activities and supplies	11,041	-	-	11,041
Food	177,486	-	-	177,486
Greenhouse	313	-	-	313
Health,wellness and development	10,686	-	-	10,686
Household supplies	11,208	-	-	11,208
Tetra program	12,757	-	-	12,757
Travel, trips	17,550	-	-	17,550
Property tax expense	-	9	-	9
Retirement plan contributions (Note 13)	65,718	60,460	34,982	161,160
Salaries and wages	1,853,587	298,266	430,863	2,582,716
Special events	9,559	-	-	9,559
Supplies	2,819	8,236	1,895	12,950
Telecommunications	12,234	5,693	2,215	20,142
Training and development	10,340	10,315	179	20,834
Travel and transportation	53,985	4,021	73,388	131,394
Vehicle	24,566	-	232	24,798
Miscellaneous	6,078	2,842	1,982	10,902
	$ 3,614,924	$ 564,961	$ 770,246	$ 4,950,131
	73.0%	11.4%	15.6%	

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

CASH FLOW FROM OPERATING ACTIVITIES	2016	2015
Increase(decrease) in net assets	$ 583,221	$ (198,796)
Adjustments to reconcile increase(decrease) in net assets to net cash (used) by operating activities:		
Depreciation expense	405,577	391,510
Bad debt expense	-	5,118
Realized (gain) loss on investments	(42,279)	(66,042)
(Gain) Loss on disposition of assets	511	(3,750)
Vehicles donated	(20,400)	-
Change in value of life insurance policies	2,495	2,044
Reduction of retirement plan contributions payable	(39,103)	-
Unrealized (gain) loss on investments	(111,255)	131,685
Decrease (Increase) in:		
Accounts receivable	5,858	(20,268)
Pledges receivable	(122,390)	4,488
Prepaid expenses	1,054	(9,793)
Inventory	1,043	727
Increase (Decrease) in:		
Accounts payable	29,376	(50,622)
Accrued liabilities	50,054	18,203
Retirement plan contributions payable	(31,096)	18,411
Prepaid ranchers' fees	8,146	(8,448)
Deposits	1,675	(7,345)
Rancher funds	677	1,319
NET CASH PROVIDED BY OPERATING ACTIVITIES	723,164	208,441
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(198,110)	(616,019)
Proceeds from sale of property and equipment	1,500	3,750
Cash restricted for endowments	16,500	(21,500)
Cash restricted for Rancher funds	(8,659)	(6,787)
Reinvested dividends and interest	(68,230)	(65,413)
Net proceeds of investments (net of fees)	236,249	539,148
NET CASH (USED) BY INVESTING ACTIVITES	(20,750)	(166,821)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing on lines of credit	430,000	320,000
Payments on lines of credit	(700,000)	(355,000)
NET CASH PROVIDED(USED) BY FINANCING ACTIVITIES	(270,000)	(35,000)
NET INCREASE(DECREASE) IN CASH	432,414	6,620
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	534,447	527,827
CASH AT END OF PERIOD	$ 966,861	$ 534,447
SUPPLEMENTAL DISCLOSURE		
Interest paid	$ 22,370	$ 7,666

See notes to financial statements

NOTE 1 – ORGANIZATION AND PURPOSE

Rainbow Acres (a nonprofit corporation) was incorporated in Arizona in the month of September 1973. Rainbow Acres ("The Organization") provides a Christian community for developmentally-disabled adults dedicated to enhancing the quality of life by assisting such individuals to achieve mental, physical, social, spiritual and vocational growth to their fullest potential with dignity and purpose. Persons enrolled at the Organization are usually referred to as Ranchers. The Organization is located on a campus in Camp Verde, Arizona. The Organization's program are supported primarily through fees charged to Ranchers (usually paid by parents, siblings, and other members of their families, or sometimes paid from Social Security payments), and contributions.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP). The significant accounting policies followed are described below.

Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets based upon the existence or absence of donor imposed restrictions.

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. Certain net assets classified as unrestricted are designated for specific purposes or uses by the Organization's Board and classified as *Unrestricted Board Designated Net Assets*.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations will be met by actions of the Organization and specified by restriction. When a donor restriction ends or purpose is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on the related investments for scholarships or other mission related purposes. Endowment funds have been accounted for and related disclosures made in accordance with "Endowment of Not-for-profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds." This provides guidance on net asset classification of donor-restricted endowment funds for non-profits subject to an enacted version of UPMIFA and required enhanced disclosures for all endowment funds.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

Cash and Cash Equivalents

The Organization considers short term, highly liquid investments which are readily convertible to cash within ninety (90) days of purchase to be cash equivalents. As of December 31, 2016, the Organization had cash deposits in excess of the Federal Deposit Insurance Corporation limits. The Organization has not experienced any losses from these accounts. Cash restricted for endowments is listed separately on the Statement of Financial Position, and cash restricted by the Board is included in cash and cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values are reported at their fair values based on quoted prices in active markets (Level 1) in the Statements of Financial Position. Unrealized gains and losses are included in the change in net assets for which the investment relates.

Accounts Receivable

Accounts receivable consist primarily of Ranchers' fees that are due on the first day of each month. There are no amounts charged if payments are late. As of December 31, 2016 and 2015, the Organization considers Ranchers' fees to be fully collectible. Ranchers' accounts are reviewed on a continuous basis. Determinations are made regarding whether a scholarship for a particular Rancher is warranted or whether parents or those financially responsible need to be contacted. Accounts deemed uncollectible are either charged an allowance or written off to bad debt. The allowance for doubtful accounts is $0 at December 31, 2016 and 2015.

Pledges Receivable

Unconditional promises to give (or *pledges receivable*) that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met.

Inventories

Inventories are applicable to food service goods and stated at lower of cost or market, utilizing the first-in, first-out method.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are stated at cost at date of acquisition or completion, or fair market value at date of donation in the case of gifts. The Organization's policy is to record purchases of property and equipment at costs in excess of $5,000 as capital assets.

Donations of vehicles and equipment are recorded as in-kind support and are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property or equipment are reported as temporarily restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donations of real property may be unrestricted, temporarily restricted or permanently restricted as specified by the donor. Periodically, the Organization receives or purchases property and equipment with restricted monies. Property or an amount of cash as agreed upon with the donor could technically revert back to the donor if not utilized for the specified purposes.

Fixed assets are depreciated primarily using the straight-line method over the estimated useful lives of individual assets as follows:

Buildings and improvements	7 to 40 years
Furniture, fixtures, machinery and equipment	5 to 10 years
Office equipment	3 to 7 years
Vehicles	5 to 10 years

Functional Allocation of Expenses

The costs of providing the programs and other various activities have been summarized on a functional basis in the statement of functional expenses. Expenses that are directly identifiable, such as most salaries and wages, are charged directly to programs on the basis of periodic analyses and studies. Administration and fund raising expenses include both directly identifiable and allocated expenses not easily identifiable with specific program operations, but related to the overall support and management of the Organization.

Advertising

The Organization uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. Advertising expenses are $14,200 and $17,542 for the years ended December 31, 2016 and 2015, respectively, and are included in *Advertising and public relations* in the Statements of Functional Expenses.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Organization has been classified as an Arizona Nonprofit Corporation that is exempt from federal and state income taxes under Section 501(c) (3) of the Internal Revenue Code. Therefore, no provision has been made for income taxes due in the accompanying financial statements. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Contributed Services and Materials

Generally, professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and (c) would typically need to be purchased if not provided by donation. However, many individuals volunteer their time and perform a variety of tasks that do not meet the criterion for recognition. Management estimates that hours of assistance given by volunteers and board members totaled approximately 11,936 hours during 2016 and 7,772 hours during 2015.

Contributions of tangible assets are recognized at fair market value when received. Contributed services and materials of $38,934 and $26,754 have been reflected in the financial statements as of December 31, 2016 and 2015, respectively. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or property and equipment.

Reclassifications

Certain reclassifications have been made to the 2015 financial statement presentation to correspond to the current year's format. Net assets are unchanged due to these reclassifications.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable consist of the following at December 31, 2015:

	Due in 1 Year	Due in 1-4 Years	Total
Annual support campaign pledges receivable	$22,900	$54,263	$77,163
Less:			
Discount to net present value	-	6,557	6,557
Allowance for uncollectible pledges	1,028	2,142	3,170
Net pledges receivable	$21,872	$45,564	$67,436

Pledges receivable consist of the following at December 31, 2016:

	Due in 1 Year	Due in 1-4 Years	Total
Annual support campaign pledges receivable	$151,273	$48,280	$199,553
Less:			
Discount to net present value	-	6,557	6,557
Allowance for uncollectible pledges	1,028	2,142	3,170
Net pledges receivable	$150,245	$39,581	$189,826

Pledges have been discounted at a 4% annual rate of interest. The pledges receivable are not restricted in use but are restricted by time.

NOTE 4 – INVESTMENTS

The Organization hires third party investment managers to manage the investment assets of the Organization. Investment securities are stated at fair value based on quoted prices in active markets (all Level 1 measurements) and consist of the following at December 31, 2016 and 2015:

	2016	2015
Cash and money market accounts	$ 3,139	$ 3,427
Marketable equity securities	1,243,036	1,240,202
Preferred Stock	56,345	28,470
Corporate/government bonds	733,148	788,948
Mutual funds	204,065	194,602
Other Investments/Partnership	13,576	12,145
	$2,253,309	$2,267,794

NOTE 4 – INVESTMENTS (continued)

An analysis of investments at December 31, 2016 and 2015 are as follows:

	2016	2015
Unrestricted	$ -	$ (12,651)
Unrestricted board designated	12,101	499,814
Temporarily restricted	167,577	-
Permanently restricted	2,073,631	1,780,631
	$2,253,309	$2,267,794

Earnings (losses) on permanently restricted investments have been reclassified as either unrestricted or temporarily restricted.

The following schedule summarizes the investment return and its classification in the statements of activities for the year ended December 31, 2015:

	Unrestricted	Temporarily Restricted	Total
Dividends and interest	$ 18,097	$ 47,316	$ 65,413
Capital gain distributions	-	10,336	10,336
Net realized/unrealized gains	42,418	(118,397)	(75,979)
Investment fees	-	(1,667)	(1,667)
Total investment return	$ 60,515	$(62,412)	$ (1,897)

Investment return and its classification in the statement of activities for the year ended December 31, 2016:

	Unrestricted	Temporarily Restricted	Total
Dividends and interest	$ 10,503	$ 57,724	$ 68,227
Capital gain distributions	13	5,023	5,036
Net realized/unrealized gains	22,134	126,364	148,498
Investment fees	-	(1,336)	(1,336)
Total investment return	$ 33,650	$187,775	$220,425

NOTE 5 – ENDOWMENTS

The Organization's endowments consist primarily of managed funds in Vanguard, Stifel and Edward Jones. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions**.** Board designated funds function as "quasi-endowment" for the Organization, are invested like endowment funds and are classified as unrestricted.

NOTE 5 – ENDOWMENTS (continued)

Interpretation of Relevant Law:

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment only – including Board-designated)

Endowment Net Asset Composition by Type of Fund as of December 31, 2015:

	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment Funds					
Investments	$(12,651)	$ 499,814	$ -	$1,780,631	$2,267,794
Cash	-	-	-	21,500	21,500
	$(12,651)	$ 499,814	$ -	$1,802,131	$2,289,294

Endowment Net Asset Composition by Type of Fund as of December 31, 2016:

	Unrestricted	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Funds					
Investments	$ -	$ 12,101	$167,577	$2,073,631	$2,253,309
Cash	-	-	-	5,000	5,000
	$ -	$ 12,101	$167,577	$2,078,631	$2,289,294

NOTE 5 – ENDOWMENTS (continued)

Changes in Endowment Net Assets for the Fiscal Years Ended December 31, 2016 and 2015

	Unrestricted	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, At December 31, 2014	$ -	$1,158,017	$ 56,555	$1,592,600	$2,807,172
Investment return:					
Interest and dividends	-	18,097	47,316	-	65,413
Net realized/unrealized gain/(loss)		42,418	(108,061)	-	(65,643)
Investment fees	-	-	(1,667)	-	(1,667)
Total investment return	-	60,515	(62,412)	-	(1,897)
Contributions	-	-	-	172,775	172,775
Reclassifications	-	-	-	36,756	36,756
Deficiencies and recovery	(12,651)	-	12,651	-	-
Amounts appropriated for expenditure	-	(718,718)	(6,794)	-	(725,512)
2015 Activity	-	(658,203)	(56,555)	209,531	(517,878)
Endowment net assets, at December 31, 2015	**$(12,651)**	**$ 499,814**	**$ -**	**$1,802,131**	**$2,289,294**
Investment return:					
Interest and dividends	$ -	$ 10,503	$57,724	$ -	$ 68,227
Net realized/unrealized gain/(loss)	-	21,784	131,387	-	153,171
Investment fees	-	-	(1,336)	-	(1,336)
Total investment return	-	32,287	187,775	-	220,062
Contributions	-	-	-	276,500	276,500
Deficiencies and recovery	12,651	-	(12,651)	-	-
Amounts appropriated for expenditure	-	(520,000)	(7,547)	-	(527,547)
2016 Activity	12,651	(487,713)	167,577	276,500	(30,985)
Endowment net assets, at December 31, 2016	**$ -**	**$ 12,101**	**$167,577**	**$2,078,631**	**$2,258,309**

Funds with Deficiencies

From time to time, the fair value of assets associated with the donor-restricted endowment fund may fall below the level that the donor or SPMIFA requires the entity to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature reported in unrestricted net assets were $(12,651) as of June 30, 2015. This deficiency resulted from unfavorable market fluctuations that occurred and the continued appropriation for Ranchers was deemed prudent by the Board of Directors. In 2016, recoveries of $12,651 offset deficiencies that occurred in 2015.

NOTE 5 – ENDOWMENTS (continued)

Funds with Reclassifications

In 2015, the Organization was made aware of previous donations that should have been classified as permanently restricted. As a result, $36,756 was reclassified to permanent net assets. No restatement for prior year was made.

Risk Objectives and Risk Parameters

The Organization has adopted an investment and spending policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include the assets of the donor-restricted funds that the entity must hold in perpetuity plus any board restricted quasi-endowment funds.

Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to outperform over market cycle an appropriate pre-specified market index rate of return, and to achieve favorable investment results relative to investors with similar objectives and policies, and to achieve the maximum total return over the long term that is commensurate with a reasonable degree of risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. Currently, this involves a mix of 40% fixed income investments and 60% equity investments.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for distribution 4% of the 12 quarter rolling average of the market value of the endowment fund. Any remaining earnings will be reinvested into the fund to grow the endowment. Distributions will not be made from the corpus of donor-restricted funds. This is consistent with the entities' objective to maintain the purchasing power of the endowment assets held in perpetuity as well as provide additional real growth through new gifts and investment return.

NOTE 6 – PREPAID EXPENSES

At December 31, 2016 and 2015, prepaid expenses consisted of insurance payments in the amount of $22,255 and $23,309, respectively. These expenses and have been included in the Statement of Functional Expenses under *Insurance*.

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, consists of the following:

	2016	2015
Land	$ 343,416	$ 343,417
Land improvements	11,970	11,970
Buildings	13,395,882	12,750,640
Building improvements	885,609	829,307
Barns and corrals	131,692	131,692
Furniture & fixtures	268,608	268,608
Machinery & equipment	187,417	187,417
Office equipment	82,244	82,244
Vehicles	503,024	458,115
Construction in progress	125,345	656,686
	15,935,207	15,720,096
Less accumulated depreciation	(4,681,089)	(4,276,900)
Total, net of accumulated depreciation	$11,254,118	$11,443,196

Depreciation expense for the year ended December 31, 2016 and 2015 is $405,577 and $391,510, respectively.

Construction in progress for the year ended December 31, 2016 and 2015 consist of:

Beginning balance at December 31, 2014	$ 79,585
Construction in Progress	577,101
Balance at December 31, 2015	$656,686
Construction in Progress	170,199
Construction completed in 2016	(701,540)
Ending balance at December 31, 2016	$125,345

NOTE 8 – LIFE INSURANCE

Two life insurance policies were donated to the Organization by founding members Mark Showers and Marilyn Showers in prior years. These policies are reflected in the Statement of Financial Position and, under the terms of the donors, may not be sold or cancelled. The face values or net death benefit of these policies are $280,000 and $120,000 respectively. Current net equity or surrender value of these polices at December 31, 2016 and 2015 is $28,572 and $31,068, respectively.

NOTE 9 – DEPOSITS

Deposits consist of refundable rancher and employee residence deposits, and employee deposits for uniforms, keys, and identification tags. These consist of the following at December 31, 2016 and 2015:

	2016	2015
Rancher deposits	$120,715	$118,565
Employee rental deposits	300	300
Employee property deposits	8,070	8,545
	$129,085	$127,410

NOTE 10 – LINES OF CREDIT

In December 2016, the Organization renewed a revolving line of credit with JPMorgan Chase Bank. The credit limit is $500,000 with interest payable monthly at 5.865% over the index (LIBOR). The outstanding line of credit balance was paid in full prior to December 31, 2016, and there was no outstanding balance as of December 31, 2016. The amount drawn as of December 31, 2015 was $270,000. The line of credit is secured by buildings and land.

Interest expense was $22,370 and $7,666 for the years ended December 31, 2016 and 2015, respectively.

NOTE 11 – ADOH RESTRICTION

The Organization currently has a funding agreement with the Arizona Department of Housing that in exchange for an award of $750,000, it will construct and manage independent living apartments on the premises currently held by Rainbow Acres for the purposes of providing rental housing for developmentally disabled adults. The Organization must utilize the apartments for the intended purpose for a period of twenty years or else return the award of $750,000 plus any accrued interest at .5% per month until default is cured.

The agreement is based on a 20 year note maturing on January 1, 2032. The amount of the award originated in stages during the construction of the independent apartment units to its maximum amount of $750,000. The Organization provided additional capital to build the apartments. The interest rate for the life of the loan is a fixed rate of zero (0.0) percent as long as the covenants of the housing agreement are met. On the maturity date, if no event of default occurs, Rainbow Acres' obligation to repay the note shall terminate and the Organization will be entitled to a release of the Deed of Trust that secures the note upon payment of a reasonable fee for preparation and recordation of the release. The note will be deemed satisfied upon the Organization's fulfilling the obligations of the note as stated above thereby releasing the obligation to repay funds. The property referred to as the Independent Living Apartments at 2120 West Reservation Loop Road in the City of Camp Verde, County of Yavapai is collateral for the note payable. Because of the unlikely probability that the Organization will default, the obligation has not met the criteria for recognition as a contingent liability. The donor restriction will remain until forgiven.

NOTE 12 – RESTRICTIONS ON NET ASSETS

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

A temporary restriction exists for the independent living apartments partially funded through a grant by the Arizona Department of Housing. The Organization must use the apartments as rental housing for developmentally disabled adults for twenty years as stipulated in the funding agreement. See Note 11.

Temporarily restricted net assets at December 31, 2016 and 2015 are as follows:

	2016	2015
Rancher programs and activities	$ 188,790	$ 133,391
Rancher funds – pass-through	12,791	13,164
Rancher vacation funds	23,482	14,450
Apartment construction funds	-	60,000
Independent living apartments (ADOH)	750,000	750,000
New homes and improvements capital funds	64,941	86,566
Life insurance policies	28,573	31,068
ADOT vehicles	88,260	65,564
Pledges receivable (restricted by time)	189,826	67,436
Unappropriated earnings on endowments	167,577	-
	$1,514,240	$1,221,639

Restrictions on net assets, presented in these financial statements as permanently restricted, are due to donor-imposed restrictions.

Permanently restricted net assets at December 31, 2016 and 2015:

	2016	2015
Palmer endowment	$1,000,000	$1,000,000
Taber endowment	328,925	92,425
General endowment	210,159	170,160
Lattanzi funds endowment	193,028	193,028
Worden endowment	105,762	105,762
Edward Jones endowment	100,000	100,000
Nash house endowment	46,450	45,450
Scholarship endowment	35,050	35,050
House endowment	34,256	34,256
Choir endowment	25,000	25,000
	$2,078,631	$1,802,131

NOTE 13 – DEFINED CONTRIBUTION RETIREMENT PLAN

The Organization contributes to a defined contribution retirement plan sponsored by the Ministers and Missionaries Benefits Board (MMBB) on behalf of all eligible employees under IRS Code 403(b)(9). Three plans are available, depending on eligibility status. The Comprehensive Retirement Plan is only available to those who have participated in the Comprehensive Retirement Plan at a previous employer and wish to continue. The Organization will contribute 16% of an eligible employee's annual compensation to the plan on a monthly basis. The Tax Deferred Annuity Plan is available to all employees that work at least 30 hours per week. The employer contribution for this plan is either $50 per month or $250 per month, depending on criterion documented in the plan. Eligible and participating employees may make additional contributions to a third plan, "The Annuity Supplement Plan," up to the currently allowed limits imposed by the IRS. The Organization's contributions to the retirement plans for the year ended December 31, 2016 and 2015 totaled $81,755 and $161,160, respectively.

In 2016, an employee who was eligible to participate in the Comprehensive Retirement Plan, for whom a Retirement Plan Contribution Payable liability had been established, elected not to participate in the plan, resulting in a reduction of $39,103 to the Retirement Plan Contribution Payable for the year ended December 31, 2016. This liability reduction also reduced the Retirement Plan Contribution expense reported in the Statement of Functional Expenses by $39,103 for the year ended December 31, 2016.

NOTE 14 – OPERATING LEASES

The Organization leases two pieces of office equipment. The first is for a postage machine with Pitney Bowes dated July 29, 2015, requiring quarterly payments of $240 for 4 years, expiring July 2019. The second lease is for a copier system with Xerox dated May 11, 2016, requiring monthly payments of $273 for 60 months, expiring May 2021. The amounts paid in 2016 and 2015, respectively, for the office equipment leases, including fees and insurance, was $3,271 and $3,195, and are included in *Equipment rental and maintenance* in the Statement of Functional Expenses.

The minimum lease payments required under the above operating leases as of December 31, are as follows:

2017	$ 4,239
2018	4,239
2019	3,999
2020	3,279
2021	1,093
	$16,849

NOTE 15 – SECURITY DEPOSIT

A security deposit of $32,750 was established to maintain electricity services with Arizona Public Services (APS). The deposit was required by APS in December 2014 due to previous delinquent payments. This agreement was reevaluated in January 2017, and the security deposit was refunded in full in January and February 2017.

NOTE 16 – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

While no single customer comprises greater than 10% of net revenues, 71% of gross revenue and 46% of net revenue are derived from a specific market and affected by economic events outside of its control. The Organization provides housing, care and programming to adults with developmental disabilities to help these individuals live to their fullest potential with dignity and purpose. The cost of providing these services has outpaced the ability of the market to pay full price resulting in an overall rate of 34.5% in financial assistance to Ranchers. The Organization recognizes the challenges of cost versus customers' ability and willingness to pay full price. This factor also affects the ability for the Organization to maintain full capacity of its facilities.

Over the previous five years, the Organization experienced a decline in net assets each year for a total reduction of 6.5% in net assets. The Organization has relied on and drawn quasi-endowment reserve funds to cover shortfalls. Should the trend continue, the Organization will exhaust available reserves, substantially impacting operations. The Organization has been proactively working to locate customers that have increased financial capacity, increase endowed funds and reduce costs. These efforts reversed the negative trend in the current year.

NOTE 17 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 22, 2017, the date which the financial statements were available to be issued.