

RAINBOW FLEET, INC.

FINANCIAL STATEMENTS

**AS OF AND FOR THE YEAR ENDED
JUNE 30, 2022**

**TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

**HSPG
&
ASSOCIATES**

ACCOUNTING | TAX | ADVISORY

RAINBOW FLEET, INC.
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June 30, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rainbow Fleet, Inc.
Oklahoma City, Oklahoma

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Rainbow Fleet, Inc. (a nonprofit organization) (“Rainbow Fleet”), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rainbow Fleet as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Rainbow Fleet and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Rainbow Fleet’s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

HSPG & ASSOCIATES, PC

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Rainbow Fleet's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rainbow Fleet's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 or 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 schedule of expenditures of federal awards 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 December 15, 2022, on our consideration of Rainbow Fleet's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of Rainbow Fleet's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rainbow Fleet's internal control over financial reporting and compliance.

HSPG & Associates, P.C.

December 15, 2022

RAINBOW FLEET, INC.
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2022

ASSETS

Cash and cash equivalents	\$ 436,966
Investments	172,209
Contracts receivable	307,524
Grants receivable	75,000
Prepaid expenses and other assets	61,381
Property and equipment, net	226,419
Beneficial interest in assets held by others	9,261

TOTAL ASSETS	<u>\$ 1,288,760</u>
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LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 132,191
Accrued compensation payables	9,906
Accrued expenses	8,400

TOTAL LIABILITIES	<u>150,497</u>
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NET ASSETS

Without donor restrictions:

Undesignated	775,468
Board designated	44,508
Total net assets without donor restrictions	<u>819,976</u>

With donor restrictions	<u>318,287</u>
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TOTAL NET ASSETS	1,138,263
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,288,760</u>
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The accompanying notes are an integral part of these financial statements.

RAINBOW FLEET, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Federal and state contracts	\$ 1,944,709	\$ -	\$ 1,944,709
Service Fees	702,003	-	702,003
Contributions	183,912	307,742	491,654
Paycheck Protection Program loan forgiveness	141,071	-	141,071
Investment Income	12,534	-	12,534
Unrealized gains (losses)	(19,759)	-	(19,759)
Other Revenue	3,669	-	3,669
Net Assets Released from Restriction:	53,889	(53,889)	-
Total revenue and support	<u>3,022,028</u>	<u>253,853</u>	<u>3,275,881</u>
EXPENSES			
Program services:			
Early Education Center and After School Program	831,122	-	831,122
Child and Adult Care Food Program	1,276,928	-	1,276,928
Child Care Resource and Referral	584,617	-	584,617
Provider Training	8,303	-	8,303
Other donor restricted grants	50,503	-	50,503
Total program services	<u>2,751,473</u>	<u>-</u>	<u>2,751,473</u>
Management and general	227,014	-	227,014
Fundraising	5,069	-	5,069
Total expenses	<u>2,983,556</u>	<u>-</u>	<u>2,983,556</u>
Change in net assets	38,472	253,853	292,325
NET ASSETS, BEGINNING OF YEAR	<u>781,504</u>	<u>64,434</u>	<u>845,938</u>
NET ASSETS, END OF YEAR	<u>\$ 819,976</u>	<u>\$ 318,287</u>	<u>\$ 1,138,263</u>

The accompanying notes are an integral part of these financial statements.

RAINBOW FLEET, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

	Early Education Center and After School Program	Child and Adult Care Food Program	Child Care Resource And Referral	Provider Training	Other Donor Restricted Grants	Total Program Service Expenses	Management & General	Fundraising	Total
Personnel expenses	\$ 674,849	\$ 114,529	\$ 405,917	\$ -	\$ 11,675	\$ 1,206,970	\$ 132,000	\$ -	\$ 1,338,970
Business expenses	3,714	173	929	1,063	-	5,879	1,177	171	7,227
Contract services	23,518	17,941	53,298	7,240	25	102,022	25,144	-	127,166
Facilities and equipment	74,547	6,219	51,749	-	24,017	156,532	45,752	-	202,284
Fundraising expenses	-	-	-	-	-	-	-	4,044	4,044
Program expenses	42,859	3,881	30,536	-	9,854	87,130	2,962	-	90,092
Travel and meetings	889	4,602	27,039	-	4,139	36,669	114	-	36,783
General office expenses	10,746	6,060	15,149	-	793	32,748	19,865	854	53,467
Day care provider reimbursements	-	1,123,523	-	-	-	1,123,523	-	-	1,123,523
Total expenses	\$ 831,122	\$ 1,276,928	\$ 584,617	\$ 8,303	\$ 50,503	\$ 2,751,473	\$ 227,014	\$ 5,069	\$ 2,983,556

The accompanying notes are an integral part of these financial statements.

RAINBOW FLEET, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 292,325
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	91,195
Net realized and unrealized investment gains	21,802
Reinvested earnings	(12,194)
Paycheck Protection Program loan forgiveness	(141,071)
Change in operating assets and liabilities:	
Contracts receivable	(15,159)
Grants receivable	(75,000)
Prepaid expenses and other assets	(35,442)
Accounts payable	11,659
Accrued compensation payables	(5,819)
Accrued expenses	1,361
Net cash provided by operating activities	<u>133,657</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(59,085)
Distribution from beneficial interest in assets held by others	485
Net cash used in investing activities	<u>(58,600)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	75,057
CASH AND CASH EQUIVALENTS, beginning of year	361,909
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 436,966</u></u>

The accompanying notes are an integral part of these financial statements.

RAINBOW FLEET, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of activities – Rainbow Fleet, Inc. (“Organization”) is a not-for-profit public charity whose mission is to improve the quality of child care in Central Oklahoma. The primary programs at the Organization include (1) a Child Care Resource and Referral Program, (2) participation as a sponsor for the Child and Adult Care Food Program (CCFP) for licensed family child care homes, (3) participation in the Quality Enhancement Initiative program, a privately funded program whose purpose is to increase the quality of child care in Central Oklahoma through the use of specific measurables and benchmarks, and (4) operation of an early education center and after school program.

Child Care Resource and Referral Program:

The Child Care Resource and Referral Program – This program links families seeking child care to licensed child care facilities in Central Oklahoma. Its purpose is to create positive change within the child care delivery system by making it more user friendly, efficient and responsive to the needs of families, employers, childcare providers and the general public.

The Child Care Resource Center – The Resource Center is a service to improve the quality of care by (1) increasing caregivers’ knowledge of child development, (2) assisting caregivers in developing skills to deal creatively with young children in day-to-day situations, and (3) making developmentally appropriate learning and play material available to children. The Resource Center is equipped and administered as a lending library to be utilized by childcare providers and families.

The Child Care Training Workshops – This service provides extensive training and technical assistance to childcare providers, families and employers to support high quality, affordable child care for all families who need it.

The Child Care Resource and Referral Program is funded by a grant from the Oklahoma Child Care Resource and Referral Association, service fees, and private contributions.

Child and Adult Care Food Programs: The Child Care Food Program is a program funded by a grant from the U. S. Department of Agriculture and passed through the Oklahoma State Department of Education. CCFP ensures the healthy growth and development of young children through good nutrition by subsidizing the cost of balanced meals served in quality family child care homes. Homes are offered nutrition training and visited at least three times per year for compliance with program regulations. CCFP increases quality and stabilizes the supply of child care by lessening turnover, making child care operation more cost effective and more affordable for families.

Early Education Center and After School Program: The Organization’s early education center and after school program sets the highest standard of excellence in Oklahoma City. Employing research-based teaching practices and Montessori pedagogy early learning methods, the Organization’s highly skilled child development experts create an optimal environment for the children who attend.

Basis of accounting – The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other assets and liabilities. Revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation – Net assets, revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. The Organization reports information regarding its financial position and activities as follows:

Net assets without donor restrictions – Net assets available for use in general operations that are not subject to donor-imposed restrictions.

Board designated net assets – The Board has designated net assets totaling \$44,508 from a fundraising event to be used at a later date upon the Board’s determination for its specific purpose.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates those resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and cash equivalents – For purposes of the statement of cash flows, the Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents unless designated for investment purposes.

Revenue recognition – Revenues that have the characteristics of exchange transactions, such as service fees, are not recognized until earned. The Organization’s earned revenue includes a single performance obligation and is recognized at a point-in-time as services are provided. Fees received prior to services being provided are recorded as deferred revenue.

Federal and state grant revenue is recognized as the expenses to be reimbursed are incurred and the criteria for the grants have been met. Investment income is recognized as earned.

Contributions are recognized as revenues in the period unconditional promises to give are received and are reported as net assets with or without donor restrictions depending on the existence or nature of any donor restrictions. Contributions that are received and the restriction is met during the same period are classified as contributions without donor restrictions. The standards also provide that if the governing body of an organization has the right to remove a donor restriction, the contributions should be classified as without restrictions. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Receivables and credit policies – Contracts receivable are uncollateralized obligations generally requiring payment within 30 days from the invoice date. Interest and delinquency fees are not assessed. Payments of contracts receivable are allocated to the specific invoices identified, if unspecified, are applied to the earliest unpaid invoices. As contracts receivable are collectible from federal and state governments, the Organization believes these to be fully collectible and has not recorded an allowance for doubtful accounts.

Grants receivable consist of unconditional promises to give, net of estimated discounts. Management believes all receivables are fully collectible within the following fiscal year ; accordingly, no allowance for doubtful accounts have been recorded.

Investments – Investments consist of an investment in a mutual fund and are carried at fair market value. Realized gains and losses on sales of securities are computed based on specific identification. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that

changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying financial statements.

Beneficial interest in assets held by others – The Organization follows the Accounting Standards Codification (“ASC”) guidance which requires a not-for-profit organization that transfers assets to a community foundation and specifies itself as the beneficiary to recognize its beneficial interest in the assets transferred (see Note 4). The Organization carries its beneficial interest in the assets held by the Oklahoma City Community Foundation, Inc. (“OCCF”) at fair value.

Property and equipment – Property and equipment are carried at cost or, if donated, at the approximate fair value, based on donor appraisal, at the date of donation. The Organization’s capitalization threshold is \$5,000 for assets acquired with an economic useful life greater than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

The Organization reports gifts of property and equipment as support without donor restrictions unless explicit donor restrictions specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor restrictions about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Concentration of credit risk – The Organization maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. As of June 30, 2022, the Organization’s deposit balances with financial institutions subject to FDIC coverage exceeded such coverage by \$186,966. The Organization has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash or cash equivalents.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Fair value measurements – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements accounting guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels except for investments measured using Net Asset Value (“NAV”) per share as a practical expedient which are exempt from level classification. The following is a brief description of those three levels:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs that are derived principally from or corroborated by observable market data.
- Level 3: Inputs that are unobservable and significant to the overall fair value measurement.

Financial assets carried at fair value include investments and beneficial interest in assets held by others (see Note 5). The Organization has no liabilities carried at fair value on a recurring basis and no assets or liabilities carried at fair value on a non-recurring basis at June 30, 2022.

Functional expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among program services, management and general, and fundraising. Management and

general expenses include those expenses that are not directly identifiable with another specific function but provide for the overall support and direction of the Organization.

Income taxes – The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except for any income that the Organization generates from an unrelated trade or business which is subject to federal corporate taxes on income. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years beginning before June 30, 2019.

Donated services – Donated services are recognized by the Organization if they create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically be purchased if not provided by donation. In-kind donations of goods and services are recorded in the financial statements at the estimated value of such goods or services.

Subsequent Events – The Organization has evaluated subsequent events through December 15, 2022, which is the date the financial statements were available to be issued. There are no subsequent events requiring recognition or disclosure in the 2022 financial statements.

Change in accounting guidance – In September 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2020-07 “Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets” which increases transparency around contributed nonfinancial assets (also known as “gifts-in-kind”) received by not-for-profit (“NFP”) organizations including transparency on how those assets are used and how they are valued. The ASU requires an NFP to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. It also requires an NFP to disclose certain information related to the types of contributed nonfinancial assets received, whether they were utilized or monetized, the NFP’s policy, if any, about monetizing rather than utilizing such assets, and valuation techniques used to determine the valuation of such contributed assets. The Organization has adopted this ASU for the year ended June 30, 2022 with no impact to previously reported net assets.

Recent accounting pronouncements – In February 2016, FASB issued ASU No. 2016-02 “Leases (Topic 842).” The purpose of the guidance is to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position as well as providing additional disclosure requirements related to leasing arrangements. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2021. Management is currently evaluating the impact that adopting the above recent accounting pronouncement will have on the Organization’s financial statements in future reporting periods.

2. LIQUIDITY AND AVAILABILITY

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

Cash and cash equivalents	\$ 436,966
Investments	172,209
Contracts receivable	307,524
Grants receivable	75,000
Less:	
Board designated net assets	(44,508)
	<u>\$ 947,191</u>

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. The Organization receives contributions restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

Board designated net assets are available for use at the discretion of the board of directors.

3. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at June 30, 2022:

Leasehold improvements	\$ 358,414
Furniture and equipment	51,175
Vehicles	<u>19,000</u>
	428,589
Less: accumulated depreciation	<u>(202,170)</u>
	<u>\$ 226,419</u>

Depreciation expense for the year ended June 30, 2022 totaled \$91,195.

4. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

The Organization is the designated beneficiary of donor advised funds at Oklahoma City Community Foundation ("OCCF"). These funds were contributed to OCCF by the Organization and other third-party contributors. OCCF has variance power over all contributions which assures donors that if the charitable purpose of their contribution becomes impracticable or impossible, the distributions will be directed to similar purposes in the community. OCCF maintains legal ownership of these funds. The Organization follows the standard, "*Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*" to account for these funds. Assets transferred by the Organization remain on the statement of financial position as beneficial interests in assets held by others. At June 30, 2022, assets transferred to OCCF by the Organization had a fair value of \$9,261.

In addition to the funds discussed above, OCCF maintains other funds that have been contributed by various third-party donors for the benefit of the Organization. These funds are not included as assets of the Organization. The earnings from these funds are paid to the Organization each year in accordance with OCCF’s distribution policy. At June 30, 2022, the fair value of the funds originally donated by third parties was \$152,521. The Organization has no remainder interest in the corpus of these funds.

5. FAIR VALUE MEASUREMENTS

Financial assets measured at fair value on a recurring basis are classified within the fair value hierarchy at June 30, 2022 as follows:

	Carrying Value	Total Fair Value	Fair Value Measurements		
			Level 1	Level 2	Level 3
ASSETS					
Investments: mutual funds	\$ 172,209	\$ 172,209	\$ 172,209	\$ -	\$ -
Beneficial interest in assets held by others	9,261	9,261	-	-	9,261
	<u>\$ 181,470</u>	<u>\$ 181,470</u>	<u>\$ 172,209</u>	<u>\$ -</u>	<u>\$ 9,261</u>

The following methods and assumptions were used to estimate the fair value of assets and liabilities reported at fair market value in the accompanying financial statements.

Investments: Investments are stated at fair value, and are based on quoted market prices, when available, or the best estimate of fair value as determined by the fund and/or investment manager. Generally, quoted market prices are available for mutual funds, as such, are classified as Level 1 in the fair value hierarchy.

Beneficial interest in assets held by others: The fair value of the Organization’s beneficial interest in assets held by others is based on the fair value of fund investments as reported by OCCF. These are considered to be level 3 financial assets.

6. NOTES PAYABLE

Paycheck Protection Program forgivable loan – In February 2021, the Organization applied for and received a forgivable loan from the federal government as part of the Small Business Administration (SBA) Paycheck Protection Program (“PPP”) in the amount of \$141,071 bearing annual interest of 1.00%. Forgiveness of the principal and interest of this loan was received from the SBA in February 2022. As a result, the proceeds of this loan have been recognized as income in the accompanying statement of activities.

Line of credit – The Organization maintains a \$30,000 working line of credit with a financial institution that is secured by the assets of the Organization. The note has a variable interest rate (8.2% at June 30, 2022) (floor of 4%) and calls for monthly interest payments with the principal being due at maturity on August 1, 2023. For the year ended June 30, 2022, interest payments of \$-0- had been paid. At June 30, 2022, the line of credit was unused.

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods:

Playground equipment	\$ 97,000
Mobile lending program	1,283
Fellow program	3,652
After school program	8,114
Hispanic initiative	84,950
Position funding	114,027
Beneficial interest in assets held by others	9,261
	<u>\$ 318,287</u>

8. LEASES

The Organization leases office space and equipment under various operating leases. Total lease expense for the year ended June 30, 2022 totaled \$82,315. Future minimum lease payments due for operating leases with terms in excess of one year are as follows:

2023	\$ 74,953
2024	74,953
	<u>\$ 149,906</u>

9. EMPLOYEE RETIREMENT PLAN

The Organization has a 403(b) and 401(k) retirement plan for employees. The Organization contributed \$18,053 to the plans during the year ended June 30, 2022.

10. ECONOMIC DEPENDENCY

The Organization receives a significant portion of its revenue from funds provided through multiple federal contracts. The contract amounts are appropriated each year at the federal level. If significant budget cuts are made at the federal level, the amount of funds the Organization receives could be reduced significantly and have an adverse impact on its operations. Management is not aware of any actions that will adversely affect the amount of funds the Organization will receive in the next fiscal year.

11. CONTINGENCIES

In the normal course of operations, the Organization receives contract funds from various federal and state grantor agencies. The programs are subject to audit by the granting authority, the purpose of which is to ensure compliance with conditions imposed by the granting agency. Any reimbursement, which may arise as the result of the audit of contract funds, is not believed to be material.

12. FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Allocated expenses include compensation and professional fees which are allocated based on estimates of time and effort and rent which is allocated based on estimated square footage.

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REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS
AND THE UNIFORM GUIDANCE



**INDEPENDENT AUDITOR'S 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***

To the Board of Directors
Rainbow Fleet, Inc.
Oklahoma City, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rainbow Fleet, Inc. (“Organization”) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization’s internal control over financial reporting (internal control) as a basis for designing 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organizations’s financial statements are free from material misstatement, 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 financial statements. However, providing an opinion on compliance with those provisions was

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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 the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HSPG & Associates, P.C.

December 15, 2022



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE**

To the Board of Directors
Rainbow Fleet, Inc.
Oklahoma City, Oklahoma

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Rainbow Fleet, Inc.'s ("Organization") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2022. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization 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 June 30, 2022.

Basis for Opinion on Each Major Federal Program

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material

HSPG & ASSOCIATES, PC

noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 a 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.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

HSPG & Associates, P.C.

December 15, 2022

RAINBOW FLEET, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022

Federal Grantor / Pass- Through Grantor / Program Title	Pass-Through Entity Identifying Number	Assistance Listing Number	Contract Number	Total Federal Expenditures
<u>United States Department of Agriculture</u>				
Passed-through Oklahoma State Department of Education:	N/A			
Child and Adult Care Food Program		10.558	H-55-01	\$ 1,261,456
COVID - Child and Adult Care Food Program		10.558	N/A	24,899
Total Child and Adult Care Food Program				<u>1,286,355</u>
Total U.S. Department of Agriculture				<u>1,286,355</u>
<u>United States Department of Health and Human Services</u>				
Passed-through Oklahoma Child Care Resource and Referral Association, Inc.	N/A			
Child Care Development Block Grant		93.575	N/A	584,534
Total U.S. Department of Health and Human Services				<u>584,534</u>
Total Expenditures of Federal Awards				<u>\$ 1,870,889</u>

See notes to schedule of expenditures of federal awards.

RAINBOW FLEET, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Rainbow Fleet, Inc. (“Organization”) under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATES

The Organization has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

RAINBOW FLEET, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022

Section I--Summary of Auditor's Results

Financial statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? yes no

Identification of major programs:

Program / Cluster	<i>Assistance Living Number</i>
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Child and Adult Care Food Program	10.558
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Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

Section II-Findings Required to be Reported in Accordance with *Government Auditing Standards*:
 None to report for the June 30, 2022 period.

Section III-Findings Required to be Reported in Accordance with the Uniform Guidance:
 None to report for the June 30, 2022 period.

RAINBOW FLEET, INC.
SUMMARY SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022

SECTION II – FINANCIAL STATEMENT FINDINGS

Compliance Findings

None

Internal Control Findings

None

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Compliance Findings

None

Internal Control Findings

None