

RAINBOW FLEET, INC.

FINANCIAL STATEMENTS

**AS OF AND FOR THE YEAR ENDED
JUNE 30, 2023**

**TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

**HSPG
&
ASSOCIATES**

ACCOUNTING | TAX | ADVISORY

RAINBOW FLEET, INC.
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June 30, 2023

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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, 2023, 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, 2023, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, Rainbow Fleet adopted Accounting Standards Update No. 2016-02 “*Leases (Topic 842)*”. Our opinion is not modified with respect to this matter.

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.

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 March 29, 2024, 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.

March 29, 2024

RAINBOW FLEET, INC.
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2023

ASSETS

Cash and cash equivalents	\$ 147,366
Investments	181,797
Contracts receivable	543,352
Prepaid expenses and other assets	15,054
Property and equipment, net	129,446
Operating right-of-use asset	77,627
Beneficial interest in assets held by others	9,738

TOTAL ASSETS	<u>\$ 1,104,380</u>
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LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 175,637
Accrued compensation payables	33,893
Accrued expenses	35,753
Operating lease obligation	80,750

TOTAL LIABILITIES	<u>326,033</u>
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NET ASSETS

Without donor restrictions:

Undesignated	560,780
Board designated	44,508
Total net assets without donor restrictions	<u>605,288</u>

With donor restrictions	<u>173,059</u>
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TOTAL NET ASSETS	778,347
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,104,380</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, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Federal and state contracts	\$ 2,948,748	\$ -	\$ 2,948,748
Service Fees	1,004,586	-	1,004,586
Contributions	92,154	15,397	107,551
Paycheck Protection Program loan forgiveness	-	-	-
Investment Income	9,810	-	9,810
Unrealized gains (losses)	686	-	686
Other Revenue	5,464	-	5,464
Net Assets Released from Restriction:	160,625	(160,625)	-
Total revenue and support	<u>4,222,073</u>	<u>(145,228)</u>	<u>4,076,845</u>
EXPENSES			
Program services:			
Early Education Center and After School Program	1,155,391	-	1,155,391
Child and Adult Care Food Program	1,718,942	-	1,718,942
Child Care Resource and Referral	722,390	-	722,390
Quality Enhancement Initiative	380,743	-	380,743
Provider Training	10,571	-	10,571
Other donor restricted grants	118,913	-	118,913
Total program services	<u>4,106,950</u>	<u>-</u>	<u>4,106,950</u>
Management and general	282,567	-	282,567
Fundraising	47,244	-	47,244
Total expenses	<u>4,436,761</u>	<u>-</u>	<u>4,436,761</u>
Change in net assets	(214,688)	(145,228)	(359,916)
NET ASSETS, BEGINNING OF YEAR	819,976	318,287	1,138,263
NET ASSETS, END OF YEAR	<u>\$ 605,288</u>	<u>\$ 173,059</u>	<u>\$ 778,347</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, 2023

	Early Education Center and After School Program	Child and Adult Care Food Program	Child Care Resource And Referral	Quality Enhancement Initiative	Provider Training	Other Donor Restricted Grants	Total Program Service Expenses	Management & General	Fundraising	Total
Personnel expenses	\$ 821,751	\$ 158,038	\$ 461,277	\$ 202,360	\$ (58)	\$ 45,753	\$ 1,689,121	\$ 190,213	\$ -	\$ 1,879,334
Business expenses	2,936	372	527	(244)	686	89	4,366	5,944	1,230	11,540
Contract services	58,660	19,314	41,777	4,705	9,943	4,972	139,371	16,247	2,607	158,225
Facilities and equipment	117,397	10,227	41,742	20,528	-	56,637	246,531	13,906	-	260,437
Fundraising expenses	-	-	-	-	-	-	-	329	38,702	39,031
Program expenses	129,692	6,945	80,618	128,771	-	5,716	351,742	8,604	3,161	363,507
Travel and meetings	1,089	18,721	53,657	12,200	-	946	86,613	7,631	-	94,244
General office expenses	23,866	9,589	42,792	12,423	-	4,800	93,470	39,693	1,544	134,707
Day care provider reimbursements	-	1,495,736	-	-	-	-	1,495,736	-	-	1,495,736
Total expenses	\$ 1,155,391	\$ 1,718,942	\$ 722,390	\$ 380,743	\$ 10,571	\$ 118,913	\$ 4,106,950	\$ 282,567	\$ 47,244	\$ 4,436,761

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

RAINBOW FLEET, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ (359,916)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	130,875
Amortization of right-of-use asset	76,806
Net realized and unrealized investment gains	(10,582)
Change in operating assets and liabilities:	
Contracts receivable	(235,828)
Grants receivable	75,000
Prepaid expenses and other assets	46,327
Accounts payable	43,446
Accrued compensation payables	23,987
Accrued expenses	27,353
Lease liability	(73,683)
Net cash used in operating activities	<u>(256,215)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(33,902)
Distribution from beneficial interest in assets held by others	517
Net cash used in investing activities	<u>(33,385)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(289,600)
CASH AND CASH EQUIVALENTS, beginning of year	436,966
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 147,366</u></u>
SUPPLEMENTAL INFORMATION	
Operating right-of-use assets acquired via lease obligations	<u><u>\$ 154,433</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, 2023

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 Partnership for School Readiness Foundation, 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.

Quality Enhancement Initiative (“QEI”): QEI is a comprehensive training and technical assistance initiative that seeks to improve the quality of early care and education in Family Child Care Homes in Oklahoma County.

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 over 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, 2023, the Organization’s deposit balances with financial institutions subject to FDIC coverage did not exceed such coverage.

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, 2023.

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, 2020.

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 March 29, 2024, which is the date the financial statements were available to be issued. There are no subsequent events requiring recognition or disclosure in the 2023 financial statements.

Adopted accounting pronouncements – In February 2016, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)*. FASB ASC 842 supersedes the lease requirements in FASB ASC 840. Under FASB ASC 842, lessees are required to recognize assets and liabilities on the statement of financial position for most leases and provide enhanced disclosures. The Organization adopted FASB ASC 842, with a date of initial application of July 1, 2022, by applying the modified retrospective transition approach and using the additional (and optional) transition method provided by ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. The Organization did not restate prior comparative periods as presented under FASB ASC 840 and instead evaluated whether a cumulative effect adjustment to net assets as of July 1, 2022, was necessary for the cumulative impact of adoption of FASB ASC 842. The most significant effects of adopting FASB ASC 842 was the recognition of \$154,433 of operating lease right-of-use (“ROU”) assets and operating lease liabilities. No cumulative effect adjustment to net assets as of July 1, 2022, was necessary. FASB ASC 842 did not have a significant effect on the results of operations or cash flows for the year ended June 30, 2023.

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	\$ 147,366
Investments	181,797
Contracts receivable	543,352
Less:	
Board designated net assets	(44,508)
	<u>\$ 828,007</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, 2023:

Leasehold improvements	\$ 367,394
Furniture and equipment	76,098
Vehicles	19,000
	<u>462,492</u>
Less: accumulated depreciation	<u>(333,046)</u>
	<u>\$ 129,446</u>

Depreciation expense for the year ended June 30, 2023 totaled \$130,875.

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, 2023, assets transferred to OCCF by the Organization had a fair value of \$9,738.

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, 2023, the fair value of the funds originally donated by third parties was \$150,685. 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, 2023 as follows:

	Carrying Value	Total Fair Value	Fair Value Measurements		
			Level 1	Level 2	Level 3
ASSETS					
Investments: mutual funds	\$ 181,797	\$ 181,797	\$ 181,797	\$ -	\$ -
Beneficial interest in assets held by others	<u>9,738</u>	<u>9,738</u>	<u>-</u>	<u>-</u>	<u>9,738</u>
	<u>\$ 191,535</u>	<u>\$ 191,535</u>	<u>\$ 181,797</u>	<u>\$ -</u>	<u>\$ 9,738</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

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 (11.7% at June 30, 2023) (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, 2023, interest payments of \$-0- had been paid. At June 30, 2023, 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	\$ 69,042
EEC Classroom	10,000
Intern program	3,395
After school program	2,207
Hispanic initiative	25,344
Position funding	53,333
Beneficial interest in assets held by others	9,738
	<u>\$ 173,059</u>

8. LEASES – ASC 842

The Organization adopted ASU 2016-02 (ASC 842) as of July 1, 2022. The Organization has an operating lease for office space. The Organization’s lease was evaluated to be a lease as of July 1, 2022. The Organization assesses whether an arrangement qualifies as a lease (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration) at inception and only reassesses its determination if the terms and conditions of the arrangement are changed. Leases with an initial term of 12 months or less are not recorded on the statement of financial position. Lease expense is recognized for these leases on a straight-line basis over the lease term.

The lease has a remaining term of one year. Leases that include options to extend are included in the lease assets and liabilities once they are determined to be likely.

The lease does not provide an implicit rate; accordingly, the Organization uses the borrowing rate based on the risk-free borrowing rate at the adoption date in determining the present value of lease payments.

The components of lease expense for the year ended June 30, 2023 were as follows:

Operating lease cost	\$ 78,076
Variable lease cost	7,702
Short-term lease cost	3,371
Total lease expense	<u>\$ 89,149</u>

Supplemental cash flow information related to leases for the year ended June 30, 2023 was as follows:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating lease - operating cash flows	\$ 78,076
Right-of-use assets obtained in exchange for lease obligations:	
Operating lease	\$ 154,433

Supplemental information related to leases for the year ended June 30, 2023 was as follows:

Weighted Average Remaining Lease Term:	
Operating lease	1 year
Weighted Average Discount Rate:	
Operating lease	1.1%

Maturities of lease liabilities as of June 30, 2023 were as follows:

	Operating
Years ending June 30:	<u>Lease</u>
2024	\$ 81,199
Thereafter	-
Less imputed interest	(449)
Total	<u>\$ 80,750</u>

9. EMPLOYEE RETIREMENT PLAN

The Organization has a 403(b) and 401(k) retirement plan for employees. The Organization contributed \$27,318 to the plans during the year ended June 30, 2023.

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, 2023, 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 March 29, 2024.

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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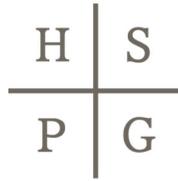
not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

March 29, 2024



**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, 2023. 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, 2023.

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.

March 29, 2024

RAINBOW FLEET, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023

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:				
Child and Adult Care Food Program	N/A	10.558	H-55-01	\$ 1,495,736
Total U.S. Department of Agriculture				1,495,736
Total Expenditures of Federal Awards				\$ 1,495,736

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, 2023

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, 2023. 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. All federal awards passed through other government agencies are included on the Schedule.

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, 2023

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, 2023 period.

Section III-Findings Required to be Reported in Accordance with the Uniform Guidance:
None to report for the June 30, 2023 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