

Rainbow Fleet, Inc.
Oklahoma City, Oklahoma

***REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION***

For the Year Ended June 30, 2016

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RAINBOW FLEET, INC.
Oklahoma City, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rainbow Fleet, Inc.

We have audited the accompanying financial statements of Rainbow Fleet, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rainbow Fleet, Inc. as of June 30, 2016, 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.

Other Matters

Other 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* (the *Uniform Guidance*), is presented for purposes of additional analysis and is not a required part of the financial statements. In addition, the accompanying supplemental information, as listed in the preceding table of contents, 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2017 on our consideration of Rainbow Fleet, Inc.'s internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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, Inc.'s internal control over financial reporting and compliance.



SAUNDERS & ASSOCIATES, PLLC
Certified Public Accountants
Ada, Oklahoma

March 30, 2017

FINANCIAL STATEMENTS

RAINBOW FLEET, INC.
Oklahoma City, Oklahoma

STATEMENT OF FINANCIAL POSITION

June 30, 2016

ASSETS

Current Assets:

| | | |
|--------------------------------------|----|----------------|
| Cash and Cash Equivalents | \$ | 44,879 |
| Investments | | 116,279 |
| Contracts Receivable | | 253,262 |
| Other Accounts Receivable | | 17,728 |
| Allowance for Uncollectible Accounts | | (17,498) |
| Prepaid Expenses | | 8,016 |
| Total Current Assets | | <u>422,666</u> |

Fixed Assets:

| | | |
|--------------------------|--|----------|
| Fixed Assets | | 51,176 |
| Accumulated Depreciation | | (51,176) |
| Total Fixed Assets | | <u>0</u> |

Other Assets:

| | | |
|---|--|--------------|
| Rainbow Fleet Endowment Fund at the Oklahoma City Community Foundation | | <u>8,721</u> |
|---|--|--------------|

TOTAL ASSETS \$ 431,387

LIABILITIES AND NET ASSETS

Current Liabilities:

| | | |
|-----------------------------|----|----------------|
| Accounts Payable | \$ | 135,168 |
| Payroll Related Liabilities | | 6,225 |
| Accrued Expenses | | 2,486 |
| Total Current Liabilities | | <u>143,879</u> |

Total Liabilities 143,879

Net Assets:

| | | |
|------------------------|--|----------------|
| Unrestricted: | | |
| Board Designated | | 44,508 |
| Undesignated | | 188,461 |
| Temporarily Restricted | | 45,818 |
| Permanently Restricted | | 8,721 |
| Total Net Assets | | <u>287,508</u> |

TOTAL LIABILITIES AND NET ASSETS \$ 431,387

* The accompanying notes are an integral part of the financial statements.

RAINBOW FLEET, INC.
Oklahoma City, Oklahoma

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|-------------------|---------------------------|---------------------------|-------------------|
| REVENUES | | | | |
| Federal Contracts | \$ 0 | \$ 1,835,701 | \$ 0 | \$ 1,835,701 |
| Service Fees | 29,275 | 0 | 0 | 29,275 |
| Contributions | 91,853 | 0 | 0 | 91,853 |
| Fundraising | 14,353 | 0 | 0 | 14,353 |
| Investment Income | 12,128 | 0 | 0 | 12,128 |
| Other Revenue | 14,180 | 0 | 0 | 14,180 |
| Net Assets Released from Restrictions: | | | | |
| Satisfaction of Program Restrictions | 1,939,053 | (1,939,053) | 0 | 0 |
| Total Revenues | 2,100,842 | (103,352) | 0 | 1,997,490 |
| EXPENSES | | | | |
| Child and Adult Care Food Program | 1,440,607 | 0 | 0 | 1,440,607 |
| Child Care Resource and Referral | 414,721 | 0 | 0 | 414,721 |
| Provider Training | 15,567 | 0 | 0 | 15,567 |
| Resource Center | 38,898 | 0 | 0 | 38,898 |
| Inasmuch Program | 80,229 | 0 | 0 | 80,229 |
| Fundraising | 1,287 | 0 | 0 | 1,287 |
| Management and General | 87,877 | 0 | 0 | 87,877 |
| Total Expenses | 2,079,186 | 0 | 0 | 2,079,186 |
| Change in Net Assets | 21,656 | (103,352) | 0 | (81,696) |
| Transfers | 0 | 0 | 0 | 0 |
| Unrealized Gain (Loss) | 525 | 0 | (410) | 115 |
| Net Assets, June 30, 2015 | 210,788 | 149,170 | 9,131 | 369,089 |
| NET ASSETS, JUNE 30, 2016 | \$ 232,969 | \$ 45,818 | \$ 8,721 | \$ 287,508 |

* The accompanying notes are an integral part of the financial statements.

RAINBOW FLEET, INC.
Oklahoma City, Oklahoma

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2016

| | Child and Adult Care Food Program | Child Care Resource and Referral | Provider Training | Resource Center | Quaility Enhancement Initiative Program | Fundraising | Management and General | Total |
|----------------------------------|--|--|-------------------------|-------------------------|--|------------------------|---------------------------|----------------------------|
| <u>EXPENSES</u> | | | | | | | | |
| Personnel Expenses | \$ 121,270 | \$ 275,816 | \$ 0 | \$ 7,994 | \$ 62,013 | \$ 0 | \$ 63,359 | \$ 530,452 |
| Business Expenses | 213 | 796 | 1,673 | 0 | 119 | 0 | 1,240 | 4,041 |
| Contract Services | 12,694 | 34,893 | 13,250 | 0 | 942 | 0 | 13,026 | 74,805 |
| Facilities and Equipment | 20,846 | 41,373 | 0 | 0 | 108 | 0 | 4,624 | 66,951 |
| Fundraising Exp | 0 | 0 | 0 | 0 | 0 | 61 | 23 | 84 |
| Program Expenses | 8,141 | 38,830 | 0 | 22,793 | 13,128 | 750 | 2,484 | 86,126 |
| Project Expenses | 0 | 0 | 0 | 7,096 | 0 | 0 | 0 | 7,096 |
| Office Expense | 8,893 | 18,999 | 644 | 1,015 | 2,519 | 476 | 3,050 | 35,596 |
| Travel Expense | 6,823 | 4,014 | 0 | 0 | 1,400 | 0 | 71 | 12,308 |
| Other Expenses | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Day Care Provider Reimbursements | <u>1,261,727</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>1,261,727</u> |
| TOTAL EXPENSES | <u>\$ 1,440,607</u> | <u>\$ 414,721</u> | <u>\$ 15,567</u> | <u>\$ 38,898</u> | <u>\$ 80,229</u> | <u>\$ 1,287</u> | <u>\$ 87,877</u> | <u>\$ 2,079,186</u> |

* The accompanying notes are an integral part of the financial statements.

RAINBOW FLEET, INC.
Oklahoma City, Oklahoma

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2016

Cash Flows From Operating Activities:

Change in Net Assets \$ (81,696)

Adjustments to Reconcile to Cash Provided by Operating Activities:

Depreciation 0
Decrease in Contracts Receivable (24,165)
Decrease in Other Accounts Receivable 23,872
Decrease in Allowance for Uncollectible Accounts (1,400)
Decrease in Prepaid Expenses 3,133
Decrease in Other Assets 410
Decrease in Accounts Payable (8,606)
Decrease in Payroll Related Liabilities (2,385)
Decrease in Accrued Expenses (70)

Net Cash Provided (Used) by Operating Activities (90,907)

Cash Flows From Investing Activities:

Purchase of Investments (5,979)
Unrealized Gain 115

Net Cash Provided (Used) By Investing Activities (5,864)

Cash Flows From Financing Activities:

Net Cash Provided (Used) By Financing Activities 0

Increase (Decrease) in Cash and Cash Equivalents (96,771)

Cash and Cash Equivalents, June 30, 2015 141,650

CASH AND CASH EQUIVALENTS, JUNE 30, 2016 \$ 44,879

* The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities: Rainbow Fleet is a not-for-profit public charity whose mission is to improve the quality of child care in central Oklahoma. The primary programs at Rainbow Fleet 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 and (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.

Child Care Resource and Referral Program:

The Child Care Resource and Referral – 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, child care 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 child care providers and families.

The Child Care Training Workshops – This service provides extensive training and technical assistance to child care 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.

Quality Enhancement Initiative: Our Quality Enhancement Specialist improves the quality of care in family child care homes through mentoring and onsite training. This program is designed to assist family child care home providers to advance through the Oklahoma Department of Human Service's Star rating system and to achieve national accreditation.

RAINBOW FLEET, INC.
Oklahoma City, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Financial Statement Presentation: Rainbow Fleet is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Rainbow Fleet classifies its financial statements to present the three classes of net assets defined as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of Rainbow Fleet and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that may be maintained permanently by Rainbow Fleet. Generally, the donors of these assets permit Rainbow Fleet to use all or part of the income earned on any related investments for general or specific purposes.

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.

Restrictions on Net Assets – Temporarily restricted net assets consist of prior year(s) unexpended funds totaling \$45,818 for the Quality Enhancement Initiative program. Permanently restricted net assets consist of funds maintained in the endowment fund at Oklahoma City Community Foundation.

Contributions: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

Basis of Accounting: The financial statements of Rainbow Fleet have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits maintained at financial institutions insured by the Federal Deposit Insurance Cooperation (FDIC). Deposits are carried at cost. Operating cash and CCFP cash are held in separate accounts as required.

Investments: Investments consist of an investment in a mutual fund and are carried at fair value. The investments are held with American Funds. During the year ended June 30, 2016, the fund had dividends of \$3,666 and an unrealized gain of \$115.

RAINBOW FLEET, INC.

Oklahoma City, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Fair Value Measurements

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Fair value is defined as the amount that would be received from the sale of an asset or paid for the transfers of a liability in an orderly transaction between market participants, i.e. an exit price. To estimate an exit price, a three-tier hierarchy is used to prioritize the inputs.

Level 1: Quoted Prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).

Level 3: Significant unobservable inputs (including the Rainbow Fleet, Inc.'s own assumptions in determining the fair value of investments).

Fair values of assets measured on a recurring basis at June 30, 2016 are as follows:

| | | Fair Value Measurements at Reporting Date Using | | |
|----------------------|-------------------|---|--|--|
| | <u>Fair Value</u> | <u>Quoted Prices In Active Markets For Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
| <u>June 30, 2016</u> | | | | |
| Mutual Fund | \$ 116,279 | \$ 116,279 | \$ 0 | \$ 0 |
| Total | <u>\$ 116,279</u> | <u>\$ 116,279</u> | <u>\$ 0</u> | <u>\$ 0</u> |

Fair values are determined by reference to quoted market prices and other relevant information generated by market transactions.

Contracts and Other Accounts Receivable – Contracts receivable are stated at the amount management expects to collect from outstanding balances. Other accounts receivable consists of amounts due from an employee. An allowance totaling \$17,498 has been established as the collectability of that portion of the receivable is unknown at this time.

Equipment: Equipment with a cost greater than \$2,000 is recorded at cost or fair value on date of receipt if acquired by gift. Depreciation of equipment is computed by the straight-line method over its estimated useful life. Depreciation expense for the fiscal year totaled \$0.

RAINBOW FLEET, INC.
Oklahoma City, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Income Taxes and Uncertain Tax Positions

Income Tax Status – Rainbow Fleet, Inc. qualifies as an organization exempt from income taxes under Section 501(c)(3) of the *Internal Revenue Code* and is subject to a tax on income from any unrelated business, as defined by Section 509(a)(1) of the Code. Rainbow Fleet, Inc. currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded.

Rainbow Fleet, Inc. has adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return only when it is determined that the income tax position will more-likely-than-not be sustained upon examinations by taxing authorities. Rainbow Fleet, Inc. has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. Rainbow Fleet, Inc. believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on Rainbow Fleet, Inc.'s financial condition, results of operations, or cash flows. Accordingly, Rainbow Fleet, Inc. has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2016.

Federal and state income tax statutes dictate that tax returns filed in any of the previous three reporting periods remain open to examination. Currently, Rainbow Fleet, Inc. has no open examinations with the Internal Revenue Service or the Oklahoma Tax Commission.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Expenses: Expenses are charged directly to program or management and general categories based on specific identification. Indirect expenses are allocated to departments based on each program's proportional share of the direct costs in relation to the total direct costs.

NOTE 2: FIXED ASSETS

Fixed assets consists of the following:

| | <u>Balance</u> <u>06/30/15</u> | <u>Additions</u> | <u>Disposition</u> | <u>Balance</u> <u>06/30/16</u> |
|--------------------------------|-----------------------------------|------------------|--------------------|-----------------------------------|
| Furniture and Equipment | \$ 51,176 | \$ 0 | \$ 0 | \$ 51,176 |
| Less: Accumulated Depreciation | (51,176) | 0 | 0 | (51,176) |
| | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |

RAINBOW FLEET, INC.
Oklahoma City, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 3: RAINBOW FLEET ENDOWMENT FUND

The Rainbow Fleet Endowment Fund (the Fund) is an established component fund of the Oklahoma City Community Foundation (the Foundation). The Foundation has legal ownership of the fund and variance power over the Fund. Rainbow Fleet is the beneficiary of the Fund and receives distributions from the Fund subject to the Foundation's spending policy. The Fund consists of both funds contributed directly by Rainbow Fleet to the Foundation, and receipts from third party donors made directly to the Foundation. Income generated from the Fund may be used for any purpose by Rainbow Fleet, and, accordingly, represents an increase in unrestricted net assets of Rainbow Fleet when received. Changes in the fair value of the asset represent increases or decreases in permanently restricted net assets in the year affected. The Fund has received total contributions (from all sources) of \$84,410 as of June 30, 2016, and has a total market value of \$126,913 as of June 30, 2016.

The portion of the Fund established with donations from Rainbow Fleet for the benefit of Rainbow Fleet is considered a reciprocal transfer. Only the portion of the Fund which was established with funds from Rainbow Fleet is included as an asset (recorded at fair value) and as permanently restricted net assets in the accompanying financial statements. Current year activity for funds held by the Foundation on behalf of Rainbow Fleet consisted of the following at June 30, 2016.

| | |
|------------------------|-----------------|
| Balance June 30, 2015 | \$ 9,131 |
| Investment Performance | 101 |
| Fees | (55) |
| Distribution | <u>(456)</u> |
| Balance June 30, 2016 | <u>\$ 8,721</u> |

The Foundation's distribution policy provides a structured method of making distributions from an endowment with the objectives of protecting the distribution stream from inflation, creating a predictable annual distribution amount and allowing the Investment Committee to focus on maximizing total investment return. The amount distributed to a beneficiary organization is 5 percent of the average market value of the fund, which is calculated on a rolling quarter average of the previous 12 quarters. This method serves to smooth out market value fluctuations and provide a stable and predictable source of income.

The investment policy of the Oklahoma City Community Foundation is designed for an endowment fund to provide annual distributions for charitable purposes in perpetuity. The Trustees have adopted an investment policy that has four major objectives: capital preservation; inflation protection; continuing source of annual distribution for charitable purposes; and investment return in the top third of professionally managed funds.

The Foundation maintains a disciplined approach to long-term investment strategy while utilizing short-term tactical allocations to add value when there is opportunity. The Foundation remains committed to long-term diversification strategy with an allocation to high quality fixed-income assets even in times of booming equity investments.

RAINBOW FLEET, INC.
Oklahoma City, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 3: RAINBOW FLEET ENDOWMENT FUND, CONTINUED

All Charitable Organization Endowments (COEs) are pooled with other Oklahoma City Community Foundation funds and invested by seven active managers, five for equities (stocks) and two in fixed income investments (bonds). Approximately 47 percent of the pooled investments are actively managed. As of June 30, 2016, the actual percentage of the general pool invested in equities was 60 percent with 39.5 percent in fixed income investments and a .5 percent allocation in money market cash funds. This allocation decision is reviewed quarterly by the investment committee. Allocations to specific investment styles and managers are also reviewed quarterly. Investment portfolios and performance are reviewed quarterly by the Oklahoma City Community Foundation's investment committee and by its Investment Counsel, United Capital Private Wealth Counselors.

NOTE 4: OPERATING LEASES

Rainbow Fleet leases office space and equipment under various operating leases. Total lease expense for the year ended June 30, 2016 was \$41,879.

Future minimum rental payments due under operating leases with terms in excess of one year are as follows:

| | |
|------------|------------------|
| 2017 | \$ 42,158 |
| 2018 | 16,793 |
| 2019 | 943 |
| 2020 | 943 |
| Thereafter | <u>1,178</u> |
| TOTAL | <u>\$ 62,015</u> |

NOTE 5: PENSION PLAN

Rainbow Fleet has a 403(b) retirement plan for employees. Rainbow Fleet does not contribute to the plan; only employee contributions are made.

NOTE 6: CONTINGENT LIABILITIES

Rainbow Fleet participates in a number of federally assisted programs. These programs are audited in accordance with *Government Auditing Standards* and the *Uniform Guidance*, if applicable, in accordance with the required levels of Federal Financial Assistance. Audits of prior years have not resulted in any significant disallowed costs; however, grantor agencies may provide for further examinations. Based on prior experience, management believes that further examinations would not result in any significant disallowed costs.

RAINBOW FLEET, INC.
Oklahoma City, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: ECONOMIC DEPENDENCY

Rainbow Fleet receives the majority of its revenue from funds provided through federal contracts. The contract amounts are appropriated each year by the federal government. If significant budget cuts are made at this 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.

NOTE 8: NOTE PAYABLE

Rainbow Fleet maintains a \$30,000 working line of credit with a financial institution that is secured by the assets of Rainbow Fleet. The note has a variable interest rate and calls for monthly interest payments with the principal being due at maturity on February 2, 2017. For the year ending June 30, 2016, interest payments of \$0 had been paid. At June 30, 2016, the line of credit was unused.

NOTE 9: COMPENSATED ABSENCES

Rainbow Fleet employees are permitted to accumulate annual leave at the rate of 1.25 days per month from the time of employment. The maximum days which may be accrued is 15 days. Accumulated annual leave totaled \$2,486 as of June 30, 2016. These amounts are included as accrued expenses on the accompanying statements of financial position.

Employees accrue sick leave at the rate of .83 days per month, up to a maximum of 30 days. However, employees are not compensated for unused sick leave upon their leaving employment with Rainbow Fleet. Accordingly, an accrual has not been made in the accompanying statements of financial position for any sick leave payable.

NOTE 10: RELATED PARTY TRANSACTIONS

The immediate past Board President and current Board member is a partner of the accounting firm which provided accounting services to the organization during fiscal year 2016. Expenses incurred for the services totaled \$46,700 and at June 30, 2016, \$4,000 was owed to the accounting firm. These services were competitively bid by Rainbow Fleet, Inc.

NOTE 11: SUBSEQUENT EVENTS

Date of Management Evaluation – Management of Rainbow Fleet has evaluated subsequent events through March 30, 2017, which is the date the financial statements were available to be issued.

Saunders & Associates, PLLC

Certified Public Accountants

630 East 17th Street * P. O. Box 1406 * Ada, Oklahoma 74820 * (580) 332-8548 * FAX: (580) 332-2272
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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*

Board of Directors
Rainbow Fleet, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rainbow Fleet, Inc. (a non-profit organization), which comprise the statement of financial position as of June 30, 2016, 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 30, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rainbow Fleet, Inc.'s financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

A handwritten signature in cursive script that reads "Saunders & Associates PLLC".

SAUNDERS & ASSOCIATES, PLLC
Certified Public Accountants
Ada, Oklahoma

March 30, 2017

Saunders & Associates, PLLC

Certified Public Accountants

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

Board of Directors
Rainbow Fleet, Inc.

Report on Compliance for Each Major Program

We have audited Rainbow Fleet, Inc.'s compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Rainbow Fleet, Inc.'s major federal programs for the year ended June 30, 2016. Rainbow Fleet, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Rainbow Fleet, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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* (the *Uniform Guidance*). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rainbow Fleet, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Rainbow Fleet, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected, and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.



SAUNDERS & ASSOCIATES, PLLC
Certified Public Accountants
Ada, Oklahoma

March 30, 2017

SUPPLEMENTAL INFORMATION

RAINBOW FLEET, INC.
Oklahoma City, Oklahoma

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

| <u>Grantor/Pass-Through Grantor/ Program Name</u> | <u>CFDA Number</u> | <u>Contract Number</u> | <u>Expenditures</u> |
|---|------------------------|----------------------------|----------------------------|
| <u>U. S. DEPARTMENT OF AGRICULTURE</u> | | | |
| Passed through Oklahoma State Department of Education: Child and Adult Care Food Program | 10.558 | H-55-01 | \$ <u>1,421,642</u> |
| Total U.S. Department of Agriculture | | | <u>1,421,642</u> |
| <u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | |
| Passed through Oklahoma Child Care Resource and Referral Association, Inc. Child Care Development Block Grant | 93.575 | N/A | <u>344,059</u> |
| Passed through Oklahoma Child Care Resource and Referral Association, Inc. Child Care Development Block Grant | 93.575 | N/A | <u>70,000</u> |
| Total U.S. Department of Health and Human Services | | | <u>414,059</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | \$ <u>1,835,701</u> |

* See accompanying notes to schedule.

RAINBOW FLEET, INC.
Oklahoma City, Oklahoma

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Rainbow Fleet, Inc. under programs of the federal government for the year ended June 30, 2016. The information in the schedule of expenditures of federal awards is presented in accordance with the requirement of the Office of Management and Budget *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance)*. Because the schedule presents only a selected portion of the operations of Rainbow Fleet, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows.

NOTE 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 the *Uniform Guidance*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3: CONTINGENT LIABILITIES

Rainbow Fleet, Inc. participates in federally assisted programs. These programs are audited in accordance with *Government Auditing Standards* and the *Uniform Guidance*, if applicable, in accordance with the required levels of Federal Financial Assistance. Additionally, the grant programs are subject to audits by the granting authority, the purpose of which is to insure compliance with conditions precedent to the granting of the funds. Management believes that any liability for reimbursement which may arise as the result of audits of grant funds would not be material.

NOTE 4: INDIRECT COSTS

Rainbow Fleet, Inc. has elected not to use the 10 percent de minimis indirect cost rate as allowed under the *Uniform Guidance*.

RAINBOW FLEET, INC.
Oklahoma City, Oklahoma

STATUS OF PRIOR AUDIT FINDINGS

June 30, 2016

Section II – Financial Statement Findings and Questioned Costs:

None reported.

Section III – Federal Awards Findings and Questioned Costs:

None reported.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

Section 1 – Summary of Auditor’s Results

Financial Statements:

Type of Auditor’s Report Issued: Unmodified

Internal Control Over Financial Reporting:

Material Weakness(es) identified? ___Yes XNo

Significant deficiencies identified not considered to be material weaknesses? ___Yes XNone Reported

Noncompliance material to financial statements noted? ___Yes XNo

Federal Awards:

Internal Control Over Major Programs:

Material weakness(es) identified? ___Yes XNo

Significant deficiencies identified not considered to be material weakness(es)? ___Yes XNone 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 the *Uniform Guidance*?
___Yes XNo

Dollar threshold used to distinguish between Type A and Type B programs \$750,000

Auditee qualified as low-risk auditee? XYes ___No

Identification of Major Programs:

CFDA #

PROGRAM TITLE

93.575

Child Care Development Block Grant

Section II – Financial Statement Findings and Questioned Costs:

None reported.

Section III – Federal Awards Findings and Questioned Costs:

None reported.