

**RAINBOW HOUSE, INC.**

**Annual Financial Statements**

(With Independent Auditor's Report thereon)

*FOR THE YEAR ENDED  
DECEMBER 31, 2016*

# RAINBOW HOUSE, INC.

## Table of Contents

	<u>Page</u>
<b>Independent Auditor's Report</b>	1- 2
<b>Basic Financial Statements:</b>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-16
<b>Independent Auditor's Report on Internal Control over Financial Reporting and On Compliance and Other Matters Required By <i>Government Auditing Standards</i></b>	17-18

# **INDEPENDENT AUDITOR'S REPORT**



---

*When you see the B, remember me!*<sup>sm</sup>

Thomas Bailey CPA  
(770) 885-3105

## Independent Auditor's Report

To the Board of Directors  
RAINBOW HOUSE, INC.  
Jonesboro, Georgia

### Report on the Financial Statements

I have audited the accompanying financial statements of RAINBOW HOUSE, INC. (the "Organization"), a non-profit organization, which comprise the statement of financial position as of December 31, 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 (the "Financial Statements").

### Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these Financial Statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

My responsibility is to opine on these Financial Statements based on my audit. I audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require me to plan and perform the audit to reasonably assure the Financial Statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on my judgment, including assessing those risks of financial statement material misstatement, whether due to fraud or error. In assessing those risk, I consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the entity's internal control. Accordingly, I express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as my evaluation of overall financial statement presentation.

I believe the audit evidence I have obtained is sufficient and appropriate to support my opinion.

A Professional Corporation



### Opinion

In my opinion, the Financial Statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Organization as of December 31, 2016, and the changes in its financial position 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 Reporting Required by *Government Auditing Standards*:**

In accordance with *Government Auditing Standards*, I have also issued my report dated August 5, 2017 on my consideration of the Organization's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of my internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on 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 the Organization's internal control over financial reporting and compliance.

*Thomas Bailey, CPA*

Thomas Bailey, CPA

August 5, 2017

A Professional Corporation

---

*Thomas Bailey, CPA*

*125 Westridge Industrial Blvd.; Ste 302*

*McDonough, GA. 30253*

## **BASIC FINANCIAL STATEMENTS**

## RAINBOW HOUSE, INC.

### Statement of Financial Position December 31, 2016

		Unrestricted	Temporarily Restricted	Totals	% of Totals
<b>ASSETS</b>					
CURRENT ASSETS					
Cash	Note 3	\$ 141,831	\$ -	\$ 141,831	
Grants Receivable	Note 4	-	88,362	88,362	
<b>TOTAL CURRENT ASSETS</b>		141,831	88,362	<b>230,193</b>	<b>30%</b>
Capital Assets (net)	Note 5	526,526	-	526,526	70%
OTHER ASSETS					
Donated Securities		815	-	815	
<b>TOTAL OTHER ASSETS</b>		815	-	<b>815</b>	<b>-</b>
<b>TOTAL ASSETS</b>		<b>\$ 669,172</b>	<b>\$ 88,362</b>	<b>\$ 757,534</b>	<b>100%</b>
<b>LIABILITIES AND NET ASSETS</b>					
CURRENT LIABILITIES					
Accounts Payable		\$ 4,637	\$ -	\$ 4,637	
<b>TOTAL CURRENT LIABILITIES</b>		4,637	-	4,637	1%
<b>TOTAL LIABILITIES</b>		<b>4,637</b>	<b>-</b>	<b>4,637</b>	
NET ASSETS					
Unrestricted		664,535	-	664,535	
Temporarily Restricted		-	88,362	88,362	
<b>TOTAL NET ASSETS</b>		<b>664,535</b>	<b>88,362</b>	<b>752,897</b>	<b>99%</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b>\$ 669,172</b>	<b>\$ 88,362</b>	<b>\$ 757,534</b>	<b>100%</b>

The accompanying notes are an integral part of this statement

# RAINBOW HOUSE, INC.

## Statement of Activities For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Totals	% of Totals
<b>CHANGE IN NET ASSETS</b>				
<b>SUPPORT</b>				
Federal Funding:				
<i>DOJ/Criminal Justice Coordinating Council (CJCC)</i>	\$ -	\$ 65,227	\$ 65,227	6%
<i>HUD/Clayton County</i>	-	20,000	20,000	2%
<i>EFSP/United Way</i>	-	7,500	7,500	1%
<i>DHHS</i>	-	1,736	1,736	-
State and County Funding:				
<i>Georgia Division of Family and Children Services</i>	725,115	-	725,115	64%
<i>Clayton County</i>	136,900	-	136,900	12%
Public Contributions	33,200	73,041	106,241	9%
 TOTAL SUPPORT	 895,215	 167,504	 1,062,719	 94%
 <b>REVENUES</b>				
Fees-for-services	73,519	-	73,519	6%
Special Event Fundraising	1,454	-	1,454	-
Interest Income	168	-	168	-
Net Assets released from restrictions	186,794	(186,794)	-	-
 TOTAL REVENUES	 261,935	 (186,794)	 75,141	 6%
 <b>TOTAL SUPPORT AND REVENUES</b>	 1,157,150	 (19,290)	 1,137,860	 100%
 <b>EXPENSES</b>				
Program Activities	931,315	-	931,315	79%
Support Activities	248,599	-	248,599	21%
 TOTAL EXPENSES	 1,179,914	 -	 1,179,914	 100%
 <b>CHANGE IN NET ASSETS</b>	 (22,764)	 (19,290)	 (42,054)	
Net Assets, Beginning of the Year	681,549	107,652	789,201	
<i>Correction of a Previous Error:</i>				
Land Donated in 1995 not recorded	5,750	-	5,750	
Net Assets, Beginning of the Year, as restated	687,299	107,652	794,951	
 <b>NET ASSETS, END OF THE YEAR</b>	 \$ 664,535	 \$ 88,362	 \$ 752,897	

The accompanying notes are an integral part of this statement

**RAINBOW HOUSE , INC.**

Statement of Functional Expenses  
For the Year ended December 31, **2016**

	Programs	Administrative Costs	Fundraising Expenses	Total Expenses
Payroll Cost:				
Salaries	\$ 525,255	\$ 65,657	\$ 65,657	\$ 656,569
Employee Benefits	95,402	11,926	11,925	119,253
Total Payroll Cost	<u>620,657</u>	<u>77,583</u>	<u>77,582</u>	<u>775,822</u>
Professional Fees	68,920	29,528 (1)	-	98,448
Activity Fees and Assistance	91,988	-	-	91,988
Occupancy	46,291	5,786	5,786	57,863
Depreciation	31,909	3,989	3,988	39,886
Supplies and Small Equipment	4,283	22,863 (2)	2,087	29,233
Insurance Expense	19,836	2,479	2,479	24,794
Equipment	24,075	-	100	24,175
Travel and Transportation	18,050	2,256	2,256	22,562
Computer Services	8,369	1,046	1,046	10,461
Payroll Service Fees	7,760	970	970	9,700
Employee Training	4,863	-	-	4,863
Equipment Leasing	3,442	430	430	4,302
Repairs and Maintenance	2,731	341	341	3,413
Advertising and Promotion	-	1,568	1,568	3,136
Dues and Subscriptions	2,216	277	277	2,770
Bank Charges	-	573	-	573
Grant Expenses	955,390	149,689	98,910	1,203,989
Item Reconciling Grant Expenses to the Financial Statements:				
Capitalized Equipment	<u>(24,075)</u>	<u>-</u>	<u>-</u>	<u>(24,075)</u>
<b>TOTAL ACTIVITIES</b>	<u><b>\$ 931,315</b></u>	<u><b>\$ 149,689</b></u>	<u><b>\$ 98,910</b></u>	<u><b>\$ 1,179,914</b></u>
<b>% of TOTAL ACTIVITIES</b>	<u><b>79%</b></u>	<u><b>13%</b></u>	<u><b>8%</b></u>	<u><b>100%</b></u>

(1) Includes grant writing expenses of **\$15,000**.

(2) Includes small furnishings totaling **\$3,360**.

The accompanying notes are an integral part of this statement

**RAINBOW HOUSE, INC.**

Statement of Cash Flows  
For the Year Ended December 31, **2016**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Change in Net Assets	\$ (42,054)
Adjustments to reconcile Change in Net Assets to net cash provided by operating activities:	
Depreciation	39,886
Decrease (Increase) in:	
Grants Receivable	35,645
Prepaid Expenses	446
(Decrease) Increase in:	
Accounts Payable	(5,027)
Deferred Revenue	(20,520)
Accrued Expenses	(5,958)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>2,418</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchase of Transportation Equipment	<u>(24,075)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b><u>(24,075)</u></b>
Net Decrease in Cash	(21,657)
Cash at Beginning of the Year	<u>163,488</u>
<b>CASH AT END OF THE YEAR</b>	<b><u>\$ 141,831</u></b>

=====  
**Supplemental Disclosures:**

*Accounting Policy* - All highly liquid investments with a maturity of three months or less at the date of acquisition are considered to be cash equivalents. There were no such investments held at December 31, **2016** to present as cash equivalents.

*Income Taxes* - The **Organization** is exempt from income taxes under section 501(c)(3) of the Internal Revenue Service Code (the "Code") and accordingly, no income tax payments were made. Additional income tax information is in the **Income Tax Status** section of **Note 2**.

The accompanying notes are an integral part of this statement

# RAINBOW HOUSE, INC.

## Notes to the financial statements

### 1. NATURE OF THE ORGANIZATION

#### **The Organization and its History**

In 1988, a group of concerned community leaders realized a need for a community organization to provide a temporary shelter to care for abused, neglected and abandoned children referred by the Department of Family and Children Services (DFCS), the Department of Juvenile Justice (DJJ) and the Immigration and Naturalization Service (INS)...Rainbow House was born.

Rainbow House, Inc. (the “**Organization**”) was created as a community organization to serve the needs and interests of those children and their families. The **Organization** operates an emergency shelter for the children (the “Shelter”). The **Organization** was organized as a Georgia Non-Profit Corporation in 1988 under the Georgia Non-Profit Corporation Code. The **Organization** is a Public Charity as defined in Section 509(a)(1) of the Internal Revenue Service Code (the “Code”) and is governed by a Board of Trustees consisting of not less than ten (10) nor more than twenty-six (26) members. Contributions to the **Organization** are deductible under section 170 of the Code. See **Note 2, “Income Tax Status”** for additional income tax information.

As the need for such an agency grew, the Shelter added a teen wing, administrative offices, a family visitation room and a conference room. The program is licensed by the Office of Residential Child Care to accommodate 20 children and adolescents, including two (2) infants. The **Organization** is located in Jonesboro, Georgia.

Over the years, referrals have come from a wide range of counties in the Southern Crescent (Clayton, Fayette, Spalding), Metro Atlanta (including Gwinnett, Douglas, Newton, Rockdale), and outlying counties (Lamar, Butts, Upson) as well.

In 2001, the Rainbow Connection Child Advocacy and Assessment Center (CAAC) was created as a second program component. Rainbow Connection CAAC follows the state and national guidelines for child advocacy centers and was chartered to assist and facilitate DFCS and law enforcement with the investigation and prosecution of alleged child abusers as well as to provide an array of comprehensive services (medical, therapeutic, assessment) to victims of severe physical abuse, sexual abuse, and witness to homicide and their non-offending caregivers.

In April 2001, a Safe Place program was developed. The Safe Place program is a national youth outreach program that educates thousands of young people every year about the dangers of running away or of trying to resolve difficult, threatening situations on their own.

# RAINBOW HOUSE, INC.

## Notes to the financial statements

### 1. NATURE OF THE ORGANIZATION (continued)

#### Mission

To provide comprehensive services that restore, heal and rebuild the lives of children and their families.

The **Organization** serves children from birth through age seventeen (17). While the primary source of referrals comes from Clayton County DFCS, DJJ and/or law enforcement, Rainbow House, Inc. accepts referrals from all of Georgia. The **Organization** accomplishes its mission through several programs.

#### *Services/Programs:*

- **The Shelter**; a temporary, emergency shelter for abused, neglected and abandoned children referred by the Department of Family and Children Services (DFCS) and the Department of Juvenile Justice (DJJ).
- **Rainbow Connection Child Advocacy and Assessment Center (C.A.A.C.)**; an advocacy center designed to reduce the trauma experienced by child victims of abuse and their non-offending family members by providing a central, child friendly environment in which they can receive all the services needed and by facilitating a comprehensive multi-disciplinary team approach to the investigation and prosecution of allegations of child abuse.
- **Safe Place**; a network of sites that include Quik Trips, fire stations and local libraries set up to provide immediate help, supportive resources, and temporary shelter to teenagers ages, thirteen (13) to seventeen (17), in crisis situations. The teens are able to stay at the shelter for up to fourteen (14) days while receiving counseling and therapy with their family/caregivers that will assist in transitioning them back into their home, if possible. If it's not possible to return the teen back into their home, DFCS will assist in finding a more permanent safe and stable environment.
- **Child Abuse and Sexual Exploitation (C.A.S.E.) Services**; to raise the awareness of the prevalence and consequences of child sexual exploitation by educating adults about the steps they can take to prevent, recognize and react responsibly to the reality of child sexual abuse.

# RAINBOW HOUSE, INC.

## Notes to the financial statements

### 1. NATURE OF THE ORGANIZATION (continued)

#### The Year in Review

##### *Statement of Accomplishments:*

Due to most of our children coming from an abusive home, with little to no love, attention, proper nutrition, comfort and structure, getting back to our mission was very important to the staff at Rainbow House in **2016**. Since making all of the changes that we made in 2015 (i.e., going to 12-hour shifts), it freed the staff up in **2016** to give more of their personal time to the children. The theme for **2016** was, “Helping our children have the opportunity to experience normalcy by simply enjoying being a teenager.” This took a lot planning, dedication, volunteering, team work, and support from the staff at Rainbow House. Staff volunteered their time and allowed the children to keep active and stay on the football, basketball, or soccer team.

In **2016**, the children traveled to Orlando, Florida for the 1<sup>st</sup> Spring Break Trip; (2-staff volunteered their time to travel with the children); 5- residents joined JROTC programs at their schools; and 5-residents attended prom.

In **2016**, the residents participated in the following educational programs:

1.) Ascend Program, which is a program to service the youth at Rainbow House. This program is a part of our Target I: Educational Enrichment, with efforts designed to motivate, engage and assist high school students in reaching their maximum potential. The program focuses on Achievement, Self-Awareness, Communication, Engagement, Networking and Developmental Skills. Students in the ASCEND Program will have an opportunity to receive academic enrichment and life skills training to support their journey to college or vocational employment;

2.) Teen Club Program, which is a program held at the Virginia B. Gray Recreation Center weekly. The program will help teens bring their creativity to life, while empowering, encouraging, and educating them to become great leaders and independent adults. The program also helps with career choices and educational opportunities such as college tours and college fairs; and

3.) Aquaponics, which refers to any system that combines conventional aquaculture (raising aquatic animals such as snails, fish, crayfish or prawns in tanks) with hydroponics (cultivating plants in water) in a symbiotic environment. In normal aquaculture, excretions from the animals being raised can accumulate in the water, increasing toxicity. In an aquaponic system, water from an aquaculture system is fed to a hydroponic system where the by-products are broken down by nitrification bacteria into nitrates and nitrites, which are utilized by the plants as nutrients, and the water is then recirculated back to the aquaculture system.

In **2016**, Rainbow House Children’s Shelter provided services to 113 unduplicated residents, all of whom came to Rainbow House from Metro Atlanta (Clayton, Henry, DeKalb and Fulton counties).

# RAINBOW HOUSE, INC.

## Notes to the financial statements

### 1. NATURE OF THE ORGANIZATION (continued)

#### The Year in Review

##### *Statement of Accomplishments:*

In **2016**, Rainbow Connection CAAC started conducting forensic medical exams on site, hired a part-time therapist due to an increase in VOCA funding, conducted a total of 187 forensic interviews, conducted a total of 41 forensic medical exams, hired a contract Forensic Interviewer and received multiple donations of hygiene products and blankets.

Rainbow House Inc. responds to 36 stores in Clayton County. In 2016, youth were helped by QuikTrip, Clayton DFCS, and Clayton County Schools Safe Place outreach effort by going to sites or calling us. Of those youth, 3 accessed Safe Place at QT stores and have received help and other services at our agency. Other youth and families have been educated about Safe Place and are now more aware of Rainbow House Inc. services overall.

Thanks to the renewal of the 2016 Safe Place grant, the team assured that all sites in the region were supported with materials and updated contact information. We purchased additional advocacy and marketing materials including: Outreach cards, Window Decals, TXT 4 Help cards, and pencils. The team had the opportunity to spring into action when we received 5 referrals to Safe Place by Adamson Middle School and Clayton County DFCS in April 2016. Our safety protocols were in place and were successfully implemented. We had the opportunity to provide a safe environment and crisis plan for youth. Youth were able to be reunified with family through counseling, assessments, and advocacy provided by the Safe Place program.

##### *Financial Snapshot:*

Georgia DFACS funding increased by about \$110,000 over the previous year because of a rate increase. Georgia DFACS pays a daily per diem rate for each resident. The per diem rate increased in **2016**.

Total Expenses increased over the previous year as well. Salaries increased from \$601,637 in 2015 to **\$656,569** in **2016** because the VOCA program operated for a full year in **2016**, but only a partial year in 2015; the effects of which increased the related salaries from \$21,510 in 2015 to **\$63,923** in **2016**. In addition, there were several other positions, including the Business Manager position, that were filled for a partial year in 2015.

Contract labor increased in **2016** because the Forensic Interviews were performed for a full year in **2016**, but only a partial year in 2015; effects of which increased the related contractor expenses from \$1,315 in 2015 to **\$10,886** in **2016**.

Activity Fees and Assistance increased in **2016** because the **Organization** began an independent living training program called Aquaponics, which is designed to be an educational component to the Shelter Program that teaches residents to raise their own food.

# RAINBOW HOUSE, INC.

## Notes to the financial statements

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Accounting**

The Financial Statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis, expenses are recognized when a liability has been incurred, regardless of the timing of the related cash flows. Accordingly, all significant receivables, payables and other liabilities are reflected in these Financial Statements.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. The most significant estimates made by management in these Financial Statements are the depreciable life remaining on the Capital Assets (**Note 5**) and the functional allocations made as summarized **below**.

#### *Functional Expense Allocations Made:*

**10%** of all expenses were allocated to Administrative Costs and **10%** to Fundraising. The remaining **80%** are considered program costs, with the exception of specifically identifiable Event expenses that could be charged directly to fundraising activities, identifiable Professional Fees that could be charged directly to administrative activities and supplies that could be charged directly to program and administrative activities.

#### *Allocation Assumptions:*

Salaries and related benefits (Payroll costs) allocations are based on the estimated amount of time/effort spent on various functions. Non-payroll costs allocations, with the exception of the specifically identifiable Event, Professional Fees and Supply expenses, are based on the payroll allocation, which approximates use of the resources.

*Effect of using estimates* - Actual results could differ from these estimates.

#### **Basis of Presentation**

These Financial Statements are presented in accordance with the recommendations of the Financial Accounting Standards Board as codified at *FASB ASC 958-210-45-9*. Under these standards, the **Organization** is required to report information regarding its financial position and activities by three classes of net assets based on the existence or absence of donor-imposed restrictions. The purpose of this type of presentation is to ensure observance of limitations and restrictions on the use of financial resources. The net assets of the **Organization** and changes therein are defined, classified and reported as follows:

*Unrestricted Net Assets* – net assets that **are not** subject to grantor or donor-imposed restrictions.

# RAINBOW HOUSE, INC.

## Notes to the financial statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Basis of Presentation

*Temporarily Restricted Net Assets* – net assets that **are** subject to grantor or donor-imposed stipulations that may or will be met, either by actions of the **Organization** (the incurrence of donor approved expenses and/or the passage of time). When the restriction expires, Temporarily Restricted Net Assets are reclassified to Unrestricted Net Assets and reported in the Statement of Activities as Net Assets released from restrictions.

*Permanently Restricted Net Assets* – net assets subject to grantor or donor-imposed stipulations that they be **maintained permanently** by the **Organization**. Generally, the donors of these assets permit an organization to use all or part of the income earned on any related investments for general or specific purposes. The **Organization** does not have any Permanently Restricted Net Assets.

#### Compensated Absences

The **Organization** follows the policy of recognizing the costs for compensated absences when they are paid rather than when the right to receive compensation for future absences is earned. Under generally accepted accounting principles, these costs would have been recognized in the period the right to receive compensation was earned. The effect of the **Organization's** departure is not material to these Financial Statements.

#### Income Tax Status

*Exempt Function Activities* - The **Organization** is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code (the "Code") because it is classified as a public charity.

Donations made to the **Organization** qualify for the charitable contribution deduction under Section 170 of the Code.

As a result of its exemption from federal and state income taxes, no provision for income taxes has been recorded in these Financial Statements. The **Organization** did not engage in any unrelated business or lobbying activities for the year ended December 31, **2016**.

*FASB ASC 740-10-50-15 Disclosure (commonly referred to as FIN-48 Disclosure)* - The **Organization** is required to record a liability for uncertain tax positions (a/k/a uncertain tax benefits) when it is probable that a tax position would not be upheld under examination by the Internal Revenue Service and the amount can be reasonably estimated.

# RAINBOW HOUSE, INC.

## Notes to the financial statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Income Tax Status

*FASB ASC 740-10-50-15 Disclosure (commonly referred to as FIN-48 Disclosure)*

Tax positions taken related to the **Organization's** tax exempt status and unrelated business activities, if any, have been reviewed, and management believes that material positions taken would, more likely than not, be sustained upon examination. Therefore, an income tax liability for uncertain tax benefits has not been recorded as of December 31, **2016**, and management does not anticipate a material change in its uncertain tax benefits for the 12 months following December 31, **2016**. For federal tax purposes, tax periods from January 1, 2014 through December 31, **2016** are open to tax examination by tax authorities and may change upon examination.

### 3. CASH AND RISK

#### Cash Balance

The composition of **Organization's** Cash is as follows:

	<u>Balance</u>
Non-interest bearing Accounts	\$ 77,199
Interest bearing Accounts	<u>64,632</u>
<b>Total Cash</b>	<b><u>\$141,831</u></b>

#### Custodial Risk

The risk, that in the event of a bank failure, the **Organization's** deposits over the Federal Deposit Insurance Corporation (FDIC) limit concentrated in one bank may not be returned. As of December 31, **2016**, all funds held in the bank accounts were fully insured by FDIC coverage.

### 4. SUPPORT

Eighty-five (85) percent of the **Organization's** support came from government grant funds this year. In accordance with the recommendations of the Financial Accounting Standards Board as codified at *FASB ASC 958-605-55-4*, these funds are classified as Support because the grantor received no value in return.

# RAINBOW HOUSE, INC.

## Notes to the financial statements

### 4. SUPPORT (continued)

#### Revenue Concentration Risk

\$725,115 or 64% of this year's Support and Revenues came from DFACS. The ability to continue receiving comparable amounts in the future may be dependent upon future economic conditions and/or the impact of future legislation. While the **Organization's** leadership believes the economic resources to continue its Programs exist, the ability to do so and the extent to which Programs continue may be dependent on the above factors.

#### Policy

In accordance with the recommendations of the Financial Accounting Standards Board as codified at *FASB ASC 958-605-25-2*, grant support is recognized as income in the period covered. Grant support that does not have grantor-imposed restrictions as to purpose or time is classified as Unrestricted Support.

When grant support is restricted for specific program purpose or time, the related revenue is initially recognized as Temporarily Restricted Support, released and reclassified as Unrestricted Support when the related restrictions are satisfied by the payment of expenses funded by the grantors. This reclassification is reported on the Statement of Activities as Net Assets released from restrictions.

When grant support has a grantor-imposed *condition* (Conditional Grant) such as to incur certain expenses in a future year or to provide matching funds, the support is not recognized as revenue in accordance with the recommendations of the Financial Accounting Standards Board as codified at *FASB ASC 958-605-55-21* until the conditions are met, at which time the grant support is recognized and classified in the Statement of Activities as Unrestricted or Temporarily Restricted Support, as applicable. The **Organization** did not have any unfulfilled grant conditions at December 31, 2016.

The **Organization** is responsible for expending grant funds in accordance with the terms of its contracts and to comply with all applicable federal and state laws, rules, regulations and standards. Any deficits resulting from over expenditure and/or questioned costs are the responsibility of the **Organization**.

#### Grants Receivable

	<u>Balance Due</u>
DFACS	\$ 70,380
CACGA	12,768
McMaster-Carr	2,500
Various Others	<u>2,714</u>
<b>Total</b>	<b>\$ <u>88,362</u></b>

## RAINBOW HOUSE, INC.

### Notes to the financial statements

#### 4. SUPPORT (continued)

##### Grants Receivable

All balances due were realized in their entirety by March 31, 2017. Accordingly, management does not need to record an allowance for doubtful accounts.

#### 5. CAPITAL ASSETS

##### Policy

Acquisitions of Capital Assets (property and equipment) in excess of \$2,500 per item are capitalized. Purchased property and equipment is recorded at cost. The **Organization** does not receive significant amounts of property or equipment through donations.

The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized.

Depreciation is computed on the straight-line basis over the estimated useful lives of the respective assets. Depreciation begins on the date the asset is placed in service.

The initial useful lives of the Capital Assets are as follows:

Buildings	39 years	Vehicles	5 years
Leasehold Improvements	5 years	Furniture and Equipment	5 years

##### Capital Asset Balances

	<i>Property and Equipment</i>			Depreciable Life Remaining
	Cost	Accumulated Depreciation	Net Carrying Value	
Buildings	\$ 897,433	\$ (425,227)	\$ 472,206	20.5 years
Vehicles	105,404	( 73,899)	31,505	3.5 years
Machinery and Equipment	95,823	( 78,758)	17,065	3.5 years
Furniture and Fixtures	61,469	( 61,469)	---	**
Other Equipment	26,862	( 26,862)	---	**
Building Improvements	6,451	( 6,451)	---	**
Donated Land	5,750	( ---)	5,750	Indefinite
<b>Totals</b>	<b>\$ 1,199,192</b>	<b>\$( 672,666)</b>	<b>\$ 526,526</b>	

\*\* Fully depreciated as of December 31, 2016.

# RAINBOW HOUSE, INC.

## Notes to the financial statements

### 5. CAPITAL ASSETS (continued)

In May 2016, an E350 Van was purchased for \$24,075. The purchase was partially funded with a \$20,000 grant from HUD CDBG funding passed through Clayton County Community Development Department.

### 6. FAIR VALUES OF FINANCIAL INSTRUMENTS

As established by *FASB ASC 820*, Fair Value Measurements, the accounting standards used to measure fair value and the rating system used for the valuation, are summarized as follows:

#### Fair Value

The fair value is the price in an orderly (principal, or in the alternative, the most advantageous) market.

#### The Rating Scale

Level 1 (the highest) – the valuation is obtained from quoted market prices in an **active market** for identical assets.

Level 2 – the valuation is obtained, either directly or indirectly, from market prices in a **limited market**.

Level 3 (the lowest) – the valuation is obtained from **non-market sources** based on the best information available in the circumstances, including the **Organization's** own internally-generated data.

*FASB ASC 820* did not have a material effect on these Financial Statements because the securities held at December 31, 2016 are negligible.

The carrying values of the remaining financial instruments recognized in these Financial Statements; grants receivable and accounts payable (the Financial Instruments), approximate their fair values since they turnover rapidly or are liquid by nature and therefore, recorded and presented at the most recent market value.

### 7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 5, 2017, the date these Financial Statements are available to be issued. No events were noted that would require adjustment to or disclosure in these Financial Statements.



---

*When you see the B, remember me!*<sup>sm</sup>

Thomas Bailey CPA  
(770) 885-3105

**Independent Auditor's Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters *Required By Government Auditing Standards***

To the Board of Directors  
RAINBOW HOUSE, INC.  
Jonesboro, Georgia

I have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the Financial Statements of RAINBOW HOUSE, INC. (the "Organization") as of December 31, 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 (the "Financial Statements"), which collectively comprise the Organization's basic financial statements and have issued my report thereon dated August 5, 2017.

**Internal Control Over Financial Reporting**

As part of my Financial Statement audit, I considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support my opinion on the Financial Statements, but not to the extent necessary to opine on the effectiveness of the Organization's internal control. Accordingly, I have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct, misstatements. A *material weakness* is a *deficiency*, or *combination of internal control deficiencies* resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Organization's Financial Statements. 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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, I did not identify any deficiencies in internal control that I consider material weaknesses. However, unidentified material weaknesses may exist.

A Professional Corporation



**Compliance and Other Matters**

As part of reasonably assuring whether the Organization's Financial Statements are free of material misstatement, I tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of my audit and accordingly, I do not express an opinion. The results of my tests disclosed no instances of noncompliance or other matters I must report under *Government Auditing Standards*.

**Purpose of this Report**

This report only describes the scope of my internal control and compliance testing and my testing results, and does not opine on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Thomas Bailey, CPA*

Thomas Bailey, CPA  
August 5, 2017

A Professional Corporation

---

*Thomas Bailey, CPA*

*125 Westridge Industrial Blvd.; Ste 302*

*McDonough, GA. 30253*