RAINBOW VILLAGE, INC. AND SUBSIDIARY

Duluth, Georgia

Consolidated Financial Statements

December 31, 2022 and 2021

RAINBOW VILLAGE, INC. AND SUBSIDIARY AND SUBSIDIARY
DULUTH, GEORGIA

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

CONTENTS

WILSON LEWIS
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rainbow Village, Inc. and Subsidiary
Duluth, Georgia

Opinion

We have audited the accompanying consolidated financial statements of Rainbow Village, Inc. and Subsidiary (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rainbow Village, Inc. and Subsidiary as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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.

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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 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 consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

• Exercise professional judgment and maintain professional skepticism throughout the audit.

• Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Village, Inc. and Subsidiary' 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 consolidated financial statements.

• Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rainbow Village, Inc. and Subsidiary' 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2023 on our consideration of Rainbow Village, Inc. and Subsidiary' 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 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 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 Village, Inc. and Subsidiary' internal control over financial reporting and compliance.

Wilson Lewis

November 8, 2023

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RAINBOW VILLAGE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of December 31, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,260,140	$ 980,860
Unconditional promises to give	-	3,000
Grant receivable	-	16,849
Resident receivables, net	2,774	4,550
Other receivables	55,515	-
Prepaid expenses	8,756	23,586
Investments	605,096	612,867
Total current assets	1,932,281	1,641,712
PROPERTY AND EQUIPMENT		
Property and equipment	9,344,770	9,435,574
Less: accumulated depreciation	(2,093,827)	(1,986,763)
Property and equipment, net	7,250,943	7,448,811
Total assets	$ 9,183,224	$ 9,090,523
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 63,957	$ 25,766
Accrued expenses	36,323	59,302
Resident deposits and savings	71,064	48,750
Total current liabilities	171,344	133,818
NET ASSETS		
Net assets - without donor restrictions	6,657,538	6,409,994
Net assets - with donor restrictions	2,354,342	2,546,711
Total net assets	9,011,880	8,956,705
Total liabilities and net assets	$ 9,183,224	$ 9,090,523

See accompanying notes and independent auditor's report.

RAINBOW VILLAGE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES
For the years ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Contributions	$ 1,114,075	$ 75,000	$ 1,189,075	$ 1,308,922	$ 20,000	$ 1,328,922
Grant revenue	39,003	132,862	171,865	-	62,773	62,773
Rental income	163,605	-	163,605	93,805	-	93,805
Other program income	18,333	-	18,333	7,938	-	7,938
Special events income	675,774	-	675,774	611,526	-	611,526
Investment income (loss)	(107,876)	-	(107,876)	59,556	-	59,556
Total revenue and support	1,902,914	207,862	2,110,776	2,081,747	82,773	2,164,520
Net assets released from restrictions	400,231	(400,231)	-	335,305	(335,305)	-
EXPENSES						
Program services	1,401,092	-	1,401,092	1,104,638	-	1,104,638
Supporting services	326,126	-	326,126	508,380	-	508,380
Fundraising	328,383	-	328,383	357,878	-	357,878
Loss on disposal of assets	-	-	-	-	-	-
Total expenses	2,055,601	-	2,055,601	1,970,896	-	1,970,896
CHANGE IN NET ASSETS	247,544	(192,369)	55,175	446,156	(252,532)	193,624
NET ASSETS, beginning of year	6,409,994	2,546,711	8,956,705	5,963,838	2,799,243	8,763,081
NET ASSETS, end of year	$ 6,657,538	$ 2,354,342	$ 9,011,880	$ 6,409,994	$ 2,546,711	$ 8,956,705

See accompanying notes and independent auditor's report.

RAINBOW VILLAGE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the years ended December 31, 2022 and 2021

	2022				2021			
	Program Services	Supporting Services	Fundraising	Total	Program Services	Supporting Services	Fundraising	Total
OPERATING EXPENSES								
Bank / merchant fees	$ -	$ 11,796	$ 2,940	$ 14,736	$ 193	$ 4,160	$ 5,001	$ 9,354
Case management and adult	99,303	-	50	99,353	55,096	14,089	-	69,185
Children and youth	22,323	893	-	23,216	14,166	3,987	-	18,153
Conference and meetings	1,304	4,694	335	6,333	566	6,573	275	7,414
Depreciation	238,154	13,754	-	251,908	244,398	11,607	-	256,005
Employee benefits	34,250	6,120	1,260	41,630	14,025	9,906	8,594	32,525
Equipment rental	-	5,400	-	5,400	-	5,400	-	5,400
Insurance	37,686	10,567	-	48,253	27,068	20,414	466	47,948
Interest	-	283	-	283	-	1,744	-	1,744
Loss on disposal of fixed assets	-	7,007	-	7,007	-	-	-	-
Memberships	5,043	22,281	800	28,124	1,630	12,566	720	14,916
Office	20,123	2,770	6,184	29,077	8,212	3,082	285	11,579
Payroll taxes	43,977	8,780	8,146	60,903	32,404	25,267	12,063	69,734
Postage	84	958	292	1,334	272	581	572	1,425
Professional development	2,643	-	-	2,643	150	391	1,000	1,541
Professional fees	20,250	52,668	9,600	82,518	-	86,233	9,600	95,833
Promotional materials and service	-	255	36,619	36,874	140	-	22,484	22,624
Repairs and maintenance	100,361	20,014	1,035	121,410	98,737	21,761	1,866	122,364
Salaries	606,993	126,774	110,806	844,573	410,990	233,334	149,464	793,788
Special events	-	4,098	142,780	146,878	-	250	135,653	135,903
Supplies	24,873	3,200	540	28,613	36,409	4,960	1,957	43,326
Technology	34,484	16,064	4,913	55,461	37,678	20,907	5,423	64,008
Telephone	14,129	4,361	1,236	19,726	19,736	4,499	887	25,122
Utilities	95,112	3,389	847	99,348	102,768	16,669	1,568	121,005
Total expenses	$ 1,401,092	$ 326,126	$ 328,383	$ 2,055,601	$ 1,104,638	$ 508,380	$ 357,878	$ 1,970,896

See accompanying notes and independent auditor's report.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 55,175	$ 193,624
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	251,908	256,005
Net losses (gains) on investments	107,771	(59,501)
Loss on disposal of asset	7,007	-
(Increase) decrease in assets:		
Promises to give	3,000	(3,000)
Grants receivable	16,849	(16,849)
Contract assets	-	54,841
Resident receivables	1,776	4,175
Other receivables	(55,515)	-
Prepaid expenses	14,830	3,401
Increase (decrease) in liabilities:		
Accounts payable	38,191	(83)
Accrued expenses	(22,980)	15,059
Obligations to residents	22,314	11,575
Total adjustments	385,151	265,623
Net cash provided by operating activities	440,326	459,247
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(61,046)	(4,000)
Purchase of investments	(100,000)	(250,866)
Net cash used in investing activities	(161,046)	(254,866)
NET INCREASE IN CASH AND CASH EQUIVALENTS	279,280	204,381
Cash and cash equivalents, beginning of year	980,860	776,479
Cash and cash equivalents, end of year	$ 1,260,140	$ 980,860
SUPPLEMENTAL INFORMATION:		
Interest paid	$ 283	$ 1,744

See accompanying notes and independent auditor's report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Rainbow Village, Inc. ("Organization") provides families in domestic and / or economic crisis a healing environment to rebuild their lives through a community based transitional housing program that promotes self-sufficiency. Beyond providing the security of fully furnished homes, the Organization provides homeless families with targeted case management and requires the following participation level from family members: life-skills classes, job training and workforce development, financial literacy counseling, support groups, and after-school and character-building programs for children and youth.

Most of the families served by the Organization transition within two years to an independent living situation. A majority of the formerly homeless families are single, female heads of households, many fleeing domestic violence. The Organization provides homes for thirty families serving an average of 100 adults, children, and youth annually. Aftercare is provided to families for a minimum of two years. In addition, a mentoring program allows an opportunity for resident families to work with others who have successfully completed the program for support and encouragement.

The Rainbow Village Community Center, LLC is a wholly owned subsidiary of Rainbow Village, Inc. This limited liability company was established in December 2014 and began operations in November 2015. The Community Center was opened to help families handle the economic burden childcare creates for homeless working adults with children. The Community Center also serves homeless children through before and after school programs, tutoring, and other enrichment opportunities.

Contributions to the Organization are tax deductible within the limitation prescribed by the Internal Revenue Code.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Rainbow Village, Inc. and Subsidiary and its wholly-owned subsidiary, collectively the "Organization". Significant intercompany balances and transactions have been eliminated in consolidation.

Basis of Accounting

The Organization recognizes revenue and expenses on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The Organization presents its consolidated financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 *Not-for-Profit-Entities*. Accordingly, the Organization reports information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

Net assets without donor restrictions include unrestricted resources which represent the portion of funds that are available for the operating objectives of the Organization. As of December 31, 2022 and 2021, net assets without donor restrictions were $6,657,538 and $6,409,994, respectively.

Net assets with donor restrictions are amounts subject to donor-imposed stipulations that may, or will be

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

met, either by actions of the Organization and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Net assets with donor restrictions were $2,354,342 and $2,546,711 for the years ended December 31, 2022 and 2021, respectively.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition

For exchange transactions, such as event ticket sales and certain grant agreements, the Organization recognizes revenue from contracts with customers in accordance with ASC Topic 606 Revenue from Contracts with Customers. ASC 606 provides for a five-step model for recognizing revenue from contracts with customers as follows:

1. Identify the contract
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognize revenue

Revenue is disaggregated based on the timing of the transfer of goods and services and the type of goods and services transferred. The transaction price is the amount of consideration to which the Organization expects to be entitled in exchange for transferring goods and services to the customer. The transaction price generally includes fixed amounts but may from time to time include variable amounts to the extent that a significant reversal of revenue recognized will not occur when the uncertainty associated with variable consideration is subsequently resolved, that is, it is probable and estimable.

Generally, the Organization's contracts with customers contain one performance obligation. Performance obligations related to contracts with customers for contributions, event ticket revenue and auction sales revenue for other program revenues and special event revenues are satisfied at a point in time because the performance of the contract typically creates or enhances an asset that the customer controls as the asset is delivered to the customer. Grant revenues are related to expense reimbursements. Performance obligations related to grant revenues are satisfied at a point in time when the grant conditions are met and the related expenses are reimbursed. Performance obligations related to contracts with residents for rental revenue are satisfied over time because the performance of the contract typically creates or enhances an asset that the customer controls as the asset is created or enhanced.

Revenue is recognized as performance obligations are satisfied and control of the promised goods and / or service is transferred to the customer. Revenue is recognized at a point in time as control is transferred to the customers by measuring the progress toward complete satisfaction of the performance obligation using the units delivered output method which is generally the best depiction of transfer of control.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Subsequent to the inception of a contract, the transaction price could change for various reasons, including a credit that can be applied to amounts owed, or that will be owed, or a full or partial refund. Changes that are accounted for as an adjustment to existing performance obligations are allocated on the same basis at contract inception. Otherwise, changes are accounted for as separate performance obligations and the separate transaction price is allocated as discussed above.

Contract assets consist of unbilled earnings on grant contracts for which the approved expenses were incurred before year end. Based on historical experience with these grantors, the collection risk related to the unbilled amounts is low.

For non-exchange transactions, such as contributions, the Organization recognizes revenue on the accrual method in accordance with ASC 958-605. Revenue is recognized when the promises to give are made. All contributions are available for unrestricted use, unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no conditional promises to give for the years ended December 31, 2022 or 2021.

Contributed Goods and Services

Donated goods and services are reported as contributions at their estimated fair value on the date of receipt and reported as expenses when utilized. Donated goods and services are valued based upon estimates of fair market or wholesale values that would be received for selling the goods in their principal market considering their condition and utility for use at the time the goods are contributed by the donor. Donated services are used by the Organization. Donated goods may be sold depending upon their nature and use to the Organization.

Cash and Cash Equivalents

For purposes of the statements of cash flows, all investments purchased with a maturity date of three months or less are considered to be cash equivalents because they are highly liquid.

Investments

Investments in marketable securities with readily determinable fair values are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the determination in the change in net assets.

Promises to Give

Promises to give are recorded at the amount the Organization expects to collect on donations and pledges made. Unconditional promises to give are recognized in the statement of activities in the period received. Promises to be received after one year are discounted at an appropriate discount rate based on management's estimate of the risks involved. Amortization of the discount is recorded annually as additional contribution revenue. Management closely monitors promises to give and reserves for, as of year end, any balances that are considered to be uncollectible. Management will write off any promises to give that remain outstanding after reasonable collection efforts have been used. The Organization has determined there are no significant financing components in these receivables for the years ended December 31, 2022 and 2021. There was no allowance for doubtful accounts for the years ended December 31, 2022 and 2021.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Grants Receivable

Grants receivable are recorded when the conditions in the grant have been met and the amounts are receivable from the grantors. The Organization has determined there are no significant financing components in these receivables for the years ended December 31, 2022 and 2021. There was no allowance for doubtful accounts for the years ended December 31, 2022 and 2021.

Resident Receivables

Residents are billed for various items according to their individual program profile such as rent. If the balances due from residents are greater than one year past due, they are fully reserved for by the Organization. The Organization has determined there are no significant financing components in these receivables for the years ended December 31, 2022 and 2021. The allowance for doubtful accounts was $0 and $52,337, for the years ended December 31, 2022 and 2021, respectively.

Property and Equipment

Property and equipment are recorded at cost and are depreciated using the straight-line method over the useful lives of the assets. Property and equipment consists of land, buildings, furniture & equipment, and vehicles which have useful lives between five and forty years. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in the current year's changes in net assets. Repairs and maintenance charges, which do not significantly extend the useful lives of the assets, are charged to expense as incurred, while major replacements and betterments are capitalized. Depreciation expense for the years ended December 31, 2022 and 2021 was $251,908 and $256,005, respectively.

Leases

<u>Lessee</u>

The Organization determines if an arrangement is a lease at inception. The Organization uses the following primary accounting provisions to classify transactions as financing or operating leases. Leases meeting any of these conditions are accounted for as financing leases, those that meet none, as operating leases.

1. Review of the lease term to determine if it's for a major part of the economic life of the underlying asset.
2. Review of the present value of the lease payments to determine if they are equal to, or greater than, substantially all of the fair market value of the underlying asset at the inception of the lease.
3. Review of the lease agreement to determine if there is an option to purchase the underlying asset that the Organization is reasonably certain to exercise, or, if the ownership of the underlying asset transfers to the Organization at the end of the lease term.
4. Review of the underlying asset to determine if it is highly specialized or would have no alternative use to the lessor after the lease term.

The Organization elects to use the risk-free discount rate for all leases that don't already have an explicit or implicit rate included in the lease, and to use this rate instead of the Organization's incremental borrowing rate. The risk-free rate is determined using a comparable period with that of the lease term and

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

is elected by class of underlying assets.

Lessor

The Organization determines if an arrangement is a lease at inception. The Organization uses the following primary accounting provisions to classify transactions as sales-type, direct-financing, or operating leases. Leases meeting these conditions are accounted for as either sales-type leases or direct-financing, depending on further criteria. Those that do not meet the conditions are accounted for as operating leases.

1. Review of the lease term to determine if it's for a major part of the economic life of the underlying asset.
2. Review of the present value of the lease payments to determine if they are equal to, or greater than, substantially all of the fair market value of the underlying asset at the inception of the lease.
3. Review of the lease agreement to determine if there is an option for the lessee to purchase the underlying asset that the lessee is reasonably certain to exercise, or, if the ownership of the underlying asset transfers to the lessee at the end of the lease term.
4. Review of the underlying asset to determine if it is highly specialized or would have no alternative use to the Organization after the lease term.

As a practical expedient, the Organization has elected, by class of underlying asset, not to separate non-lease components from lease components and, instead, to account for each separate lease component and non-lease component(s) as a single component if both of the following are met:

1. the non-lease components otherwise would be accounted for under ASC 606.
2. the timing and pattern of the transfer for the lease and non-lease components associated with that lease are the same, and, the lease component, if accounted for separately, would be classified as an operating lease.

This expedient has been applied to the Community Center lease. There are no lease components that have been combined. The non-lease components that have been combined are utility services.

The Organization elects to use the risk-free discount rate for all leases that don't already have an explicit or implicit rate included in the lease, and to use this rate instead of the Organization's incremental borrowing rate. The risk-free rate is determined using a comparable period with that of the lease term and is elected by class of underlying assets. The Organization is applying this policy to all of its leases.

The Organization has elected to exclude from consideration in the lease contract and from variable payments not included in the consideration in the lease contract, the taxes assessed and collected from the lessee, if applicable.

The Organization has a significant investment in the residual value of the real estate included in operating leases. The residual value represents the estimate of the value of the assets at the end of the lease contract. Realization of the residual value is dependent on the Organization's future ability market the real estate under the prevailing market conditions. In addition to estimating the residual value at lease termination, the Organization also evaluates the current value of the operating lease asset and tests for impairment to the extent necessary when there is an indication of impairment based on market considerations .

Where the Organization is leasing a portion of a larger asset, the Organization estimates the fair value of

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

the portion of the underlying asset being leased when applying the lease classification criteria.

Costs incurred for fulfilling a lease before the commencement date are expensed as incurred.

Income Taxes

The Organization is a non-profit organization which has been determined by the Internal Revenue Service to be exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has determined that the Organization is not a private foundation. The Organization's income tax returns are subject to examination by the appropriate regulatory authorities and remain open for examination for a period of three years after the respective filing deadlines of those returns.

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of revenues, expenses and changes in net assets. Accordingly, certain costs have been allocated among the program and supporting services receiving the benefit.

Fair Value of Financial Instruments

The Organization's financial instruments, including current assets and current liabilities, are carried at cost, which approximates their fair value because of the short-term nature of these financial instruments. The Organization's investments and unconditional promises to give are carried at fair value.

2. ACCOUNTING POLICY CHANGES

Leases

The Financial Accounting Standards Board (FASB) issued ASC 842 Leases in February 2016 and has subsequently amended the standard various times through additional Accounting Standard Updates with the same effective dates as the original pronouncement. This new standard fundamentally changes the accounting for leases for lessees, requiring all leases longer than twelve months in length to be capitalized on the balance sheet along with a corresponding lease liability. The standard also requires companies to disclose additional information regarding all leases. This new standard is effective for annual periods beginning after December 15, 2021 and is applied retrospectively using one of two methods. The Organization has elected for the standard to be applied retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment as of January 1, 2022, subject to the following practical expedients elected.

The Organization has elected the following practical expedients in the application of ASC 842:

- The Organization will not reassess whether any expired or existing contracts contain leases.
- The Organization will not reassess the lease classification for any expired or existing leases.
- The Organization will not reassess initial direct costs for any existing leases.

Adoption of the standard had no material impact on the financial statements.

2. ACCOUNTING POLICY CHANGES *(continued)*

Contributed Non-Financial Assets

The Financial Accounting Standards Board (FASB) issued ASU 2020-07 *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets* in September 2020. This new standard changes the presentation and disclosure requirements for contributions of nonfinancial assets. This new standard is effective for annual periods beginning after June 15, 2022, is applied on a retrospective basis and early adoption is permitted. Adoption did not have a significant impact on the financial statements, with the exception of increased disclosure.

3. FAIR VALUE MEASUREMENTS

The Organization applies the provisions of ASC 820, *Fair Value Measurements and Disclosures*, for fair value measurements that are recognized and disclosed at fair value in the consolidated financial statements on a non-recurring basis. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants on the measurement date. ASC 820 also established a fair value hierarchy that requires the Organization to maximize the use of observable inputs when measuring fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Organization's market assumptions.

The three levels of the fair value hierarchy are as follows:

Level 1 - Quoted prices for identical assets or liabilities in active markets

Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; or market - corroborated inputs.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Organization estimated the fair value of it's investments at quoted market prices; accordingly, they are considered Level 1 fair values. There were no transfers in or out of Level 1 within the fair value hierarchy as of December 31, 2022 and 2021.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2022	2021
Building	$ 8,373,311	$ 8,361,037
Land	502,778	502,778
Furniture and equipment	432,111	475,212
Vehicles	36,570	96,547
Total cost	9,344,770	9,435,574
Accumulated depreciation	(2,093,827)	(1,986,763)
Property and equipment, net	$ 7,250,943	$ 7,448,811

Depreciation expense for the years ended December 31, 2022 and 2021 was $251,908 and $256,005, respectively.

5. LINE OF CREDIT

The Organization has available a line of credit with a borrowing capacity of $500,000 with a maturity date of September 2022. Interest is equal to the Wall Street Journal Prime Rate plus 1%. The line of credit is secured by the receivables and fixed assets of the Organization. There was no outstanding balance on the line of credit for the years ended December 31, 2022 and 2021, respectively.

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following:

	2022	2021
Thrive Alumni program	$ 25,950	$ -
Capital campaign	45,000	-
Building fund restrictions	2,283,392	2,526,862
Receivables	-	19,849
Total	$ 2,354,342	$ 2,546,711

Net assets released from donor restrictions are as follows:

	2022	2021
Receivables	$ 3,000	$ -
Building fund restrictions	243,470	242,381
Thrive Alumni program	4,050	-
COVID supplies and assistance	-	1,618
Rent assistance & resident transportation	-	41,306
Mental health	149,711	30,000
Assistance for woman and children	-	20,000
Total	$ 400,231	$ 335,305

7. NET ASSETS LIQUIDITY AND AVAILABILITY

The Organization's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	2022	2021
Cash and cash equivalents	$ 1,260,140	$ 980,860
Unconditional promises to give	-	3,000
Grants receivable	-	16,849
Resident receivables	2,774	4,550
Other receivables	55,515	-
Total	$ 1,318,429	$ 1,005,259

The unconditional promises to give and receivables are subject to implied time restrictions but are expected to be collected within one year. The Organization has a goal to maintain a cash balance to meet several months of operating expenses which were on average $171,300 and $164,241 per month for the years ended December 31, 2022 and 2021, respectively. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

8. INVESTMENT INCOME (LOSS)

Investment income consists of the following:

	2022	2021
Net realized and unrealized gains (losses)	$ (109,667)	$ 60,184
Dividends and interest	10,252	6,820
Less: fees paid	(8,461)	(7,448)
Total net return on investments	$ (107,876)	$ 59,556

9. CONTRIBUTED GOODS AND SERVICES

For the years ended December 31, 2022 and 2021, contributed professional services totaled $15,900 and $39,916, respectively. The services consisted of pest control, legal and accounting services, and printing services. The services were valued at standard pricing provided by the donor.

The Organization’s policy on monetizing or utilizing contributed non-financial assets varies based on the type of asset received. There were no donor-imposed restrictions on any of the nonfinancial assets received during the years ended December 31, 2022 and 2021.

10. ALLOCATION OF JOINT COSTS

The Organization conducted activities that included requests for contributions, as well as program and supporting expenses. Those activities included a golf tournament, a gala, and a wine and dinner auction. The costs of conducting those activities included a total of $285,186 and $307,265 of joint costs, which are not specifically attributable to particular components of the activities for the years ended December 31, 2022 and 2021, respectively.

10. ALLOCATION OF JOINT COSTS *(continued)*

These joint costs were allocated as follows:

	2022	2021
Programs	$ 152,493	$ 186,931
Support	83,681	82,178
Fundraising	49,012	38,156
Total	$ 285,186	$ 307,265

11. LEASES

The Organization serves as a lessor in an operating lease for building space rented out to an unrelated third party. The original term of the lease is for 3 years expiring on June 30, 2024. After the original term of the lease, the lease converts to month-to-month. The exercise of the lease renewal is at the lessee's discretion. The office space lease agreement includes rental payments based on a square footage price. The lease also includes variable lease income for such costs as utilities. The Organization excludes from variable lease payments all Organization costs that are explicitly required to be paid directly by a lessee on behalf of the Organization to a third party. There is no option provided in the lease for the lessee to purchase the underlying asset.

Operating lease income and other income included in total revenues for the year ended December 31, 2022 are as follows:

Operating lease income from office space lease	$ 43,302
Variable operating lease income	8,100
Revenue accounted for under Topic 842	$ 51,402

The Organization leases office space in one of its buildings to 1 tenant, classified as an operating lease. The carrying amount of the total property equals approximately $9 million. The tenant uses one unit, which represents approximately 10 percent of the total square footage of the entire property for its own office. On its statement of financial position, the Organization does not separately report the portion of the one building as leased assets.

Undiscounted cash flows to be received from lease payments under operating leases on an annual basis for the next five years are as follows:

2023	$ 44,722
2024	22,561
Total undiscounted cash flows	$ 67,283

Lease revenue for the year ended December 31, 2022 is as follows:

	Income Statement Classification	
Operating lease revenue	Revenue	$ 43,302
Variable lease revenue	Revenue	8,100
Total lease revenue		$ 51,402

12. CONCENTRATIONS

Cash and Cash Equivalents

The Organization maintains its cash and cash equivalents with federally insured financial institutions. At times during the year, the balances at these financial institutions exceeded the FDIC insured limit of $250,000.

Events

During the years ended December 31, 2022 and 2021, one event accounted for approximately 23% and 22%, respectively, of revenue and support earned.

13. RECLASSIFICATIONS

Certain reclassifications have been made to the December 31, 2021 financial statement presentation to correspond to the current year’s format. Total net assets and changes in net assets remain unchanged due to these reclassifications.

14. DATE OF MANAGEMENT'S REVIEW

The Organization is not aware of any significant events that occurred subsequent to the balance sheet date but prior to the issuance of this report that require adjustment to the consolidated financial statements or disclosure in the notes to the consolidated financial statements. Management has evaluated subsequent events as of November 8, 2023, the date on which the consolidated financial statements were available to be issued.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

WILSON LEWIS
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Rainbow Village, Inc. and Subsidiary
Duluth, Georgia

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 consolidated financial statements of Rainbow Village, Inc. and Subsidiary (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 8, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Rainbow Village, Inc. and Subsidiary' 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rainbow Village, Inc. and Subsidiary' 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 consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rainbow Village, Inc. and Subsidiary' consolidated 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 determination of consolidated 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 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.

Wilson Lewis

November 8, 2023

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