



RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2025
(With Summarized Comparative Totals for the Year Ended June 30, 2024)

with

INDEPENDENT AUDITORS' REPORT THEREON



RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

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Independent Auditors' Report

To the Board of Directors
Rainbow Services, Ltd.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Rainbow Services, Ltd. (the “Organization”), which comprise the statement of financial position as of June 30, 2025, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2025, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Financial Information

We have previously audited the Organization’s June 30, 2024, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 24, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2026 on our consideration of the Organization’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

PDM, LLP

Torrance, California
March 3, 2026

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2025

(WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2024)

	2025	2024
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 502,876	\$ 297,762
Government contracts receivable	343,402	310,706
Contributions receivable	51,992	112,617
Prepaid expenses and other current assets	34,829	22,845
	933,099	743,930
LONG-TERM ASSETS		
Property and equipment, net	4,099,725	4,252,911
	\$ 5,032,824	\$ 4,996,841
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and other accrued expenses	\$ 171,731	\$ 232,370
Accrued salaries and related payroll expenses	389,963	385,121
Government contract advances	131,761	-
Line of credit	-	200,000
Notes payable, current portion	-	325,000
Finance lease liability, current portion	24,714	24,064
	718,169	1,166,555
LONG TERM LIABILITIES		
Finance lease liability, net of current portion	49,251	73,964
	767,420	1,240,519
NET ASSETS		
Without donor restrictions	4,265,404	3,756,322
	4,265,404	3,756,322
	\$ 5,032,824	\$ 4,996,841

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

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025

(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2024)

	2025			2024
	Without Donor Restrictions	With Donor Restrictions	Total	Summarized Total
REVENUE AND SUPPORT				
Government contracts	\$ 2,851,373	\$ -	\$ 2,851,373	\$ 3,114,247
Employee retention credit	1,004,873	-	1,004,873	-
Foundation support	388,769	-	388,769	593,148
Contributions	265,041	-	265,041	82,076
Other support	-	-	-	172,795
	4,510,056	-	4,510,056	3,962,266
FUNCTIONAL EXPENSES				
Program services	3,427,552	-	3,427,552	4,462,330
Supporting services	507,881	-	507,881	654,579
Fundraising	65,541	-	65,541	90,438
	4,000,974	-	4,000,974	5,207,347
CHANGE IN NET ASSETS	509,082	-	509,082	(1,245,081)
NET ASSETS, beginning of year	3,756,322	-	3,756,322	5,001,403
NET ASSETS, end of year	\$ 4,265,404	\$ -	\$ 4,265,404	\$ 3,756,322

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

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2025**

(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2024)

	<u>2025</u>				<u>2024</u>
	<u>Program Services</u>	<u>Supporting Services</u>	<u>Fundraising</u>	<u>Total</u>	<u>Summarized Total</u>
PERSONNEL EXPENSES					
Salaries	\$ 1,658,411	\$ 232,291	\$ 39,523	\$ 1,930,225	\$ 2,988,203
Employee benefits	186,504	26,123	4,445	217,072	318,607
Payroll taxes	177,652	24,883	4,234	206,769	263,754
TOTAL PERSONNEL EXPENSES	<u>2,022,567</u>	<u>283,297</u>	<u>48,202</u>	<u>2,354,066</u>	<u>3,570,564</u>
OTHER EXPENSES					
Program services	563,266	-	-	563,266	661,036
Consultants	232,037	77,424	-	309,461	118,334
Building maintenance and repairs	125,522	19,862	-	145,384	64,959
Depreciation and amortization	75,110	46,207	-	121,317	152,283
Office expenses	105,778	13,338	2,091	121,207	95,241
Utilities	64,964	6,427	-	71,391	75,536
Lease expense	54,642	8,646	-	63,288	115,266
Insurance	48,283	11,730	-	60,013	63,518
Professional services	35,792	2,654	15,113	53,559	62,863
Property tax	33,812	8,775	-	42,587	44,421
Telephone	29,939	10,154	-	40,093	57,108
Travel and transportation	15,673	2,908	-	18,581	21,742
Equipment maintenance and repairs	13,314	1,757	-	15,071	12,519
Interest	-	13,838	-	13,838	19,906
Staff development	6,853	864	135	7,852	33,036
Miscellaneous	-	-	-	-	27,645
Community outreach	-	-	-	-	11,370
TOTAL OTHER EXPENSES	<u>1,404,985</u>	<u>224,584</u>	<u>17,339</u>	<u>1,646,908</u>	<u>1,636,783</u>
TOTAL EXPENSES	<u>\$ 3,427,552</u>	<u>\$ 507,881</u>	<u>\$ 65,541</u>	<u>\$ 4,000,974</u>	<u>\$ 5,207,347</u>

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

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2025
(WITH SUMMARIZED COMPARATIVE TOTALS FOR JUNE 30, 2024)

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 509,082	\$ (1,245,081)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization of property and equipment	121,317	152,283
Amortization of ROU asset	32,794	32,795
Notes payable forgiveness	-	(84,264)
Surrender of deposits	-	5,300
Changes in operating assets and liabilities:		
Government contracts and contributions receivable	27,929	1,307,766
Prepaid expenses and other current assets	(11,984)	148,700
Accounts payable and other accrued expenses	(60,639)	71,512
Accrued salaries and related payroll expenses	4,841	(112,926)
Government contract advances	131,761	(47,126)
Operating lease right-of-use assets and liabilities, net	-	(7,673)
Net cash flows from operating activities	755,101	221,286
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(924)	(366,305)
Net cash flows from investing activities	(924)	(366,305)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings under notes payable	-	325,000
Principal payments on notes payable	(325,000)	-
Principal payments on line of credit	(200,000)	-
Payments on finance lease liability	(24,063)	(23,431)
Net cash flows from financing activities	(549,063)	301,569
Net change in cash and cash equivalents	205,114	156,550
Cash and cash equivalents, beginning of year	297,762	141,212
Cash and cash equivalents, end of year	\$ 502,876	\$ 297,762
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 13,838	\$ 19,906

The accompanying notes are an integral part of these financial statements

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 1 - ORGANIZATION AND BACKGROUND

Rainbow Services, Ltd. (the “Organization”) was established and incorporated on June 14, 1983. The Organization is a non-profit corporation, which provides emergency shelter and other services for victims of domestic violence. The Organization seeks to end the cycle of family violence.

The Organization has two shelters, a 90-day emergency shelter and a transitional shelter where the victim and their children may remain for up to one year, and two community centers, an education and legal center and an outreach center providing services to non-shelter clients. The Organization provides a 24-hour English/Spanish hot-line which responds to approximately 300 calls per month. The Organization provides counseling, case management, legal advocacy, parenting classes, life-skills classes, housing services, and a children’s enrichment program.

Funding - The Organization is funded primarily through government service contracts and grants, private foundation support, and contributions.

The Organization receives funding from government agencies, this accounted for approximately 86% of its operational funding for the year ended June 30, 2025. This funding is recognized as support when grant-purpose services are performed by the Organization.

The Organization also receives private support donations without donor restrictions. The Organization receives approximately 14% of its funding for operations from contributions made from private organizations, foundations and individuals. These contributions are recognized as support when received.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor or certain grantor restrictions.

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions.

Revenue and support recognition - Contributions and pledges are recognized at fair value when the donor makes an unconditional promise to give to the Organization. Conditional grants (with a barrier and right of return) are not recognized until the conditions on which they depend have been met. This is the method used for government service contracts. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets, or that require specialized skills, are provided by the individual possessing those skills and would typically need to be purchased, if not provided by donation, are recorded at the fair values in the period received. Contributions of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fair value of financial instruments - Financial instruments primarily consist of cash and cash equivalents and receivables. The Organization estimates the fair value of its financial instruments at June 30, 2025, do not differ materially from its aggregate carrying value recorded in the accompanying statement of financial position. Considerable judgement is required in interpreting market data to develop the estimates of fair value and, accordingly, the estimates are not necessarily indicative of the amounts that the Organization could realize in a current market exchange.

Cash and cash equivalents - For the purpose of reporting cash flows, cash and cash equivalents include operating cash held in banks and investments with an original maturity of ninety days or less. The Organization maintains its cash balances in a financial institution, the balances of which may, at times, exceed federally insured limits.

Contribution receivable - Contribution receivable consists of an amount awarded and due from a donor. The Organization provides an allowance for uncollectible accounts based on historical experience. Management believes that the contribution receivable is fully collectible at June 30, 2025, and as such, no allowance for uncollectible accounts has been recorded.

Government contracts receivable and revenue - Government contracts revenue from cost-reimbursable contracts are conditioned upon certain performance requirements and/or incurrence of allowable qualifying expenses. Amounts received are recognized when the Organization has incurred expenditures in compliance with specific contract or grant provisions. The Organization's contracts receivable primarily comprises of reimbursements due from contracted government grant reimbursement requests and are subject to government audit. Management believes that no material adjustments will result from subsequent audits, if any, by government agencies.

The Organization provides an allowance for uncollectible accounts based on historical experience. Management believes that contracts receivable are fully collectible at June 30, 2025, and as such, no allowance for uncollectible accounts has been recorded. As of June 30, 2025, 77% of the Organization's aggregate contribution and government contracts receivables of \$395,394 was due from two government contracts. For the year ended June 30, 2025, revenue and support from these government contracts accounted for 12% of the Organization's total government contracts revenue and support of \$3,856,246.

Property and equipment - The Organization capitalizes all property and equipment in excess of \$5,000. Donated assets are recorded at their fair market value when received. Purchased assets are carried at cost. The cost of purchased assets or fair market value of donated assets is depreciated on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 40 years or over the lease term if shorter.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

When equipment is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and the resulting gain or loss is credited or charged to operations. Normal repairs and maintenance are expensed as incurred. Expenditures which materially adapt, improve, or alter the nature of the underlying assets are capitalized.

Long-lived assets - The Organization assesses, using a qualitative then a quantitative approach, the recoverability of long-lived assets, including property and equipment, whenever triggering events, or changes in circumstances, indicate that the historical-cost carrying value of an asset may no longer be appropriate. The evaluation is performed by determining whether the depreciation and amortization of such assets over their remaining lives can be recovered through projected undiscounted cash flows. The amount of impairment, if any, is measured based on fair value and is charged to operations in the period in which such impairment is determined by management.

To date, the Organization has not identified any impairment of long-lived assets. As of and for the year ended June 30, 2025, no triggering events were deemed present and therefore no impairment charges related to long-lived assets were recognized. However, there can be no assurance that market conditions will not change, which could result in impairment of long-lived assets in the future.

Expense allocation - The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. The Statement of Functional Expenses presents expenses by function and natural classification. Expenses directly attributable to specific functional areas are reported as expenses of those functional areas while indirect costs that benefit multiple functional areas have been allocated among the various functional areas based on the number of employees involved or the amount of time spent. Functional expenses are an expense of the year in which incurred and accordingly, are charged to operations on a current basis.

Program services are expenses that primarily relate to client services and outreach programs. Supporting services are expenses that primarily relate to management and general administration. Fundraising are expenses that primarily relate to fundraising activities to obtain grants and generate revenue through contributions.

Leases - The Organization determines if an arrangement is a lease at inception. Leases with a term of more than twelve months are recorded on the Statement of Financial Position. Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities on the Statement of Financial Position. Finance leases are included in finance lease ROU assets within property and equipment and finance lease liabilities on the Statement of Financial Position. Leases with an initial term of twelve months or less are not recorded on the Statement of Financial Position and the Organization records the lease expense for these leases on a straight-line basis over the lease term.

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. When the implicit rate is not readily determinable, as most of the Organization's leases do not provide an implicit rate, the Organization uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for operating leases is recognized on a straight-line basis over the lease term and the operating lease ROU assets are adjusted for lease incentives.

The Organization has elected to apply the short-term lease exemption to the following class of underlying assets: office equipment. In fiscal year 2025, there are multiple leases within this class of underlying assets that qualify for the exemption. The Organization has lease agreements with lease and non-lease components which are accounted for separately. The Organization's lease agreements typically do not contain any material variable lease payments, residual value guarantees or restrictive covenants.

Income taxes - The Organization is a qualified non-profit organization under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. Non-profit organizations are not generally liable for taxes on income; therefore, no provision is made for such taxes for the Organization in the financial statements. During the year ended June 30, 2025, the Organization had no unrelated business income.

The Organization recognizes the impact of tax positions in the financial statements if that position is more likely than not of being sustained in an audit, based on the technical merits of the position. To date, the Organization has not recorded any uncertain tax positions. During the year ended June 30, 2025, the Organization did not recognize any amount in potential interest and penalties associated with uncertain tax positions.

As of June 30, 2025, all federal tax returns since the 2021 tax year and state tax returns since the 2020 tax year are still subject to adjustment upon audit. No tax returns are currently being examined by taxing authorities.

Risks and uncertainties - Certain services the Organization provides are governed by grant agreements with governmental agencies. All such grant agreements to which the Organization currently is a party are for fixed terms and expire on an annual basis. There can be no assurance that the Organization will be able to obtain future grant agreements as deemed necessary by management. The loss of some of the current grants or the inability to obtain future grants could have an adverse effect on the Organization's financial position and results of operations. Failure of the Organization to comply with applicable regulatory requirements can result in, among other things, loss of funding, warning letters, fines, injunctions, and civil penalties.

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Reclassifications and comparative totals - Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between reporting periods presented. The financial statements include certain prior year summarized comparative information in total, but not by net asset class. In addition, the notes to the financial statements do not contain the financial information on a comparative basis. Such summarized information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2024, from which the summarized information was derived.

Subsequent events - Subsequent events have been evaluated by the Organization through March 3, 2026, which is the date these financial statements were issued, and no subsequent events have arisen, other than those described in these financial statements, that would require disclosure.

NOTE 3 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Organization's liquid financial assets as of June 30, 2025:

Cash and cash equivalents	\$ 502,876
Government contracts receivable	343,402
Contributions receivable	51,992
	<u>\$ 898,270</u>

The Organization's goal is to maintain financial assets on hand to meet at least sixty days of normal operating expenses, which, on average, totals approximately \$320,000 per month given full programmatic expenditures. The Organization currently has enough financial assets on hand for approximately two months of full programmatic expenditures.

RAINBOW SERVICES, LTD.
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2025 consists of:

Building and improvements	\$ 6,516,198
Furniture and fixtures	247,268
Vehicles	<u>38,357</u>
	6,801,823
Less: accumulated depreciation and amortization	<u>(2,783,298)</u>
	4,018,525
Land	<u>81,200</u>
	<u><u>\$ 4,099,725</u></u>

Depreciation and amortization expense for the year ended June 30, 2025 is \$154,111 which includes \$32,794 of amortization expense on right of use leased equipment.

NOTE 5 - LEASES

The Organization had two operating leases for legal offices and a community center in San Pedro, California requiring monthly rent payments of \$4,937 with an annual increase of 3% for one lease. The leases were set to expire at various dates through May 2025. Effective April 2024, the Organization early terminated both operating leases and forfeited their security deposits of \$5,300.

The Organization has a finance lease for office equipment that requires monthly lease payments of \$2,199 through May 2028. As of June 30, 2025, finance lease ROU assets included within property and equipment had an aggregate cost of \$71,740 and the related accumulated amortization amount to \$57,392.

The components of lease expense recorded within the accompanying Statement of Functional expenses for the fiscal year ended June 30, 2025 is as follows:

Finance lease expense:	
Amortization of ROU asset	\$ 32,794
Interest on lease liability	22,069
Short-term lease expense	<u>8,425</u>
Total lease expense	<u><u>\$ 63,288</u></u>

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 5 - LEASES, continued

Other information related to leases for the year ended June 30, 2025 was as follows:

Supplemental cash flow information:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from finance lease	\$ 2,547
Financing cash flows from finance lease	\$ 24,063

Weighted average remaining lease term:

Finance lease	<u>2.9 years</u>
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Weighted average discount rate:

Finance lease	<u>2.67%</u>
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Future minimum lease payments under non-cancelable lease as of June 30, 2025 were as follows:

For the years ending June 30,	
2026	\$ 26,388
2027	26,388
2028	<u>24,189</u>
Total future minimum lease payments	76,965
Less: amount representing interest	<u>(3,000)</u>
Total lease liabilities	73,965
Less: current portion	<u>(24,714)</u>
Long-term portion	<u>\$ 49,251</u>

NOTE 6 - EMPLOYEE RETENTION CREDIT

The CARES Act provides an Employee Retention Credit (“ERC”) for eligible employers who meet certain requirements under the act. The ERC is refundable tax credit against certain employer payroll taxes capped at certain qualified wages paid per employee. Additional relief provisions were passed by the U.S. government, which extended and slightly expanded the qualified wages caps on these credits through 2021. The ERC is calculated on a quarterly basis.

The Organization became retroactively eligible for the ERC for 2020 and the first three quarters of 2021. The Organization filed its amended payroll tax returns and received \$1,004,873 during the year ended June 30, 2025.

NOTE 7 - LINE OF CREDIT

In September 2018, the Organization entered into a credit agreement (the “Credit Agreement”) with a bank that provides for borrowings under a revolving line of credit up to \$200,000 (“Line of Credit”) through April 2024. The borrowings on the Line of Credit bear interest at the prime rate (8.5% at June 30, 2025) plus 1% or the floor rate of 9%. Borrowings under the Credit Agreement are secured by the Organization’s accounts receivable, equipment, and inventory, if applicable.

Effective September 2024, the Line of Credit was converted to a term loan of \$194,077 with a maturity of March 1, 2025, bearing interest at the prime rate. The new term loan was payable in monthly installments, with the first two month’s principal payment of \$2,500 per month plus interest, the following months of outstanding principal amortized over 24 months plus interest, and balloon payment at maturity for all remaining unpaid principal and interest as of March 1, 2025. Additionally, per the new term loan agreement, the ERC funds that were received during the 2025 fiscal year were to pay off the term loan in full. When the Organization received the ERC funds the term loan was paid in full during February 2025.

NOTE 8 - NOTES PAYABLE

The Organization had a \$50,000 note due to the Board of Director Chair bearing no interest. The note was paid in full during the fiscal year.

The Organization had a \$275,000 note payable to a third-party foundation, bearing no interest. The note was paid in full during the fiscal year.

NOTE 9 - RETIREMENT PLAN

The Organization sponsors a Section 401(k) contribution plan that covers all eligible full-time employees who are at least 18 years old and have completed one year of service. Eligible employees may contribute up to the maximum elective deferral to 401(k) plan, which may not exceed limitations set by the Internal Revenue Code. The Organization makes matching contributions to the plan for 100% of the participant’s contributions, not to exceed 4% of the participant’s annual compensation. The Organization contributed \$41,576 to the plan during the year ended June 30, 2025.

NOTE 10 - CONTINGENCIES

Litigation - The Organization may be involved, from time-to-time, in various claim, lawsuits, and disputes with third parties, actions involving allegations or discrimination, or breach of contract actions incidental in the normal operations of business. The Organization is not currently involved in any such litigation which management believes could have a material adverse effect on its financial position or results of operations.