

RAINBOW RAILROAD
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

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Independent Auditor's Report

To the Members and Board of Directors of Rainbow Railroad

Qualified Opinion

We have audited the financial statements of Rainbow Railroad (the "Rainbow Railroad"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Rainbow Railroad as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Qualified Opinion

Rainbow Railroad receives revenues from event ticket sales, fundraising activities and other contributions, the completeness of which are not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts reported by Rainbow Railroad. Therefore, we are not able to determine whether, as at and for the year ended December 31, 2018, any adjustments might be necessary to revenues and excess of revenues over expenses reported in the statement of operations and net assets, or to assets and net assets reported in the statement of financial position. This same matter caused us to qualify our audit opinion on the financial statements as at and for the year ended December 31, 2017.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Rainbow Railroad in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of the Rainbow Railroad to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Rainbow Railroad or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Rainbow Railroad.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Independent Auditor's Report (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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.
- 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 internal control of the Rainbow Railroad.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Rainbow Railroad to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Rainbow Railroad to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



Toronto, Ontario
June 18, 2019

Chartered Professional Accountants
Licensed Public Accountants

RAINBOW RAILROAD
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

	2018	2017
ASSETS		
Current assets		
Cash	\$ 220,231	\$ 580,468
Accounts receivable	253,026	102,831
Prepaid expenses	7,966	2,464
	<u>481,223</u>	<u>685,763</u>
Capital assets <i>(note 3)</i>	94,750	30,297
	<u>575,973</u>	<u>716,060</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	150,954	77,895
Deferred contributions <i>(note 4)</i>	35,036	127,491
	<u>185,990</u>	<u>205,386</u>
Net assets	389,983	510,674
	<u>\$ 575,973</u>	<u>\$ 716,060</u>

The accompanying notes are an integral part of these financial statements

Approved on behalf of the Board:

_____, Director _____, Director

RAINBOW RAILROAD

STATEMENT OF OPERATIONS AND NET ASSETS

YEAR ENDED DECEMBER 31, 2018

	2018	2017
Revenues		
Donations - general	\$ 1,264,696	\$ 989,946
Donations - major gifts	1,007,275	723,784
Grants	202,307	104,069
Fundraising events	28,349	39,862
Amortization of deferred contributions <i>(note 4)</i>	125,955	180,765
Other revenue	4,135	642
	<u>2,632,717</u>	<u>2,039,068</u>
Expenses		
Programs	2,299,678	1,415,984
Fundraising	363,805	327,715
Operating and administrative	89,925	140,647
	<u>2,753,408</u>	<u>1,884,346</u>
Excess (deficiency) of revenues over expenses for the year	(120,691)	154,722
Net assets - at beginning of year	510,674	355,952
Net assets - at end of year	<u>\$ 389,983</u>	<u>\$ 510,674</u>

The accompanying notes are an integral part of these financial statements

RAINBOW RAILROAD
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018

	2018	2017
Cash flows from operating activities		
Excess (deficiency) of revenues over expenses for the year	\$ (120,691)	\$ 154,722
Add back items not affecting cash flows		
Amortization	22,571	6,324
Net changes in non-cash operating working capital balances		
Accounts receivable	(150,195)	17,600
Prepaid expenses	(5,502)	(61)
Accounts payable and accrued liabilities	73,059	68,403
Deferred contributions	(92,455)	(81,731)
	(273,213)	165,257
Cash flows from investing activity		
Purchase of capital assets	(87,024)	(30,233)
Change in cash during the year	(360,237)	135,024
Cash - at beginning of year	580,468	445,444
Cash - at end of year	\$ 220,231	\$ 580,468

The accompanying notes are an integral part of these financial statements

RAINBOW RAILROAD

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Rainbow Railroad (the "Organization") is an international organization with the mandate to help lesbian, gay, bisexual, transgender, queer and intersex (LGBTQI) individuals seek a safe haven from state sponsored or enabled violence by providing them with assistance in the form of information and emergency funding for travel and accommodation. Rainbow Railroad was incorporated on February 19, 2013 under the Canada Not-for-Profit Corporations Act without share capital. The Organization is a registered charity under the Income Tax Act (Canada) and accordingly, is exempt from income taxes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and are in accordance with Canadian generally accepted accounting principles. These financial statements have been prepared within the framework of the significant accounting policies summarized below.

Revenue Recognition

Rainbow Railroad follows the deferral method of accounting for contributions. Contributions include donations and grants. Unrestricted contributions are recorded as revenue when received or receivable if the amount can be reasonably estimated and collection is reasonably assured. Restricted contributions are deferred and recognized as revenue in the year in which the related expenditures are incurred.

Fundraising events income is recognized as revenue when the event takes place. All events are general fundraising events.

Financial Instruments

(i) Measurement of financial instruments

Rainbow Railroad initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument. Amounts due to and from related parties are measured at the exchange amount, being the amount agreed upon by the related parties.

Rainbow Railroad subsequently measures all its financial assets and financial liabilities at amortized cost. Financial assets and liabilities measured at amortized cost include cash, accounts receivable and accounts payable and accrued liabilities.

(ii) Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of possible impairment. When a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset or group of assets, a write-down is recognized in net income. The write down reflects the difference between the carrying amount and the higher of:

- the present value of the cash flows expected to be generated by the asset or group of assets;
- the amount that could be realized by selling the assets or group of assets;

RAINBOW RAILROAD

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

(ii) Impairment (continued)

When the events occurring after the impairment confirm that a reversal is necessary, the reversal is recognized in net income up to the amount of the previously recognized impairment. The amount of the reversal is recognized in income in the period that the reversal occurs.

Contributed Services

Volunteers have contributed time and services to assist Rainbow Railroad in the delivery of its services and other activities. Because of the difficulty of determining their fair market value, contributed services provided to Rainbow Railroad are not recognized in the financial statements.

Donations-In-Kind

Recognition is recorded in the financial statements to donations-in-kind that are used in the normal course of business when a reasonable estimate of value can be made. Rainbow Railroad received in-kind donations from third parties in the year in an amount of \$51,216 (2017 - \$26,411).

Allocation of Expenses

Rainbow Railroad incurs general and administrative support services that are common to the administration of the Organization and its programs. These costs include salaries and benefits, rent and other administrative expenses. Rainbow Railroad allocates these expenses based on utilized time as follows:

Fundraising	-	30%
Programs	-	60%
Operating and administration	-	10%

Capital Assets

The costs of capital assets are capitalized upon meeting the criteria for recognition as property and equipment, otherwise, costs are expensed as incurred. The cost of capital assets comprises its purchase price and any directly attributable cost of preparing the asset for its intended use.

Capital assets is measured at cost less accumulated amortization and accumulated impairment losses.

Amortization is provided for, upon the commencement of the utilization of the assets, using methods and rates designed to amortize the cost of the capital assets over their estimated useful lives. The annual amortization rates and methods are as follows:

Computer software	-	3 years straight line
Furniture and equipment	-	5 years straight line
Computer hardware	-	3 years straight line
Leasehold improvements	-	straight line over the term of lease

RAINBOW RAILROAD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets (continued)

Capital assets is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. If any potential impairment is identified, the amount of the impairment is quantified by comparing the carrying value of the capital assets to its fair value. Any impairment of capital assets is recognized in income in the year in which the impairment occurs.

An impairment loss is not reversed if the fair value of the capital assets subsequently increases.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the year end. Revenues and expenses are translated from foreign currencies to Canadian dollars at the rate of exchange prevailing on the transaction date. Any resulting gains or losses are included in income for the year.

Use of Estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these and other estimates, the impact of which would be recorded in future affected periods.

2. FINANCIAL INSTRUMENT RISK MANAGEMENT

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The following disclosures provide information to assist users of the financial statements in assessing the extent of risk related to the Rainbow Railroad's financial instruments.

Credit Risk

Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. Rainbow Railroad's main credit risks relate to accounts receivable. Management monitors the collection progress closely and provides a provision when collection is in doubt. Management has included a \$NIL (2017 - \$NIL) provision for doubtful accounts receivable in these financial statements.

Liquidity Risk

Liquidity risk is the risk that Rainbow Railroad cannot repay its obligations when they become due to its creditors. Rainbow Railroad is exposed to this risk mainly in respect of its accounts payable and accrued liabilities. Rainbow Railroad expects to meet these obligations as they come due by generating sufficient cash flow from operations.

RAINBOW RAILROAD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

2. *FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)*

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. Rainbow Railroad is not exposed to significant interest rate or other price risks.

Market Risk (continued)

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at December 31, 2018, accounts receivable of \$132,090 (2017 - \$NIL) are denominated in foreign currencies and converted into Canadian dollars. Foreign exchange gains and losses are included in net income.

Change in Risk

There have been no significant changes in Rainbow Railroad's risk exposure from the prior year other than currency risk as noted above.

3. *CAPITAL ASSETS*

Details of capital assets are as follows:

2018	Cost	Accumulated Amortization	Net Book Value
Computer software	\$ 7,666	\$ 6,392	\$ 1,274
Furniture and equipment	36,004	7,410	28,594
Computer hardware	24,983	7,892	17,091
Leasehold improvements	56,270	8,479	47,791
Balance - at end of year	\$ 68,653	\$ 21,694	\$ 94,750

2017	Cost	Accumulated Amortization	Net Book Value
Computer software	\$ 7,666	\$ 3,833	\$ 3,833
Furniture and equipment	19,050	1,905	17,145
Computer hardware	11,183	1,864	9,319
Balance - at end of year	\$ 37,899	\$ 7,602	\$ 30,297

Total amortization expense for the year was \$22,571 (2017 - \$6,324) which is included in operating and administrative expenses.

Rainbow Railroad received in-kind donations of furniture and equipment from third parties in the year in an amount of \$NIL (2017 - \$6,172).

RAINBOW RAILROAD

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

4. DEFERRED CONTRIBUTIONS

Deferred contributions represent restricted funding received that is related to a subsequent period. Changes in the deferred contributions balance are as follows:

	<u>2018</u>	<u>2017</u>
Balance - at beginning of year	\$ 127,491	\$ 209,222
Amounts received during the year:		
Elton John AIDS Foundation	-	95,134
Private Sponsorship	33,500	3,900
	<u>33,500</u>	<u>99,034</u>
Less amounts recognized as revenue:		
Pride and Remembrance	-	51,750
All Aboard Campaign	-	313
Private Sponsorship	30,821	28,352
Elton John AIDS Foundation	95,134	100,350
	<u>125,955</u>	<u>180,765</u>
Balance - at end of year	<u>\$ 35,036</u>	<u>\$ 127,491</u>

5. LEASE COMMITMENT

Rainbow Railroad has entered into a lease for office premises which expires on July 31, 2021. The annual minimum lease payments are as follows:

2019	\$29,899
2020	\$33,348
2021	\$18,226

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