

Rainbow Railroad USA, Inc.

Financial Statements

December 31, 2018 and 2017



Independent Auditors' Report

Board of Directors Rainbow Railroad USA, Inc.

We have audited the accompanying financial statements of Rainbow Railroad USA, Inc. (the "Organization") which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rainbow Railroad USA, Inc. as of December 31, 2018 and 2017, 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.

Change in Accounting Principle

As discussed in note 2 to the financial statements, during the year ended December 31, 2018, the Organization adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

PKF O'Connor Davies, LLP

August 30, 2019

PKF O'CONNOR DAVIES, LLP
665 Fifth Avenue, New York, NY 10022 | Tel: 212.867.8000 or 212.286.2600 | Fax: 212.286.4080 | www.pkfod.com

PKF O'Connor Davies, LLP is a member firm of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

Rainbow Railroad USA, Inc.

Statements of Financial Position

	December 31,	
	2018	2017
ASSETS		
Cash	\$ 115,582	\$ 317,539
Accounts receivable	5,984	15,058
Investments	24,739	19,634
Prepaid expenses	450	450
Due from affiliate	28,542	-
Equipment, net	<u>822</u>	<u>1,028</u>
	<u>\$ 176,119</u>	<u>\$ 353,709</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Due to affiliate	\$ -	\$ 1,515
Accrued payroll and expenses	<u>7,839</u>	<u>1,434</u>
Total Liabilities	7,839	2,949
Net assets without donor restrictions	<u>168,280</u>	<u>350,760</u>
	<u>\$ 176,119</u>	<u>\$ 353,709</u>

See notes to financial statements

Rainbow Railroad USA, Inc.

Statements of Activities

	Year Ended December 31,	
	2018	2017
REVENUE AND SUPPORT		
Contributions	\$ 703,748	\$ 684,864
Special events, net of expenses of \$46,709 in 2017	-	6,956
Dividend income	485	110
Realized and unrealized (loss) gain on investments	(3,649)	1,030
Other	40	1,849
Total Revenue and Support	<u>700,624</u>	<u>694,809</u>
EXPENSES		
Program services	713,030	303,552
Fundraising	94,002	22,302
General and administrative	76,072	21,404
Total Expenses	<u>883,104</u>	<u>347,258</u>
Change in Net Assets	(182,480)	347,551
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Beginning of year	<u>350,760</u>	<u>3,209</u>
End of year	<u>\$ 168,280</u>	<u>\$ 350,760</u>

See notes to financial statements

Rainbow Railroad USA, Inc.

Statements of Functional Expenses

	Year Ended December 31,					
	2018			2017		
	Program Services	Fundraising	General and Administrative	Program Services	Fundraising	General and Administrative
PERSONNEL COSTS						
Salaries, payroll taxes and benefits	\$ 12,950	\$ 19,426	\$ 34,760	\$ 2,895	\$ 4,342	\$ 7,236
			\$ 67,136			\$ 14,473
OTHER THAN PERSONNEL COSTS						
Conference, convention and meeting	5,377	3,226	1,406	5,377	3,226	2,150
Professional fees	-	-	23,475	-	-	2,640
Rent expense	-	-	4,976	-	-	2,088
Insurance	-	-	-	-	-	1,086
Office expenses	11,705	5,853	3,145	9,277	4,638	1,546
Maintenance	-	-	-	-	-	118
Travel	46,595	23,297	7,766	16,495	8,248	2,749
Advertising	-	-	338	-	-	1,277
Grant expenses	636,403	-	636,403	269,508	-	-
Depreciation	-	-	206	-	-	114
Honorariums and relationship development	-	42,200	-	-	1,848	400
	<u>\$ 713,030</u>	<u>\$ 94,002</u>	<u>\$ 76,072</u>	<u>\$ 303,552</u>	<u>\$ 22,302</u>	<u>\$ 21,404</u>
			<u>\$ 883,104</u>			<u>\$ 347,258</u>

See notes to financial statements

Rainbow Railroad USA, Inc.

Statements of Cash Flows

	Year Ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (182,480)	\$ 347,551
Adjustments to reconcile change in net assets to net cash from operating activities		
Donated investments	(8,320)	(18,544)
Depreciation	206	114
Realized and unrealized loss (gain) on investments	3,649	(1,030)
Changes in operating assets and liabilities		
Accounts receivable	9,074	(11,849)
Prepaid expenses	-	(450)
Due (from) to affiliate	(30,057)	1,515
Accrued payroll and expenses	6,405	1,434
Net Cash from Operating Activities	(201,523)	318,741
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	1,943	-
Purchases of investments	(2,377)	(60)
Equipment acquisitions	-	(1,142)
Net Cash from Investing Activities	(434)	(1,202)
CASH		
Beginning of year	317,539	-
End of year	\$ 115,582	\$ 317,539

See notes to financial statements

Rainbow Railroad USA, Inc.

Notes to the Financial Statements
December 31, 2018 and 2017

1. Organization and Tax Status

Rainbow Railroad USA, Inc. (the "Organization") was formed on September 1, 2015. Rainbow Railroad USA, Inc. is an organization whose mission is to provide support to individuals facing persecution in countries that criminalize individuals because of their sexual orientation or gender identity. The Organization does this through the emergency travel support program that helps people facing immediate danger to find safe haven.

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified by the Internal Revenue Service as an organization that is not a private Organization as defined under Section 509(a)(1) of the Internal Revenue Code.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") which 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 expense during the reported period. Actual results could differ from those estimates.

Change in Accounting Principle

On January 1, 2018, the Organization adopted new guidance regarding the presentation of financial statements for not-for-profit entities. This guidance requires the Organization to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires the Organization to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements. As a result of implementing this standard, prior year amounts for unrestricted net assets were reclassified to net assets without donor restrictions.

Net Assets

Net assets are classified based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions are those funds having no restriction as to use or purpose imposed by donors. Net assets with donor restrictions are those whose use by the Organization has been limited by donors to a specific time period or purpose. When a donor restriction expires, that is, when a stipulated time restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. The Organization does not have any net assets with donor restrictions as of December 31, 2018 and 2017.

Rainbow Railroad USA, Inc.

Notes to the Financial Statements
December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable and Allowance for Doubtful Accounts

The Organization records accounts receivable based on contributions that are given through money transfer systems during the year that the Organization receives subsequent to year end. Due to the nature of these receivables, the Organization does not believe an allowance for doubtful accounts should be established.

Fair Value Measurement

The Organization follows U.S. GAAP guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The classification of investments in the fair value hierarchy is not necessarily an indication of the risks of liquidity, or degree of difficulty in estimating the fair value of each investment.

Investment Valuation

Investments are carried at fair value.

Equipment

Items capitalized as part of equipment are stated at cost if purchased, or fair value if contributed. Depreciation is provided over an estimated useful life of 5 years and is computed utilizing the straight-line method.

Contributions

Contributions are recorded as net assets with donor restrictions and revenue and support if they are received with donor-imposed stipulations that limit their use. Donor restrictions expire by either the passage of stipulated time or the accomplishment of the stated purpose. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor restricted contributions that are received and expended in the same period are reported as without donor restrictions.

Rainbow Railroad USA, Inc.

Notes to the Financial Statements
December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Investment Income Recognition

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded when declared. Realized and unrealized gains and losses are included in the determination of the change in net assets.

Operating Leases

Operating leases are classified in accordance with the terms of the underlying agreements. Operating lease payments are charged to rental expense.

Allocation of Expenses

The Organization reports its expenses for providing programs and certain costs for supporting services by their functional classification on a summarized basis in the statements of activities. Program expenses are the activities that result in services being provided to the public pursuant to the Organization's mission. Supporting expenses are classified as general and administrative activities which includes oversight and business management, but exclude direct conduct of program services and fundraising activities. Fundraising activities include developing and maintaining relations with major donors, foundations, organizations and potential donors.

Such allocations are determined by management on an equitable basis. The expenses that are allocated include the following:

<u>Expense Classification</u>	<u>Method of Allocation</u>
Salaries, payroll taxes and benefits	Time and effort
Conference, convention and meeting	Time and effort
Office expenses	Time and effort
Travel	Time and effort

Advertising

The Organization expenses advertising costs as incurred. Advertising costs for the year ended December 31, 2018 and 2017 were \$338 and \$1,277.

Rainbow Railroad USA, Inc.

Notes to the Financial Statements
December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Accounting for Uncertainty in Income Taxes

The Organization recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition or disclosure. The Organization is subject to examinations by applicable taxing jurisdictions for all periods since December 31, 2015.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is August 30, 2019.

3. Investments

Investments at fair value, categorized by the fair value hierarchy consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
<u>Level 1</u>		
Exchange traded products	\$ 11,695	\$ 11,208
Equities	<u>10,496</u>	<u>8,256</u>
	22,191	19,464
Cash, at cost	<u>2,548</u>	<u>170</u>
	<u>\$ 24,739</u>	<u>\$ 19,634</u>

4. Equipment

Equipment consists of the following at December 31:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 1,142	\$ 1,142
Accumulated depreciation	<u>(320)</u>	<u>(114)</u>
	<u>\$ 822</u>	<u>\$ 1,028</u>

5. Related Party Transactions (Not Disclosed Elsewhere)

All members of the Organization's Board of Directors are also members of the parent company Rainbow Railroad Canada, Inc. who provides staff to the Organization for certain administrative work. The Organization incurred grant expenses in the amounts of \$630,676 and \$269,508 to Rainbow Railroad Canada, Inc. for the years ended December 31, 2018 and 2017.

At December 31, 2018 and 2017, amounts due from (to) Rainbow Railroad Canada, Inc. were \$28,542 and (\$1,515).

Rainbow Railroad USA, Inc.

Notes to the Financial Statements
December 31, 2018 and 2017

6. Concentrations of Credit Risk

The credit risks of the Organization arise from cash, accounts receivable and investments. The Organization maintains balances with a financial institution which, at times, may exceed the Federal Deposit Insurance Corporation insurance limits. The Organization reduces its exposure to credit risk by monitoring the amount of its cash account with any financial institution. As of December 31, 2018 and 2017, the cash balances are fully insured. Accounts receivable are expected to be collected in the normal course of operations. The investment portfolio is diversified by the type of investments and industry concentrations so that no individual investment or group of investments represent a significant concentration of risk.

7. Commitments

The Organization leases office space under a service agreement beginning October 1, 2017 which continues on a year to year basis until the Organization terminates the agreement. Under the agreement, the Organization receives furnished office space.

The future minimum payments through December 31, 2019 are \$5,400.

8. Liquidity and Availability of Resources

The Organization's financial assets available within one year of the statement of financial position date for general expenditures are as follows at December 31, 2018:

Cash	\$ 115,582
Accounts receivable	5,984
Due from affiliate	28,542
Investments	<u>24,739</u>
Total Financial Assets Available Within One Year	<u>\$ 174,847</u>

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, to help manage unanticipated liquidity needs, the Organization relies on its parent company, Rainbow Railroad Canada, Inc. for financing and other support. Rainbow Railroad Canada, Inc. has the resources to meet this need if necessary.

* * * * *