

Rainbow Railroad USA, Inc.

Financial Statements

December 31, 2019 and 2018

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, 2019 and 2018, 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 from 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, 2019 and 2018, 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.

PKF O'Connor Davies, LLP

May 29, 2020

Rainbow Railroad USA, Inc.

Statements of Financial Position

	December 31	
	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 309,378	\$ 115,582
Contributions receivable	26,416	5,984
Investments	1,006	24,739
Prepaid expenses	1,403	450
Due from affiliate	194	28,542
Equipment, net	<u>571</u>	<u>822</u>
	<u>\$ 338,968</u>	<u>\$ 176,119</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accrued payroll and expenses	\$ 4,185	\$ 7,839
Net assets without donor restrictions	<u>334,783</u>	<u>168,280</u>
	<u>\$ 338,968</u>	<u>\$ 176,119</u>

See notes to financial statements

Rainbow Railroad USA, Inc.

Statements of Activities

	Year Ended December 31	
	2019	2018
REVENUE AND SUPPORT		
Contributions	\$ 1,338,200	\$ 703,748
Dividend and interest income	456	485
Realized and unrealized gain (loss) on investments	4,156	(3,649)
Other	-	40
Total Revenue and Support	<u>1,342,812</u>	<u>700,624</u>
EXPENSES		
Program services	1,087,186	713,030
Fundraising	62,900	94,002
General and administrative	26,223	76,072
Total Expenses	<u>1,176,309</u>	<u>883,104</u>
Change in Net Assets	166,503	(182,480)
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Beginning of year	<u>168,280</u>	<u>350,760</u>
End of year	<u>\$ 334,783</u>	<u>\$ 168,280</u>

See notes to financial statements

Rainbow Railroad USA, Inc.

Statements of Functional Expenses

	Year Ended December 31							
	2019				2018			
	Program Services	Fundraising	General and Administrative	Total	Program Services	Fundraising	General and Administrative	Total
PERSONNEL COSTS								
Salaries, payroll taxes and benefits	\$ 5,132	\$ 4,026	\$ 906	\$ 10,064	\$ 12,950	\$ 19,426	\$ 34,760	\$ 67,136
OTHER THAN PERSONNEL COSTS								
Conference, convention and meeting	-	-	-	-	5,377	3,226	1,406	10,009
Professional fees	13,508	3,377	1,875	18,760	-	-	23,475	23,475
Rent expense	3,888	972	540	5,400	-	-	4,976	4,976
Office expenses	27,365	6,841	3,802	38,008	11,705	5,853	3,145	20,703
Travel	347,780	16,751	9,306	373,837	46,595	23,297	7,766	77,658
Advertising	9,432	2,357	1,310	13,099	-	-	338	338
Grant expenses	619,000	-	-	619,000	636,403	-	-	636,403
Subcontractors	60,900	15,225	8,459	84,584	-	-	-	-
Depreciation	181	45	25	251	-	-	206	206
Honorariums and relationship development	-	13,306	-	13,306	-	42,200	-	42,200
	\$ 1,087,186	\$ 62,900	\$ 26,223	\$ 1,176,309	\$ 713,030	\$ 94,002	\$ 76,072	\$ 883,104

See notes to financial statements

Rainbow Railroad USA, Inc.

Statements of Cash Flows

	Year Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 166,503	\$ (182,480)
Adjustments to reconcile change in net assets to net cash from operating activities		
Donated investments	-	(8,320)
Depreciation	251	206
Realized and unrealized (gain) loss on investments	(4,156)	3,649
Changes in operating assets and liabilities		
Contributions receivable	(20,432)	9,074
Prepaid expenses	(953)	-
Due from affiliate	28,348	(30,057)
Accrued payroll and expenses	(3,654)	6,405
Net Cash from Operating Activities	165,907	(201,523)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	36,233	1,943
Purchases of investments	(8,344)	(2,377)
Net Cash from Investing Activities	27,889	(434)
CASH		
Beginning of year	115,582	317,539
End of year	\$ 309,378	\$ 115,582

See notes to financial statements

Rainbow Railroad USA, Inc.

Notes to the Financial Statements
December 31, 2019 and 2018

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

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made ("ASU 2018-08"). ASU 2018-08 provides a framework for evaluating whether grants and contributions should be accounted for as exchange transactions or as nonexchange transactions. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018. The Organization adopted ASU 2018-08 on a modified prospective basis and has determined there to be no material impact to its financial statements.

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, 2019 and 2018.

Rainbow Railroad USA, Inc.

Notes to the Financial Statements
December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (*continued*)

Contributions Receivable and Allowance for Doubtful Accounts

Contributions receivable are expected to be collected in one year. An allowance for uncollectible contributions is provided based on management's evaluation of potential uncollectible contributions receivable at year end. The Organization has considered a number of factors in evaluating this allowance including the economy and past payment history. As of both December 31, 2019 and 2018 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. As of both December 31, 2019 and 2018, the Organization has no Level 2 or 3 investments.

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.

Rainbow Railroad USA, Inc.

Notes to the Financial Statements
December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (*continued*)

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.

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.

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 services 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
Professional fees, rent, advertising and other expenses	Based on effort and as determined by management to be appropriate

Rainbow Railroad USA, Inc.

Notes to the Financial Statements
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2. Summary of Significant Accounting Policies (*continued*)

Operating Leases

Operating leases are classified in accordance with the terms of the underlying agreements. Operating lease payments are charged to rental expense. Deferred rent is recorded when there are material differences between the fixed payment and the rent expense as reported on a straight-line method.

Advertising

The Organization expenses advertising costs as incurred. Advertising costs for the years ended December 31, 2019 and 2018 were \$13,099 and \$338.

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, 2016.

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 May 29, 2020.

3. Investments

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

	<u>2019</u>	<u>2018</u>
<u>Level 1</u>		
Exchange traded products	\$ -	\$ 10,496
Equities	-	11,695
	-	22,191
Cash, at cost	1,006	2,548
	<u>\$ 1,006</u>	<u>\$ 24,739</u>

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Notes to the Financial Statements
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4. Equipment

Equipment consists of the following at December 31:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 1,142	\$ 1,142
Accumulated depreciation	<u>(571)</u>	<u>(320)</u>
	<u>\$ 571</u>	<u>\$ 822</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 \$608,000 and \$630,676 to Rainbow Railroad Canada, Inc. for the years ended December 31, 2019 and 2018.

At December 31, 2019 and 2018, amounts due from Rainbow Railroad Canada, Inc. were \$194 and \$28,542.

6. Concentrations of Credit Risk

The credit risks of the Organization arise from cash, contributions receivable and investments. The Organization maintains balances with a financial institution which, at times, may exceed the Federal Deposit Insurance Corporation insurance limits. As of December 31, 2019 and 2018, the cash balances are fully insured. Contributions receivable are expected to be collected in the normal course of operations.

7. Commitments

The Organization leases furnished office space under a yearly service agreement, beginning October 1, 2017, and continues until the Organization terminates the agreement. The current payment is \$450 per month.

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, 2019:

Cash	\$ 309,378
Contributions receivable	26,416
Investments	1,006
Due from affiliate	<u>194</u>
Total Financial Assets Available Within One Year	<u>\$ 336,994</u>

Rainbow Railroad USA, Inc.

Notes to the Financial Statements
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8. Liquidity and Availability of Resources (continued)

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.

9. Subsequent Event

The Coronavirus Outbreak may have an adverse effect on the results of operations. Given the uncertainty around the event and timing of the potential future spread or migration of the coronavirus and around the imposition or relaxation of protective measures. Management cannot reasonably estimate the impact to future results of operations, cash flows or financial condition.

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