

Rainbow Railroad USA, Inc.

Financial Statements

December 31, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019, 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 27, 2021

Rainbow Railroad USA, Inc.

Statements of Financial Position

	December 31	
	2020	2019
ASSETS		
Cash	\$ 586,169	\$ 309,378
Contributions receivable	29,586	26,416
Investments	12,522	1,006
Prepaid expenses	-	1,403
Due from affiliate	-	194
Equipment, net	343	571
	<u>\$ 628,620</u>	<u>\$ 338,968</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Due to affiliate	\$ 169,796	\$ -
Accrued payroll and expenses	97	4,185
Paycheck Protection Program loan	<u>16,922</u>	-
Total Liabilities	186,815	4,185
Net assets without donor restrictions	<u>441,805</u>	<u>334,783</u>
	<u>\$ 628,620</u>	<u>\$ 338,968</u>

See notes to financial statements

Rainbow Railroad USA, Inc.

Statements of Activities

	Year Ended December 31	
	2020	2019
REVENUE AND SUPPORT		
Contributions	\$ 1,297,864	\$ 1,338,200
Dividend and interest income	643	456
Realized and unrealized (losses) gains on investments	<u>(9,202)</u>	<u>4,156</u>
Total Revenue and Support	<u>1,289,305</u>	<u>1,342,812</u>
EXPENSES		
Program services	1,082,222	1,087,186
Fundraising	74,334	62,900
General and administrative	<u>25,727</u>	<u>26,223</u>
Total Expenses	<u>1,182,283</u>	<u>1,176,309</u>
Change in Net Assets	107,022	166,503
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Beginning of year	<u>334,783</u>	<u>168,280</u>
End of year	<u>\$ 441,805</u>	<u>\$ 334,783</u>

See notes to financial statements

Rainbow Railroad USA, Inc.

Statements of Functional Expenses

	Year Ended December 31							
	2020				2019			
	Program Services	Fundraising	General and Administrative	Total	Program Services	Fundraising	General and Administrative	Total
PERSONNEL COSTS								
Salaries, payroll taxes and benefits	\$ 48,689	\$ 38,187	\$ 8,592	\$ 95,468	\$ 5,132	\$ 4,026	\$ 906	\$ 10,064
OTHER THAN PERSONNEL COSTS								
Conference, convention and meeting	-	254	-	254	-	-	-	-
Professional fees	28,546	7,136	3,965	39,647	13,508	3,377	1,875	18,760
Rent expense	2,306	577	320	3,203	3,888	972	540	5,400
Office expenses	19,295	4,824	2,680	26,799	27,365	6,841	3,802	38,008
Travel	218,492	2,101	1,167	221,760	347,780	16,751	9,306	373,837
Advertising	2,127	532	295	2,954	9,432	2,357	1,310	13,099
Grant expenses	700,640	-	-	700,640	619,000	-	-	619,000
Subcontractors	61,963	16,607	8,685	87,255	60,900	15,225	8,459	84,584
Depreciation	164	41	23	228	181	45	25	251
Honorariums and relationship development	-	4,075	-	4,075	-	13,306	-	13,306
	\$ 1,082,222	\$ 74,334	\$ 25,727	\$ 1,182,283	\$ 1,087,186	\$ 62,900	\$ 26,223	\$ 1,176,309

See notes to financial statements

Rainbow Railroad USA, Inc.

Statements of Cash Flows

	Year Ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 107,022	\$ 166,503
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	228	251
Realized and unrealized losses (gains) on investments	9,202	(4,156)
Changes in operating assets and liabilities		
Contributions receivable	(3,170)	(20,432)
Prepaid expenses	1,403	(953)
Due from affiliate	194	28,348
Due to affiliate	169,796	-
Accrued payroll and expenses	(4,088)	(3,654)
Net Cash from Operating Activities	280,587	165,907
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	51,875	36,233
Purchases of investments	(72,593)	(8,344)
Net Cash from Investing Activities	(20,718)	27,889
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program loan	16,922	-
Change in Cash	276,791	193,796
CASH		
Beginning of year	309,378	115,582
End of year	\$ 586,169	\$ 309,378

See notes to financial statements

Rainbow Railroad USA, Inc.

Notes to the Financial Statements
December 31, 2020 and 2019

1. Nature of the 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.

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 did not have any net assets with donor restrictions as of December 31, 2020 and 2019.

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 December 31, 2020 and 2019 the Organization does not believe an allowance for doubtful accounts should be established.

Rainbow Railroad USA, Inc.

Notes to the Financial Statements
December 31, 2020 and 2019

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

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 December 31, 2020 and 2019, the Organization had 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.

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.

Rainbow Railroad USA, Inc.

Notes to the Financial Statements
December 31, 2020 and 2019

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

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

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, 2020 and 2019 were \$2,954 and \$13,099.

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, 2017.

Rainbow Railroad USA, Inc.

Notes to the Financial Statements
December 31, 2020 and 2019

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

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 27, 2021.

3. Investments

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

	<u>2020</u>	<u>2019</u>
<u>Level 1</u>		
Mutual Funds	\$ 11,929	\$ -
Cash, at cost	<u>593</u>	<u>1,006</u>
	<u>\$ 12,522</u>	<u>\$ 1,006</u>

4. Equipment

Equipment consists of the following at December 31:

	<u>2020</u>	<u>2019</u>
Equipment	\$ 1,142	\$ 1,142
Accumulated depreciation	<u>(799)</u>	<u>(571)</u>
	<u>\$ 343</u>	<u>\$ 571</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 consulting services to the Organization for certain administrative work. The Organization incurred grant expenses in the amounts of \$700,640 and \$608,000 to Rainbow Railroad Canada, Inc. for the years ended December 31, 2020 and 2019.

At December 31, 2020 and 2019, amounts due from (to) Rainbow Railroad Canada, Inc. were (\$169,796) and \$194.

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, 2020 and 2019, the cash balances are fully insured. Contributions receivable are expected to be collected in the normal course of operations.

Rainbow Railroad USA, Inc.

Notes to the Financial Statements
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7. Commitments

The Organization leased furnished office space under a yearly service agreement for \$450 per month, beginning October 1, 2017 and was terminated during July 2020. No office space was utilized from August through December 2020.

8. Liquidity and Availability of Financial 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:

	<u>2020</u>	<u>2019</u>
Cash	\$ 586,169	\$ 309,378
Contributions receivable	29,586	26,416
Investments	12,522	1,006
Due from affiliate	<u>-</u>	<u>194</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 628,277</u>	<u>\$ 336,994</u>

Liquidity Management

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. Paycheck Protection Program Loan

On May 6, 2020, the Organization received loan proceeds in the amount of \$16,922 under the Paycheck Protection Program (the "PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), provides for loans to qualifying entities for amounts of 2.5 times the 2019 average monthly payroll expenses of the qualifying entity. The PPP loan bears an interest of 1% per annum. All or a portion of the PPP loan principal and accrued interest is forgivable as long as the borrower uses the loan proceeds for eligible purposes, as described in the CARES Act, over a period of either eight or twenty-four weeks (the "Covered Period"). The amount of loan forgiveness could be reduced if the borrower terminates employees or reduces salaries below a certain threshold during the Covered Period and does not qualify for certain safe harbors. The unforgiven portion of the PPP loan, if any, is payable within two years from the date of the loan. Loan payments of principal and interest are deferred until the amount of loan forgiveness is determined by the United States Small Business Administration ("SBA").

Rainbow Railroad USA, Inc.

Notes to the Financial Statements
December 31, 2020 and 2019

9. Paycheck Protection Program Loan (*continued*)

The Organization intends to use all loan proceeds received in accordance with regulations established by the PPP. Management believes its use of the proceeds, including amounts expended in 2020, will be forgiven. Management will recognize income when the forgiveness is approved in 2021. The PPP funds are reported as a PPP loan in the statement of financial position at December 31, 2020.

10. Covid-19

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.

11. Subsequent Events

In February 2021, the Organization began a new lease for office space in New York. The lease is for one year with a fee of \$4,500 due upon commencement and then a monthly fee of \$300.

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