

Rainbow Railroad USA, Inc.

Financial Statements

December 31, 2021 and 2020



Independent Auditors' Report

**Board of Directors
Rainbow Railroad USA, Inc.**

Opinion

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, 2021 and 2020 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Rainbow Railroad USA, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 Rainbow Railroad USA, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be 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 generally accepted 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, if they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted 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 Rainbow Railroad USA, Inc.'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 Rainbow Railroad USA, Inc.'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.

PKF O'Connor Davies, LLP

August 11, 2022

Rainbow Railroad USA, Inc.

Statements of Financial Position

	December 31	
	2021	2020
ASSETS		
Cash	\$ 1,103,970	\$ 586,169
Contributions receivable (due within one year)	37,804	29,586
Investments	35,013	12,522
Prepaid expenses	1,261	-
Equipment, net	<u>115</u>	<u>343</u>
	<u>\$ 1,178,163</u>	<u>\$ 628,620</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Due to affiliate	\$ 310,352	\$ 169,796
Accrued payroll and expenses	-	97
Paycheck Protection Program loan	<u>33,844</u>	<u>16,922</u>
Total Liabilities	<u>344,196</u>	<u>186,815</u>
Net Assets		
Without donor restrictions	450,755	441,805
With donor restrictions	<u>383,212</u>	<u>-</u>
Total Net Assets	<u>833,967</u>	<u>441,805</u>
	<u>\$ 1,178,163</u>	<u>\$ 628,620</u>

See notes to financial statements

Rainbow Railroad USA, Inc.

Statements of Activities

	Year Ended December 31, 2021			Year Ended December 31, 2020
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions
REVENUE AND SUPPORT				
Contributions	\$ 1,859,145	\$ 383,212	\$ 2,242,357	\$ 1,297,864
Dividend and interest income	1,136	-	1,136	643
Realized and unrealized gain (loss) on investments	5,535	-	5,535	(9,202)
In-kind contributions - airline miles	28,030	-	28,030	-
Total Revenue and Support	<u>1,893,846</u>	<u>383,212</u>	<u>2,277,058</u>	<u>1,289,305</u>
EXPENSES				
Program services	1,762,276	-	1,762,276	1,082,222
Fundraising	97,083	-	97,083	74,334
General and administrative	25,537	-	25,537	25,727
Total Expenses	<u>1,884,896</u>	<u>-</u>	<u>1,884,896</u>	<u>1,182,283</u>
Change in Net Assets	8,950	383,212	392,162	107,022
NET ASSETS				
Beginning of year	<u>441,805</u>	<u>-</u>	<u>441,805</u>	<u>334,783</u>
End of year	<u>\$ 450,755</u>	<u>\$ 383,212</u>	<u>\$ 833,967</u>	<u>\$ 441,805</u>

See notes to financial statements

Rainbow Railroad USA, Inc.

Statements of Functional Expenses

	Year Ended December 31							
	2021				2020			
	Program Services	Fundraising	General and Administrative	Total	Program Services	Fundraising	General and Administrative	Total
PERSONNEL COSTS								
Salaries, payroll taxes and benefits	\$ 44,868	\$ 35,894	\$ 8,974	\$ 89,736	\$ 48,689	\$ 38,187	\$ 8,592	\$ 95,468
OTHER THAN PERSONNEL COSTS								
Conference, convention and meeting	-	-	-	-	-	254	-	254
Professional fees	30,097	3,113	1,384	34,594	28,546	7,136	3,965	39,647
Rent expense	3,241	335	149	3,725	2,306	577	320	3,203
Office expenses	59,066	6,110	2,716	67,892	19,295	4,824	2,680	26,799
Travel	1,002,079	20,661	10,331	1,033,071	218,492	2,101	1,167	221,760
Advertising	6,921	1,730	961	9,612	2,127	532	295	2,954
Grant expenses	565,725	-	-	565,725	700,640	-	-	700,640
Subcontractors	22,050	2,281	1,014	25,345	61,963	16,607	8,685	87,255
Depreciation	199	21	8	228	164	41	23	228
In-kind contributions - airline miles	28,030	-	-	28,030	-	-	-	-
Honorariums and relationship development	-	26,938	-	26,938	-	4,075	-	4,075
	<u>\$ 1,762,276</u>	<u>\$ 97,083</u>	<u>\$ 25,537</u>	<u>\$ 1,884,896</u>	<u>\$ 1,082,222</u>	<u>\$ 74,334</u>	<u>\$ 25,727</u>	<u>\$ 1,182,283</u>

See notes to financial statements

Rainbow Railroad USA, Inc.

Statements of Cash Flows

	Year Ended December 31	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 392,162	\$ 107,022
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	228	228
Realized and unrealized (gain) loss on investments	(5,535)	9,202
Changes in operating assets and liabilities		
Contributions receivable	(8,218)	(3,170)
Prepaid expenses	(1,261)	1,403
Due from affiliate	-	194
Due to affiliate	140,556	169,796
Accrued payroll and expenses	(97)	(4,088)
Net Cash from Operating Activities	517,835	280,587
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	-	51,875
Purchases of investments	(16,956)	(72,593)
Net Cash from Investing Activities	(16,956)	(20,718)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program loan	16,922	16,922
Change in Cash	517,801	276,791
CASH		
Beginning of year	586,169	309,378
End of year	\$ 1,103,970	\$ 586,169

See notes to financial statements

Rainbow Railroad USA, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

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 does not have any net assets with donor restrictions as of December 31, 2020.

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, 2021 and 2020 the Organization does not believe an allowance for doubtful accounts should be established.

Rainbow Railroad USA, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

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 both December 31, 2021 and 2020, 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.

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 Financial Statements
December 31, 2021 and 2020

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

In-Kind Contributions

In-kind contributions consist of donated airline miles. The amounts are recorded at the estimated fair value of the mileage.

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, 2021 and 2020 were \$9,612 and \$2,954.

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, 2018.

Rainbow Railroad USA, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

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 August 11, 2022.

3. Investments

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

	<u>2021</u>	<u>2020</u>
<u>Level 1</u>		
Mutual Funds	\$ 13,052	\$ 11,929
Equities	<u>20,432</u>	<u>-</u>
	33,484	11,929
Cash, at Cost	<u>1,529</u>	<u>593</u>
	<u>\$ 35,013</u>	<u>\$ 12,522</u>

4. Equipment

Equipment consists of the following at December 31:

	<u>2021</u>	<u>2020</u>
Equipment	\$ 1,142	\$ 1,142
Accumulated depreciation	<u>(1,027)</u>	<u>(799)</u>
	<u>\$ 115</u>	<u>\$ 343</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 \$565,725 and \$700,640 to Rainbow Railroad Canada, Inc. for the years ended December 31, 2021 and 2020.

At December 31, 2021 and 2020, amounts due to Rainbow Railroad Canada, Inc. were \$310,352 and \$169,796.

Rainbow Railroad USA, Inc.

Notes to Financial Statements
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6. Concentration of Credit Risk

The credit risks of the Organization arise from cash, contributions receivable and investments. The Organization maintains balances with a financial institutions which, at times, may exceed the Federal Deposit Insurance Corporation insurance limits. As of December 31, 2021 and 2020, the cash balances are fully insured. The investment portfolio is diversified by type of investments and industry concentration so that no individual or group of investments represents a significant concentration of risk. Contributions receivable are expected to be collected in the normal course of operations.

7. Commitments

The Organization leased a furnished office under a yearly agreement for \$450 per month from October 1, 2017 through July 31, 2020. No office space was utilized from August 1, 2020 through January 31, 2021. Beginning on February 1, 2021 the Organization began leasing new office space on a month-to-month basis for \$309 per month plus certain expenses required under the lease.

8. Net Assets With Donor Restrictions

Net assets with donor restrictions are as follows at December 31:

	<u>2021</u>
Time restricted	<u>\$ 383,212</u>

9. 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:

	<u>2021</u>	<u>2020</u>
Financial Assets		
Cash	\$ 1,103,970	\$ 586,169
Contributions receivable (due within one year)	37,804	29,586
Investments	<u>35,013</u>	<u>12,522</u>
Total Financial Assets	1,176,787	628,277
Less:		
With donor restricted net assets - time restricted	<u>(383,212)</u>	<u>-</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Cost Held One Year	<u>\$ 793,575</u>	<u>\$ 628,277</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.

Rainbow Railroad USA, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

10. 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 Organization then received additional PPP loan proceeds of \$16,922 on April 2, 2021. 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 2020 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 five 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").

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 2021 and 2020, will be forgiven. Management will recognize income when the forgiveness is approved. The PPP funds are reported as a PPP loan in the statements of financial position.

11. 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.

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