

Rainbow Railroad USA, Inc.

Financial Statements

December 31, 2024 and 2023

Independent Auditors' Report

Board of Directors
Rainbow Railroad USA, Inc.

Opinion

We have audited the accompanying financial statements of Rainbow Railroad USA, Inc., which comprise the statements of financial position as of December 31, 2024 and 2023 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, 2024 and 2023, 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, 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

New York, New York
June 5, 2025

Rainbow Railroad USA, Inc.

Statements of Financial Position

	December 31	
	<u>2024</u>	<u>2023</u>
ASSETS		
Cash and cash equivalents	\$ 2,768,019	\$ 3,737,508
Contributions receivable (due within one year)	149,381	162,630
Investments	108	108
Due from affiliate	102,428	-
Prepaid expenses	49,589	32,690
Equipment, net	<u>9,126</u>	<u>5,227</u>
	<u>\$ 3,078,651</u>	<u>\$ 3,938,163</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Due to affiliate	\$ -	\$ 19,089
Accrued payroll and expenses	65,041	143,678
Paycheck Protection Program ("PPP") loan	<u>-</u>	<u>33,844</u>
Total Liabilities	<u>65,041</u>	<u>196,611</u>
Net Assets		
Without donor restrictions		
Undesignated	1,113,915	841,857
Board designated fund	<u>1,899,695</u>	<u>2,899,695</u>
Total Net Assets	<u>3,013,610</u>	<u>3,741,552</u>
	<u>\$ 3,078,651</u>	<u>\$ 3,938,163</u>

See notes to financial statements

Rainbow Railroad USA, Inc.

Statements of Activities

	Year Ended December 31					
	2024			2023		
	Without Donor Restrictions			Without Donor Restrictions		
	Undesignated	Board Designated Fund	Total	Undesignated	Board Designated Fund	Total
REVENUE AND SUPPORT						
Contributions	\$ 2,331,680	\$ -	\$ 2,331,680	\$ 3,067,377	\$ -	\$ 3,067,377
Special events revenue, net of direct expenses of \$12,767 and \$160,294	63,429	-	63,429	(65,220)	-	(65,220)
Dividend and interest income	112,605	-	112,605	143,571	-	143,571
In-kind contributions	39,323	-	39,323	175,213	-	175,213
Bequests	375,000	-	375,000	-	-	-
Other revenue	1,000	-	1,000	5,000	-	5,000
Total Revenue and Support	<u>2,923,037</u>	<u>-</u>	<u>2,923,037</u>	<u>3,325,941</u>	<u>-</u>	<u>3,325,941</u>
EXPENSES						
Program services	2,875,057	-	2,875,057	3,994,293	-	3,994,293
Fundraising	738,814	-	738,814	613,493	-	613,493
General and administrative	162,752	-	162,752	93,460	-	93,460
Total Expenses	<u>3,776,623</u>	<u>-</u>	<u>3,776,623</u>	<u>4,701,246</u>	<u>-</u>	<u>4,701,246</u>
Change in Net Assets Before Other Changes	<u>(853,586)</u>	<u>-</u>	<u>(853,586)</u>	<u>(1,375,305)</u>	<u>-</u>	<u>(1,375,305)</u>
OTHER CHANGES						
Net asset transfer from other not-for-profit entity	91,800	-	91,800	-	-	-
Forgiveness of PPP loan	33,844	-	33,844	-	-	-
Board designated fund release	1,000,000	(1,000,000)	-	1,375,305	(1,375,305)	-
Total Other Changes	<u>1,125,644</u>	<u>(1,000,000)</u>	<u>125,644</u>	<u>1,375,305</u>	<u>(1,375,305)</u>	<u>-</u>
Change in Net Assets	<u>272,058</u>	<u>(1,000,000)</u>	<u>(727,942)</u>	<u>-</u>	<u>(1,375,305)</u>	<u>(1,375,305)</u>
NET ASSETS (DEFICIT)						
Beginning of year	841,857	2,899,695	3,741,552	841,857	4,275,000	5,116,857
End of year	<u>\$ 1,113,915</u>	<u>\$ 1,899,695</u>	<u>\$ 3,013,610</u>	<u>\$ 841,857</u>	<u>\$ 2,899,695</u>	<u>\$ 3,741,552</u>

See notes to financial statements

Rainbow Railroad USA, Inc.

Statements of Functional Expenses

	Year Ended December 31							
	2024				2023			
	Program Services	Fundraising	General and Administrative	Total	Program Services	Fundraising	General and Administrative	Total
PERSONNEL COSTS								
Salaries, payroll taxes and benefits	\$ 744,287	\$ 124,048	\$ -	\$ 868,335	\$ 335,610	\$ 83,903	\$ -	\$ 419,513
OTHER THAN PERSONNEL COSTS								
Professional fees	15,043	206,268	42,510	263,821	79,320	232,225	39,660	351,205
Rent expense	16,889	2,815	-	19,704	15,825	3,956	-	19,781
Office expenses	62,173	171,431	100,663	334,267	39,704	159,419	19,852	218,975
Event expenses	26,707	14,179	-	40,886	-	177,501	-	177,501
Travel	85,037	87,037	5,733	177,807	72,494	47,444	32,966	152,904
Advertising	-	33,449	4,346	37,795	-	63,970	-	63,970
Grant expenses	1,085,611	-	-	1,085,611	1,850,231	-	-	1,850,231
Depreciation	-	-	3,740	3,740	-	-	982	982
In-kind contributions	1,210	32,353	5,760	39,323	172,541	2,672	-	175,213
Programmatic support and advocacy	821,935	76,291	-	898,226	1,424,888	-	-	1,424,888
Honorariums and relationship development	16,165	3,710	-	19,875	3,680	2,697	-	6,377
	<u>2,875,057</u>	<u>751,581</u>	<u>162,752</u>	<u>3,789,390</u>	<u>3,994,293</u>	<u>773,787</u>	<u>93,460</u>	<u>4,861,540</u>
Less special event direct expenses	<u>-</u>	<u>(12,767)</u>	<u>-</u>	<u>(12,767)</u>	<u>-</u>	<u>(160,294)</u>	<u>-</u>	<u>(160,294)</u>
	<u>\$ 2,875,057</u>	<u>\$ 738,814</u>	<u>\$ 162,752</u>	<u>\$ 3,776,623</u>	<u>\$ 3,994,293</u>	<u>\$ 613,493</u>	<u>\$ 93,460</u>	<u>\$ 4,701,246</u>

See notes to financial statements

Rainbow Railroad USA, Inc.

Statements of Cash Flows

	Year Ended December 31	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (727,942)	\$ (1,375,305)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	3,740	982
Forgiveness of PPP loan	(33,844)	-
Changes in operating assets and liabilities		
Contributions receivable	13,249	(85,624)
Due from affiliate	(102,428)	-
Prepaid expenses	(16,899)	(32,690)
Due to affiliate	(19,089)	(236,936)
Accrued payroll and expenses	<u>(78,637)</u>	<u>121,726</u>
Net Cash from Operating Activities	<u>(961,850)</u>	<u>(1,607,847)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	-	6,866,481
Purchases of investments	-	(6,866,481)
Equipment acquisitions	<u>(7,639)</u>	<u>(3,977)</u>
Net Cash from Investing Activities	<u>(7,639)</u>	<u>(3,977)</u>
Change in Cash and Cash Equivalents	(969,489)	(1,611,824)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>3,737,508</u>	<u>5,349,332</u>
End of year	<u>\$ 2,768,019</u>	<u>\$ 3,737,508</u>

See notes to financial statements

Rainbow Railroad USA, Inc.

Notes to Financial Statements
December 31, 2024 and 2023

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 foundation 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. The Board Designated Fund is a component of net assets without donor restrictions and has been created by an action of the Organization’s Board of Directors. The balance was established from an unrestricted contribution received in 2022. 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, 2024 and 2023.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

Rainbow Railroad USA, Inc.

Notes to Financial Statements
December 31, 2024 and 2023

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, 2024 and 2023 the Organization does not believe an allowance for doubtful accounts should be established.

Investment Valuation

Investments consist of cash held at cost, which approximates 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.

Bequests

The Organization recognizes bequests in the year in which the promise to give becomes unconditional, which is the year in which the probate court declares the will valid and the proceeds are measurable in amount.

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, 2024 and 2023

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

In-Kind Contributions

The Organization recognizes the fair value of in-kind contributions which create or enhance nonfinancial assets, or require specialized skills provided by individuals possessing those skills and would typically be purchased if not provided by donation. Contributed services which do not meet these criteria are not recognized as revenue and are not reported in the accompanying financial statements.

In-kind contributions consist of items and services received by the Organization. These amounts are recorded as both revenue and expense at their estimated fair values using similar rates and services to those contributed at the date of receipt. In-kind contributions consist of the following for the years ended December 31:

	<u>2024</u>	<u>2023</u>	<u>Usage</u>	<u>Donor Restriction</u>
Discounted services	\$ 9,570	\$ 91,041	Program Services	No
Silent auction items	-	2,672	Fundraising	Yes
Event donations	4,619	81,500	Program Services	Yes
Advertising	25,134	-	Fundraising	No
	<u>\$ 39,323</u>	<u>\$ 175,213</u>		

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.

Rainbow Railroad USA, Inc.

Notes to Financial Statements
December 31, 2024 and 2023

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

Allocation of Expenses (continued)

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
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

The Organization determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of right of use assets and lease liabilities on the statements of financial position. Lease liabilities represent the obligation to make lease payments arising from the lease measured on a discounted basis. The Organization determines lease classification as operating or finance at the lease commencement date.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The right of use asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Organization has made a policy election to use a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term.

Lease expense is generally recognized on a straight-line basis over the lease term.

The Organization has elected not to record leases with an initial term of twelve months or less on the statements of financial position. The expense on such leases is recognized on a straight-line basis over the lease term.

Advertising

The Organization expenses advertising costs as incurred. Advertising costs for the years ended December 31, 2024 and 2023 were \$37,795 and \$63,970.

Rainbow Railroad USA, Inc.

Notes to Financial Statements
December 31, 2024 and 2023

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, 2021.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

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 June 5, 2025.

3. Concentration of Credit Risk

The credit risks of the Organization arise from cash and cash equivalents and contributions receivable. The Organization maintains balances with a financial institution which, at times, may exceed the Federal Deposit Insurance Corporation insurance limits. There was an uninsured portion of this balance of approximately \$2,030,000 at December 31, 2024. There was an uninsured portion of this balance of approximately \$3,460,000 at December 31, 2023. Contributions receivable is expected to be collected in the normal course of operations.

The Organization earned approximately 80% and 92% of its revenue from contribution revenue for the years ended December 31, 2024 and 2023.

4. Equipment

Equipment consists of the following at December 31:

	<u>2024</u>	<u>2023</u>
Equipment	\$ 15,239	\$ 7,600
Accumulated depreciation	<u>(6,113)</u>	<u>(2,373)</u>
	<u>\$ 9,126</u>	<u>\$ 5,227</u>

Rainbow Railroad USA, Inc.

Notes to Financial Statements
December 31, 2024 and 2023

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 \$1,085,611 and \$1,850,231 to Rainbow Railroad Canada, Inc. for the years ended December 31, 2024 and 2023. At December 31, 2024, amounts due from Rainbow Railroad Canada, Inc. were \$102,428. At December 31, 2023, the Organization owed Rainbow Railroad Canada, Inc. \$19,089.

6. 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 2019 or 2020 average monthly payroll expenses of the qualifying entity. The PPP loan bears an interest rate 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 or 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").

In September 2024, the PPP loan totaling \$33,844 was approved for forgiveness by the SBA and the Organization recognized the forgiveness of PPP loan in the 2024 statement of activities.

7. Special Events Revenue

The Organization records gross receipts from special fundraising events that consist of exchange transaction revenue and contribution revenue. For the years ended December 31, 2024 and 2023, the Organization's special fundraising events revenue consist of the following:

	<u>2024</u>	<u>2023</u>
Contributions revenue	\$ 54,540	\$ 69,517
Special events exchange transaction revenue	<u>21,656</u>	<u>25,557</u>
Special events revenue, gross	<u>\$ 76,196</u>	<u>\$ 95,074</u>

Rainbow Railroad USA, Inc.

Notes to Financial Statements
December 31, 2024 and 2023

8. Commitments

During June 2023, the Organization signed a new eleven-month lease agreement through May 31, 2024. The lease agreement is \$2,000 per month for use and maintenance and does not allow for cancellation prior to the end of the lease term. This lease agreement was renewed during the year through June 30, 2025.

9. 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>2024</u>	<u>2023</u>
Financial Assets		
Cash	\$ 2,768,019	\$ 3,737,508
Contributions receivable (due within one year)	149,381	162,630
Investments	108	108
Due from affiliate	<u>102,428</u>	<u>-</u>
 Total Financial Assets	 3,019,936	 3,900,246
Less:		
Board designated net assets	<u>(1,899,695)</u>	<u>(2,899,695)</u>
 Financial Assets Available to Meet Cash Needs for General Expenditures Cost Held One Year	 <u>\$ 1,120,241</u>	 <u>\$ 1,000,551</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.

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