

# **Human Rights Watch, Inc. and Subsidiaries**

Consolidated Financial Report  
June 30, 2018

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RSM US LLP

## Independent Auditor's Report

Board of Directors  
Human Rights Watch, Inc. and Subsidiaries

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Human Rights Watch, Inc. and Subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2018, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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 Human Rights Watch, Inc. and Subsidiaries as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*RSM US LLP*

New York, New York  
February 25, 2019

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**Human Rights Watch, Inc. and Subsidiaries**

**Consolidated Statement of Financial Position  
June 30, 2018**

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**Assets**

Cash and cash equivalents	\$ 37,490,102
Investments (Note 4)	157,199,860
Contributions receivable, net (Note 5)	29,541,205
Prepaid expenses and other assets	2,615,088
Fixed assets, net (Note 6)	<u>5,789,370</u>

**Total assets** \$ 232,635,625

**Liabilities and Net Assets**

Liabilities:

Accounts payable and accrued expenses	\$ 7,336,516
Deferred rent	<u>1,865,728</u>
<b>Total liabilities</b>	<u>9,202,244</u>

Commitments and contingencies (Note 10)

Net assets:

Unrestricted	18,903,491
Temporarily restricted (Notes 7 and 8)	<u>204,529,890</u>
<b>Total net assets</b>	<u>223,433,381</u>

**Total liabilities and net assets** \$ 232,635,625

See notes to consolidated financial statements.

## Human Rights Watch, Inc. and Subsidiaries

### Consolidated Statement of Activities Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total 2018
Public support and revenue:			
Contributions and grants	\$ 16,207,689	\$ 45,450,784	\$ 61,658,473
Special events	19,518,610	-	19,518,610
Less: direct cost of special events	(2,591,332)	-	(2,591,332)
<b>Total public support</b>	<b>33,134,967</b>	<b>45,450,784</b>	<b>78,585,751</b>
Revenue:			
Net investment income	1,817,643	11,559,795	13,377,438
Publications	24,786	-	24,786
Other	133,151	-	133,151
<b>Total revenue</b>	<b>1,975,580</b>	<b>11,559,795</b>	<b>13,535,375</b>
Net assets released from restrictions (Note 7)	44,484,074	(44,484,074)	-
<b>Total public support and revenue</b>	<b>79,594,621</b>	<b>12,526,505</b>	<b>92,121,126</b>
Expenses:			
Program services:			
Africa	6,704,532	-	6,704,532
Americas	2,876,086	-	2,876,086
Asia	7,415,539	-	7,415,539
Europe and Central Asia	5,254,718	-	5,254,718
Middle East and North Africa	6,320,775	-	6,320,775
United States	2,789,402	-	2,789,402
Children's Rights	3,019,293	-	3,019,293
LGBT	1,838,717	-	1,838,717
International Justice	1,798,231	-	1,798,231
Women's Rights	3,341,676	-	3,341,676
Other programs (Note 11)	16,379,200	-	16,379,200
<b>Total program services</b>	<b>57,738,169</b>	<b>-</b>	<b>57,738,169</b>
Supporting services:			
Management and general	7,506,314	-	7,506,314
Fundraising	16,404,423	-	16,404,423
<b>Total supporting services</b>	<b>23,910,737</b>	<b>-</b>	<b>23,910,737</b>
<b>Total expenses</b>	<b>81,648,906</b>	<b>-</b>	<b>81,648,906</b>
<b>Change in net assets before foreign currency translation (loss) gain</b>	<b>(2,054,285)</b>	<b>12,526,505</b>	<b>10,472,220</b>
Foreign currency translation (loss) gain	(459,883)	366,719	(93,164)
<b>Change in net assets</b>	<b>(2,514,168)</b>	<b>12,893,224</b>	<b>10,379,056</b>
Net assets:			
Beginning of year	21,417,659	191,636,666	213,054,325
End of year	<b>\$ 18,903,491</b>	<b>\$ 204,529,890</b>	<b>\$ 223,433,381</b>

See notes to consolidated financial statements.

Human Rights Watch, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses  
Year Ended June 30, 2018

	Program Services											Supporting Services			2018	
	Africa	Americas	Asia	Europe and Central Asia	Middle East and North Africa	United States	Children Rights	LGBT	International Justice	Women Rights	Other Programs	Total	Management and General	Fundraising		Total
Salaries and related expenses:																
Salaries	\$ 3,307,356	\$ 1,426,403	\$ 4,015,959	\$ 2,752,830	\$ 3,230,677	\$ 1,582,994	\$ 1,676,394	\$ 946,254	\$ 2,101,696	\$ 1,756,991	\$ 8,773,418	\$ 30,479,972	\$ 2,219,362	\$ 6,971,239	\$ 9,190,601	\$ 39,670,573
Payroll taxes and other employee benefits	1,096,094	676,620	1,210,951	1,016,752	1,139,321	536,267	575,643	326,133	315,534	536,249	3,123,328	10,552,892	1,132,076	2,118,166	3,250,242	13,803,134
<b>Total salaries and related expenses</b>	<b>4,403,450</b>	<b>2,103,023</b>	<b>5,226,910</b>	<b>3,769,582</b>	<b>4,369,998</b>	<b>2,119,261</b>	<b>2,252,037</b>	<b>1,272,387</b>	<b>1,326,230</b>	<b>2,293,240</b>	<b>11,896,746</b>	<b>41,032,864</b>	<b>3,351,438</b>	<b>9,089,405</b>	<b>12,440,843</b>	<b>53,473,707</b>
Consultant's fees	116,242	59,915	108,621	10,077	5,090	4,080	30,000	51	-	2,113	133,520	469,709	78,134	28,458	106,592	576,301
Publications	198,764	57,495	224,639	144,677	249,028	52,363	80,389	52,256	61,660	103,272	354,121	1,578,664	56,837	115,747	172,584	1,751,248
Travel, meals and meetings	711,195	228,767	660,475	345,117	441,698	192,419	234,681	229,561	130,850	371,374	1,437,922	4,984,059	599,455	557,658	1,157,113	6,141,172
Special projects	-	-	-	-	-	-	-	-	-	-	400,000	400,000	-	-	-	400,000
Rent	545,261	195,998	522,660	451,443	557,121	195,998	195,998	130,665	130,665	261,330	1,022,591	4,209,730	873,870	1,567,980	2,441,850	6,651,580
Office expenses	498,387	149,234	445,076	356,761	463,315	139,593	140,500	98,017	93,046	198,785	707,892	3,290,606	661,960	1,125,116	1,787,076	5,077,682
Direct mail and marketing	-	-	-	-	-	-	-	-	-	-	-	-	-	3,226,179	3,226,179	3,226,179
Professional fees	102,203	33,268	98,128	80,289	105,495	37,302	37,302	23,523	23,523	47,047	184,477	772,557	1,658,818	306,791	1,965,609	2,738,166
<b>Total expenses before depreciation and amortization</b>	<b>6,575,502</b>	<b>2,827,700</b>	<b>7,286,509</b>	<b>5,157,946</b>	<b>6,191,745</b>	<b>2,741,016</b>	<b>2,970,907</b>	<b>1,806,460</b>	<b>1,765,974</b>	<b>3,277,161</b>	<b>16,137,269</b>	<b>56,738,189</b>	<b>7,280,512</b>	<b>16,017,334</b>	<b>23,297,846</b>	<b>80,036,035</b>
Depreciation and amortization	129,030	48,386	129,030	96,772	129,030	48,386	48,386	32,257	32,257	64,515	241,931	999,980	225,802	387,089	612,891	1,612,871
	<b>\$ 6,704,532</b>	<b>\$ 2,876,086</b>	<b>\$ 7,415,539</b>	<b>\$ 5,254,718</b>	<b>\$ 6,320,775</b>	<b>\$ 2,789,402</b>	<b>\$ 3,019,293</b>	<b>\$ 1,838,717</b>	<b>\$ 1,798,231</b>	<b>\$ 3,341,676</b>	<b>\$ 16,379,200</b>	<b>\$ 57,738,169</b>	<b>\$ 7,506,314</b>	<b>\$ 16,404,423</b>	<b>\$ 23,910,737</b>	<b>\$ 81,648,906</b>

**Human Rights Watch, Inc. and Subsidiaries**

**Consolidated Statement of Cash Flows**  
**Year Ended June 30, 2018**

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Cash flows from operating activities:	
Change in net assets	\$ 10,379,056
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	1,612,871
Realized gain on investments	(6,041,081)
Unrealized gain on investments	(6,322,870)
Change in discount on contributions receivable	1,217,438
Changes in operating assets and liabilities:	
Decrease (increase) in net assets:	
Contributions receivable	4,974,899
Prepaid expenses and other assets	(1,278,691)
Increase in liabilities:	
Accounts payable and accrued expenses	2,140,057
Deferred rent	523,819
<b>Net cash provided by operating activities</b>	<u>7,205,498</u>
Cash flows from investing activities:	
Net purchases of investments	(24,534,010)
Proceeds from sale of investments	22,348,519
Purchases of fixed assets	(1,107,654)
<b>Net cash used in investing activities</b>	<u>(3,293,145)</u>
<b>Net increase in cash and cash equivalents</b>	3,912,353
Cash and cash equivalents:	
Beginning of year	<u>33,577,749</u>
End of year	<u>\$ 37,490,102</u>

See notes to consolidated financial statements.

## Human Rights Watch, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization

Human Rights Watch, Inc. (HRW) is a not-for-profit organization that works to stop human rights abuses. Currently, HRW monitors and promotes human rights in over 80 countries worldwide. HRW's programs are divided into five parts for each region of the world plus the United States and thematic programs devoted to women's rights, children's rights, LGBT rights, refugees, military affairs, international justice, responsibilities of corporations, health and human rights and disability rights, rights of the disabled, and human rights and the environment.

HRW obtains financial support from the public - primarily individuals and foundations, but also estates, trusts and businesses. HRW does not seek or accept financial support from any government or government-funded agency.

The HRW consolidated financial statements as of June 30, 2018 include branches, charitable affiliates and registered offices. These entities listed below (official local name included in some instances) were established to support HRW primarily through the promotion of human rights and justice throughout the world in times of peace and war by directly or indirectly funding it through fundraising campaigns, volunteers and collected contributions from the public. These entities, over which HRW maintains operational control and oversight, are listed below:

- Australia: Australia Foundation in Support of Human Rights Watch Limited
- Belgium: Human Rights Watch, Inc.
- Brazil: Human Rights Watch Brasil (Associação dos Apoiadores dos Direitos Humanos)
- Canada: Human Rights Watch, Inc.
- DRC: Human Rights Watch
- France: French Association in Support of Human Rights Watch (Association Française de Soutien à Human Rights Watch)
- France: Human Rights Watch, Inc.
- Germany: Human Rights Watch - Association for the Protection of Human Rights - e. V. (Human Rights Watch - Verein zur Wahrung de Menschenrechte - e.V.)
- Japan: Japan Foundation in Support of Human Rights Watch
- Jordan: Human Rights Watch
- Kenya: Human Rights Watch
- Kyrgyzstan: Representative Office of Human Rights Watch, Inc. in the Kyrgyz Republic
- Lebanon: Human Rights Watch in Lebanon
- Netherlands: Foundation Human Rights Watch Netherlands (Stichting Human Rights Watch Nederland)
- Russia: Representative Office of the Corporation "Human Rights Watch, Inc." (USA) in the Russian Federation
- South Africa: The South African Foundation in Support of Human Rights Watch
- South Korea: Human Rights Watch Korea
- Sweden: Insamlingsstiftelsen the Swedish Foundation in Support of Human Rights Watch
- Switzerland: Human Rights Watch, Inc. (Human Rights Watch, Inc. New York (Etats-Unis), succursale de Genève)
- Switzerland: Swiss Foundation in Support of Human Rights Watch
- Tunisia: Human Rights Watch
- Ukraine: Human Rights Watch, Inc.
- UK: Human Rights Watch, Inc.



## Human Rights Watch, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 2. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Human Rights Watch, Inc. and subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

#### Note 3. Summary of Significant Accounting Policies

**Basis of presentation:** The consolidated financial statements have been prepared on an accrual basis of accounting and conform to accounting principles generally accepted in the United States of America (U.S. GAAP), as applicable to not-for-profit organizations. In the consolidated statement of financial position, assets are presented in order of liquidity or conversion to cash and liabilities are presented according to their maturity resulting in the use of cash.

**Financial statement presentation:** The classification of HRW's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

The classes of net assets are defined as follows:

**Permanently Restricted:** Net assets resulting from contributions and other inflows of assets whose use by HRW is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of HRW pursuant to those stipulations.

**Temporarily restricted:** Net assets resulting from contributions and other inflows of assets whose use by HRW is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of HRW pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities.

**Unrestricted:** The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

**Cash and cash equivalents:** HRW considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents.

**Financial instruments and fair value:** Accounting Standards Codification (ASC) 820, Fair Value Measurement, establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that inputs that are most observable be used when available. Observable inputs are inputs that market participants operating within the same marketplace as HRW would use in pricing HRW's asset or liability based on independently derived and observable market data. Unobservable inputs are inputs that cannot be sourced from a broad active market in which assets or liabilities identical or similar to those of HRW are traded. HRW estimates the price of any assets for which there are only unobservable inputs by using assumptions that market participants that have investments in the same or similar assets would use as determined by the money managers for each investment based on best information available in the circumstances. The input hierarchy is broken down into three levels based on the degree to which the exit price is independently observable or determinable as follows:

**Level 1:** Valuation based on quoted market prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

## Human Rights Watch, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 3. Summary of Significant Accounting Policies (Continued)

**Level 2:** Valuation based on quoted market prices of investments that are not actively traded or for which certain significant inputs are not observable, either directly or indirectly.

**Level 3:** Valuation based on inputs that are unobservable and reflect management's best estimate of what market participants would use as fair value.

**Contributions receivable and allowances:** HRW reports unconditional promises to give as contributions. If amounts are expected to be collected within one year, they are recorded at net realized value. If amounts are expected to be collected in future years, they are recorded at the net present value of their estimated future cash flows.

The net present values on these amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions revenue.

HRW uses the allowance method for uncollectible unconditional contributions receivable. The allowance is based on prior years' experience and management's analysis and evaluation of specific promises made. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions.

**Fixed assets:** Fixed assets are recorded at cost when purchased. Fixed assets in the United States (U.S.) costing in excess of \$5,000, are capitalized at cost. The capitalization thresholds of fixed assets in HRW foreign offices vary based on their local rules and policies. Depreciation is computed on an accelerated basis or on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the related assets.

	<u>Years</u>
	Remaining term of lease
Leasehold improvements	7
Furniture and fixtures	5
Office equipment	5
Computer hardware and software	5

**Impairment of long-lived assets:** HRW follows the provisions of ASC 360-10-35, Accounting for the Impairment or Disposal of Long - Lived Assets, which requires HRW to review long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. For the year ended June 30, 2018, there have been no such losses.

**Endowment Fund:** The Endowment Fund represents the principal amount of gifts accepted with the stipulation of the donors or the Board of Directors that the principal be maintained intact until the occurrence of a specified event. The Endowment Fund has been established under a formal arrangement whereby HRW can spend no more than 5% of the Endowment Fund value, as defined, each year for operations. In the case of exceptional circumstances, as declared by a vote of two-thirds of the Board of Directors, HRW may spend more than the previously stated 5%. The net assets of the Endowment Fund relating to assets received as part of the 1998 Endowment Campaign have been designated as temporarily restricted. The Endowment Fund net asset value (NAV) at June 30, 2018 was \$135,664,651.

## Human Rights Watch, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 3. Summary of Significant Accounting Policies (Continued)

**Contributed services:** For the year ended June 30, 2018, the value of contributed services meeting the requirements for recognition in the consolidated financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist HRW. HRW receives more than 5,000 volunteer hours per year.

**Revenue recognition:** The operations of HRW are financed principally by foundation grants and contributions received from the general public. Grants and contributions are reported at fair value on the date they are received. Grants and contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or absence of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Revenue for special events is recognized when the event takes place.

**Functional allocation of expenses:** The cost of providing services to the various programs and other activities has been summarized on an individual basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on specific identification or allocation rates established by management.

**Risk and uncertainties:** HRW's investments consist of a variety of investment securities and investment funds. Investments in general are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the value of HRW's investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

**Use of estimates:** The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and other disclosures in the consolidated financial statements. Accordingly, actual results could differ from those estimates.

**Income taxes:** HRW is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for income taxes in the accompanying consolidated financial statements. HRW has been determined by the Internal Revenue Service (IRS) not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the year ended June 30, 2018.

**Accounting for uncertainty in income taxes:** Under ASC 740, Income Taxes, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not the position will not be sustained upon examination by a taxing authority. HRW does not believe it has taken any material uncertain tax positions and, accordingly, it has not recorded any liability for unrecognized tax benefits. HRW has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, HRW has filed IRS Form 990 information returns, as required, and all other applicable returns in jurisdictions where so required. For the year ended June 30, 2018, there was no interest or penalties recorded or included in the consolidated statement of activities.

**Concentration of credit risk:** Financial instruments which potentially subject HRW to concentration of credit risk consist primarily of cash and cash equivalents. At various times, HRW has cash deposits at financial institutions which exceed the FDIC insurance limits.

## Human Rights Watch, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 3. Summary of Significant Accounting Policies (Continued)

**Recent accounting pronouncements:** In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Accounting for Leases*, which applies a right-of-use (ROU) model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. For leases with a term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. At inception, lessees must classify all leases as either finance or operating based on five criteria. Balance sheet recognition of finance and operating leases is similar, but the pattern of expense recognition in the income statement, as well as the effect on the consolidated statement of cash flows, differs depending on the lease classification. In addition, lessees and lessors are required to provide certain qualitative and quantitative disclosures to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The amendments are effective for fiscal years beginning after December 15, 2019. Management is currently evaluating the impact of the pending adoption of ASU 2016-02.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) - Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions,” (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for HRW’s financial statements for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance presented in Topic 958, *Not-for-Profit Entities*, of the FASB ASC for evaluating whether a transaction is reciprocal (i.e. an exchange transaction) or nonreciprocal (i.e. a contribution) and for distinguishing between conditional and unconditional contributions. The ASU may be adopted using either: (a) the modified prospective basis, with no restatement of opening net assets or (b) the full retrospective method. Under the modified prospective basis, the ASU is applied to agreements that are not completed as of the effective date, with the ASU’s guidance applied onto the portion of revenue or expenses not yet recognized, or entered into after the effective date. The ASU will be effective for fiscal years beginning after December 15, 2018. Earlier adoption is permitted. Management has not evaluated the impact of this ASU on the consolidated financial statements.

## Human Rights Watch, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 3. Summary of Significant Accounting Policies (Continued)

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU modifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in the Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements (Concepts Statement)*, including the consideration of costs and benefits. The Concepts Statement was finalized by the FASB on August 28, 2018. The ASU is effective for all entities for fiscal years and interim periods within those fiscal years beginning after December 15, 2019. Early adoption is permitted. Management has not evaluated the impact of this ASU on the consolidated financial statements.

#### Note 4. Investments

HRW's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. See Note 2 for the discussion of HRW's policies regarding this hierarchy. A description of the valuation techniques applied to HRW's major categories of assets measured at fair value are as follows. There have been no changes in valuation methodology as of June 30, 2018.

HRW's holdings in equity securities are determined by quoted market prices. Each of these investments can be liquidated daily. The valuation is based on Level 1 inputs within the hierarchy used in measuring fair value.

HRW also has investments in fixed income securities which include corporate bonds. The investment managers priced these investments using nationally recognized pricing services. Since fixed income securities may not trade on a daily basis, the pricing services prepare estimates of fair value measurements for these securities using its proprietary pricing applications which include available relevant market information, benchmark curves, benchmarking of similar securities, sector grouping and matrix pricing. These investments are classified as Level 2.

Mutual funds are valued on a daily basis at the close of business day. Each mutual fund's NAV is the value of a single share which is actively traded on national securities exchanges. These investments are classified as Level 1.

Alternative investments are those made in limited partnerships, offshore limited liability companies and pooled investment concerns, all of which are valued at the NAV of the interest owned by HRW at year-end. Given the absence of market quotations, their value is estimated using information provided to HRW by the investment advisor. The values are based on estimates that require varying degrees of judgment and, for fund of funds investments, are primarily based on financial data supplied by the investment managers of the underlying funds. Individual investment holdings within the alternative investments may include investments in both nonmarketable and market-traded securities. Nonmarketable securities may include equity in private companies, real estate, thinly traded securities, and other investment vehicles. The investments may indirectly expose HRW to the effects of securities lending, short sales of securities, and trading in futures and forward contracts, options, swap contracts and other derivative products. While these financial instruments entail varying degrees of risk, HRW's exposure with respect to each such investment is limited to its carrying amount in each investment plus HRW's commitment to provide additional funding as described in the following paragraph. The financial statements of the investees are audited annually by nationally recognized firms of independent auditors. HRW does not directly invest in the underlying securities of the investment funds and due to restrictions on transferability and timing of withdrawals from the limited partnerships, the amounts ultimately realized upon liquidation could differ from reported values that are based on current conditions.

## Human Rights Watch, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 4. Investments (Continued)

Certain alternative investments, which include limited partnership investments, have rolling lockups ranging from one to five years. In addition, the NAV of alternative investments do not include future funding commitments of approximately \$32,433,000 to be paid by HRW if called upon.

Management fees and incentive fees are charged by these investment entities at an annual rate ranging from 0.2% to 2.0% plus an incentive allocation, usually 20% of profits.

The following table presents the level within the fair value hierarchy at which HRW's financial assets are measured on a recurring basis at June 30, 2018:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2018
Corporate bonds:				
Financial	\$ -	\$ 13,016,933	\$ -	\$ 13,016,933
Equity securities:				
Industrial	2,438,562	-	-	2,438,562
Consumer discretionary	4,916,317	-	-	4,916,317
Financial	3,513,231	-	-	3,513,231
Mutual funds:				
Diversified	9,680,251	-	-	9,680,251
Index	10,814,286	-	-	10,814,286
Blended	28,061,522	-	-	28,061,522
Total investment assets in the fair value hierarchy	59,424,169	13,016,933	-	72,441,102
Pooled investments and fund of funds at NAV*				84,758,758
	\$ 59,424,169	\$ 13,016,933	\$ -	\$ 157,199,860

\* Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

The carrying amount of contributions receivable is based on the estimated present value of the date of the anticipated cash inflows, recorded at the date of contribution. During the year ended June 30, 2018, newly received contributions receivable totaling \$7,993,944 were valued at estimated fair value by discounting expected cash flows using a risk-free rate applicable at the time at which the promise was received. These are considered to be Level 3 inputs in the fair value hierarchy.

## Human Rights Watch, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 4. Investments (Continued)

Net investment income consisted of the following:

Interest and dividend income	\$ 1,836,553
Net realized gains on investments	6,041,081
Net unrealized gains on investments	6,322,870
Management fees	(823,066)
	<u>\$ 13,377,438</u>

#### Note 5. Contributions Receivable, Net

At June 30, 2018, the net present value of contributions receivable is \$29,541,205. Net present value was calculated using a discount rate equal to the risk-free interest rate, commensurate with the expected collection of the pledge based on the U.S. Treasury note interest rate in effect at the time contributions are made. The discount rate used in this calculation ranged from 2.52% to 2.96%. There was no reserve recorded for doubtful accounts for the year ended June 30, 2018.

Net present value of contributions receivable, at June 30, 2018 is summarized below:

Total contributions receivable at June 30, 2018	\$ 30,073,347
Net present value discount	(532,142)
Net present value of contributions receivable at June 30, 2018	<u>\$ 29,541,205</u>
Amount due in:	
Less than one year	\$ 15,103,477
One to five years	14,969,870
Total	<u>\$ 30,073,347</u>

Unconditional contributions receivable and contribution revenue include amounts from various board members.

#### Note 6. Fixed Assets, Net

Fixed assets, net as of June 30, 2018 consist of the following:

Leasehold improvements	\$ 9,039,573
Furniture and fixtures	843,282
Office equipment	1,299,092
Computer hardware and software	8,646,261
	<u>19,828,208</u>
Less: accumulated depreciation and amortization	(14,038,838)
	<u>\$ 5,789,370</u>

Depreciation and amortization expenses for the year ended June 30, 2018 were \$1,612,871.

## Human Rights Watch, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 7. Temporarily Restricted Net Assets and Net Assets Released From Restrictions

Temporarily restricted net assets were available for the following purposes at June 30, 2018:

Donor-imposed time and purpose restrictions	\$ 68,865,239
Endowment fund	135,664,651
	<u>\$204,529,890</u>

Temporarily restricted net assets that were released from donor restrictions at June 30, 2018 are as follows:

Donor-imposed time and purpose restrictions	<u>\$ 44,484,074</u>
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#### Note 8. Endowment Fund

The spending of endowment funds by a not-for-profit corporation in the State of New York is currently governed by the New York Prudent Management of Institutional Funds Act (NYPMIFA). HRW has interpreted NYPMIFA as requiring the preservation of the historical dollar value, or principal, of an endowment fund unless the donor provides otherwise by specifying in their written gift instruments that the not-for-profit corporation's spending-rate policy be applied to the endowment funds.

HRW has adopted investment and spending policies for endowment assets that attempt to provide a stream of returns that would be utilized to fund various programs while seeking to maintain the purchasing power of the endowment assets. The endowment funds are invested in vehicles such as government and equity securities, as well as alternative investments.

HRW considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- the duration and preservation of the funds;
- the purposes of HRW and the donor-restricted endowment funds;
- general economic conditions;
- the possible effect of inflation and deflation;
- the expected total return from income and the appreciation/depreciation of investments;
- other resources of HRW; and
- the investment policy of HRW.

The following table represents the reconciliation of changes in endowment net assets for the year ended June 30, 2018:

	<u>Temporarily Restricted</u>
Endowment net assets, beginning of year	<u>\$124,104,856</u>
Investment income:	
Investment income	1,388,433
Net appreciation (realized and unrealized)	10,880,511
Investment fees	(709,149)
Total investment gain, net	<u>11,559,795</u>
Endowment net assets, end of year	<u>\$135,664,651</u>



## Human Rights Watch, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 9. Retirement Plan

HRW has a defined contribution plan (the Plan) under section 403(b) of the Internal Revenue Code. Participating employees make pretax contributions of up to the maximum allowable IRS limitations. All full time U.S. employees are eligible to participate in the Plan as of their date of hire. Upon participation in the Plan, employees are 100% vested in their contributions. HRW also makes a discretionary contribution based upon a percentage of an employee's salary, which become 100% vested upon contribution. HRW's contribution for the year ended June 30, 2018 was \$2,028,618.

#### Note 10. Commitments and Contingencies

**Operating leases:** Pursuant to facility and equipment lease agreements in the U.S. and various countries, HRW is obligated for minimum annual rentals to nonrelated parties, as indicated below. Minimum future annual rental payments under the lease agreements expiring through 2026 are as follows:

Year ending June 30:	
2019	\$ 5,154,000
2020	4,480,000
2021	4,306,000
2022	3,609,000
2023	3,512,000
Thereafter	12,193,000
	<u>\$ 33,254,000</u>

HRW leases office space in various countries on a month-to-month basis. Rent expense for the year ended June 30, 2018 amounted to approximately \$6,063,000.

**Litigation:** Various lawsuits against HRW may arise in the ordinary course of business. Contingent liabilities arising from such litigation and other matters are not expected to be material in relation to the financial position of HRW.

## Human Rights Watch, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 11. Other Programs

Other programs as presented in the accompanying consolidated statement of activities and functional expenses consist of the following for the year ended June 30, 2018:

Outreach	\$ 4,273,698
Business	1,820,476
Disability rights response	1,730,808
Film festival	1,296,684
Arms	1,124,856
Emergency response	1,114,607
Fellows	1,088,667
Environment	963,953
Health and human rights	854,843
Refugee	757,827
Terrorism	691,448
Grants to others	421,456
Jammeh	239,877
Total	<u>\$ 16,379,200</u>

#### Note 12. Subsequent Events

HRW's management has performed subsequent events procedures through February 25, 2019 which is the date the consolidated financial statements were available for issuance and there were no subsequent events requiring adjustments or disclosure to the consolidated financial statements.