

HUMAN RIGHTS CAMPAIGN, INC. AND HUMAN RIGHTS CAMPAIGN FOUNDATION

Combined Financial Statements

For the Year Ended March 31, 2023

(With Summarized Financial Information for the Year Ended March 31, 2022)



**and
Report Thereon**



**HUMAN RIGHTS CAMPAIGN, INC. AND
HUMAN RIGHTS CAMPAIGN FOUNDATION**

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For the Year Ended March 31, 2023**

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INDEPENDENT AUDITORS' REPORT

To the Boards of Directors of the
**Human Rights Campaign, Inc. and
the Human Rights Campaign Foundation**

Report on the Audit of the Financial Statements

Opinion

We have audited the combined financial statements of the Human Rights Campaign, Inc. (HRC) and the Human Rights Campaign Foundation (the Foundation), which comprise the combined statement of financial position as of March 31, 2023, and the related combined statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the Human Rights Campaign, Inc. and the Human Rights Campaign Foundation as of March 31, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 the Human Rights Campaign, Inc. and the Human Rights Campaign Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about HRC's and the Foundation's ability to continue as a going concern within one year after the date that the combined 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 combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 GAAS 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 combined financial statements.

In performing an audit in accordance with GAAS, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the combined 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 combined 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 HRC's and the Foundation'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 HRC's and the Foundation'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.

Report on Summarized Comparative Information

We have previously audited the HRC and the Foundation's 2022 combined financial statements, and in our report dated September 20, 2022, we expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2022, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Marcum LLP

Washington, DC
August 25, 2023

**HUMAN RIGHTS CAMPAIGN, INC. AND
HUMAN RIGHTS CAMPAIGN FOUNDATION**

COMBINED STATEMENT OF FINANCIAL POSITION

March 31, 2023

(With Summarized Financial Information as of March 31, 2022)

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents	\$ 12,042,234	\$ 24,568,431
Investments	22,695,411	18,845,843
Contributions receivable, net	1,087,507	1,125,570
Bequests receivable	4,562,496	-
Grants, contracts and other receivables, net	7,059,398	3,585,220
Prepaid expenses and other assets	1,958,132	1,204,473
Beneficial interests in trusts	259,085	117,043
Property and equipment, net	<u>17,327,088</u>	<u>18,405,524</u>
TOTAL ASSETS	<u><u>\$ 66,991,351</u></u>	<u><u>\$ 67,852,104</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 8,306,283	\$ 7,529,965
Deferred revenue and contract liabilities	505,603	1,464,471
Note payable	40,059	476,176
Charitable gift annuity payable	129,819	132,664
Interest rate swap obligation	<u>-</u>	<u>426</u>
TOTAL LIABILITIES	<u>8,981,764</u>	<u>9,603,702</u>
Net Assets		
Without donor restrictions	41,236,314	51,358,144
With donor restrictions	<u>16,773,273</u>	<u>6,890,258</u>
TOTAL NET ASSETS	<u>58,009,587</u>	<u>58,248,402</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 66,991,351</u></u>	<u><u>\$ 67,852,104</u></u>

The accompanying notes are an integral part of these combined financial statements.

**HUMAN RIGHTS CAMPAIGN, INC. AND
HUMAN RIGHTS CAMPAIGN FOUNDATION**

COMBINED STATEMENT OF ACTIVITIES

For the Year Ended March 31, 2023

(With Summarized Financial Information for the Year Ended March 31, 2022)

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
REVENUE AND SUPPORT				
Contributions and grants:				
Member contributions	\$ 25,051,324	\$ 300,000	\$ 25,351,324	\$ 22,708,028
Federal Club members and major donor program	15,110,560	1,250,000	16,360,560	15,450,689
Corporate and foundation grants and contracts	3,130,594	14,457,362	17,587,956	13,457,075
In-kind	5,516,182	-	5,516,182	9,280,907
Planned giving	3,299,377	4,755,935	8,055,312	2,162,276
Special events	8,612,754	-	8,612,754	3,065,295
Consumer marketing	1,731,400	-	1,731,400	1,659,629
Other income	1,483,291	-	1,483,291	1,260,885
Investment income (expense), net	402,919	-	402,919	(20,387)
Net assets released from restrictions:				
Satisfaction of time restrictions	6,095,596	(6,095,596)	-	-
Satisfaction of program restrictions	4,784,686	(4,784,686)	-	-
TOTAL REVENUE AND SUPPORT	75,218,683	9,883,015	85,101,698	69,024,397
EXPENSES				
Program Services:				
Public policy, education and training	20,582,945	-	20,582,945	14,255,873
Federal, field, electoral and legal advocacy	16,276,502	-	16,276,502	12,335,708
Membership education and mobilization	12,519,469	-	12,519,469	9,970,251
Communications and media advocacy	6,947,644	-	6,947,644	7,428,032
Total Program Services	56,326,560	-	56,326,560	43,989,864
Supporting Services:				
Management and general	15,434,089	-	15,434,089	15,432,538
Fundraising	12,458,498	-	12,458,498	8,568,803
Direct benefit to donors	1,121,792	-	1,121,792	230,326
Total Supporting Services	29,014,379	-	29,014,379	24,231,667
TOTAL EXPENSES	85,340,939	-	85,340,939	68,221,531
Change in net assets before other item	(10,122,256)	9,883,015	(239,241)	802,866
OTHER ITEM				
Unrealized gain on interest rate swap	426	-	426	13,287
CHANGE IN NET ASSETS	(10,121,830)	9,883,015	(238,815)	816,153
NET ASSETS, BEGINNING OF YEAR	51,358,144	6,890,258	58,248,402	57,432,249
NET ASSETS, END OF YEAR	\$ 41,236,314	\$ 16,773,273	\$ 58,009,587	\$ 58,248,402

The accompanying notes are an integral part of these combined financial statements.

**HUMAN RIGHTS CAMPAIGN, INC. AND
HUMAN RIGHTS CAMPAIGN FOUNDATION**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended March 31, 2023
(With Summarized Financial Information for the Year Ended March 31, 2022)**

	Program Services					Supporting Services					
	Public Policy, Education and Training	Federal, Field, Electoral and Legal Advocacy	Membership Education and Mobilization	Communications and Media Advocacy	Total Program Services	Management and General	Fundraising	Direct Benefit to Donors	Total Supporting Services	2023 Total	2022 Total
Salaries and benefits	\$ 7,224,211	\$ 6,507,356	\$ 3,177,122	\$ 3,819,274	\$ 20,727,964	\$ 8,337,486	\$ 4,079,155	\$ -	\$ 12,416,640	\$ 33,144,604	\$ 26,797,084
Professional services	6,180,701	2,720,550	3,035,749	1,810,690	13,747,690	3,584,343	1,332,055	-	4,916,397	18,664,087	16,409,183
Conferences, conventions and meetings	2,329,871	2,454,310	535,507	212,533	5,532,220	281,530	1,987,328	1,121,792	3,390,650	8,922,870	2,630,845
Equipment and technology costs	395,473	353,074	666,000	288,994	1,703,541	1,307,054	308,687	-	1,615,741	3,319,282	3,155,111
Direct mail and telemarketing	161,550	521,825	1,231,673	-	1,915,049	136,082	1,038,485	-	1,174,567	3,089,616	3,065,598
Advertising and promotion	939,306	807,471	905,659	42,350	2,694,786	84,527	306,136	-	390,663	3,085,449	4,927,540
Other office expenses and miscellaneous	327,478	418,645	371,138	180,219	1,297,481	739,290	688,274	-	1,427,564	2,725,045	2,070,485
Travel	594,802	605,551	416,366	170,107	1,786,826	162,912	515,351	-	678,263	2,465,089	502,709
Occupancy costs	1,182,761	147,086	124,438	277,198	1,731,482	446,734	279,735	-	726,469	2,457,951	2,609,305
Grants and contributions	441,499	1,454,057	441,015	53,421	2,389,993	16,794	7,529	-	24,323	2,414,316	1,046,543
Taxes, bank and corporate fees	226,187	116,470	76,948	43,856	463,461	158,516	1,002,986	-	1,161,502	1,624,963	1,343,905
Postage and shipping	181,342	73,518	574,784	3,813	833,457	93,182	525,547	-	618,730	1,452,187	1,420,722
Premiums – development	74,308	12,569	892,159	8,476	987,513	71,686	260,531	-	332,217	1,319,730	1,545,235
Printing, publications and photocopying	323,453	84,020	70,911	36,713	515,097	13,952	126,701	-	140,653	655,750	697,266
TOTAL EXPENSES	<u>\$ 20,582,945</u>	<u>\$ 16,276,502</u>	<u>\$ 12,519,469</u>	<u>\$ 6,947,644</u>	<u>\$ 56,326,560</u>	<u>\$ 15,434,089</u>	<u>\$ 12,458,498</u>	<u>\$ 1,121,792</u>	<u>\$ 29,014,379</u>	<u>\$ 85,340,939</u>	<u>\$ 68,221,531</u>

The accompanying notes are an integral part of these combined financial statements.

**HUMAN RIGHTS CAMPAIGN, INC. AND
HUMAN RIGHTS CAMPAIGN FOUNDATION**

COMBINED STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2023

(With Summarized Financial Information for the Year Ended March 31, 2022)

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (238,815)	\$ 816,153
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,463,390	1,697,218
Unrealized and realized gains on investments	(101,189)	23,159
Unrealized gain on interest swap	(426)	(13,287)
Other asset acquired through contribution	50,000	50,000
Changes in assets and liabilities:		
Contributions receivable, net	38,063	108,875
Bequests receivable	(4,562,496)	-
Grants, contracts and other receivables, net	(3,474,178)	(1,719,686)
Prepaid expenses and other assets	(803,659)	(421,952)
Beneficial interests in trusts	(142,042)	2,367,493
Accounts payable and accrued expenses	776,318	2,541,074
Deferred revenue and contract liabilities	(958,868)	1,020,582
Charitable gift annuity payable	(2,845)	(31,931)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(7,956,747)</u>	<u>6,437,698</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	50,158	551,133
Purchases of investments	(3,788,540)	(1,536,876)
Purchases of property and equipment	(384,955)	(1,360,651)
NET CASH USED IN INVESTING ACTIVITIES	<u>(4,123,337)</u>	<u>(2,346,394)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	(436,117)	(466,522)
NET CASH USED IN FINANCING ACTIVITIES	<u>(436,117)</u>	<u>(466,522)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(12,516,201)	3,624,782
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	24,568,443	20,943,661
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 12,052,242</u>	<u>\$ 24,568,443</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and cash equivalents	\$ 12,042,234	\$ 24,568,431
Cash and cash equivalents within investments	10,008	12
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 12,052,242</u>	<u>\$ 24,568,443</u>
SUPPLEMENTAL DISCLOSURE		
Interest paid	<u>\$ 8,874</u>	<u>\$ 19,705</u>

The accompanying notes are an integral part of these combined financial statements.

**HUMAN RIGHTS CAMPAIGN, INC. AND
HUMAN RIGHTS CAMPAIGN FOUNDATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
For the Year Ended March 31, 2023**

1. Organization and Summary of Significant Accounting Policies

Organization

The Human Rights Campaign, Inc. (HRC) was incorporated in the District of Columbia in 1982 and is organized and operated for the promotion of the social welfare of the lesbian, gay, bisexual, transgender and queer plus (LGBTQ+) community. By inspiring and engaging individuals and companies, HRC strives to end discrimination against LGBTQ+ people and realize a world that achieves fundamental fairness and equality for all. HRC is a bi-partisan organization that effectively lobbies Congress, mobilizes grassroots action in diverse communities, invests strategically to elect fair-minded leaders and increases public understanding through innovative education and communication strategies.

HRC has established political action committees (PACs) for federal and state electoral purposes. HRC operates two federal PACs registered with the Federal Election Commission: a federal membership organization qualified PAC and a federal independent expenditure-only PAC. HRC also administers state PACs registered with state election agencies and the Internal Revenue Service (the IRS) where a qualified federal PAC cannot be registered for state-level activity. These PACs are separate entities established under Section 527 of the Internal Revenue Code (the IRC) with their own tax ID numbers and the IRS filing obligations. All PAC activity is combined with that of HRC in the accompanying combined financial statements.

The Human Rights Campaign Foundation (the Foundation) was incorporated in the District of Columbia in 1985. The Foundation is organized for the charitable and educational purposes of promoting public education and welfare of the LGBTQ+ community. The Foundation provides educational materials and information about the LGBTQ+ community, analyzes public policy relating to the social, economic and legislative issues facing the LGBTQ+ community, produces ratings indices, and commissions studies and research relating to the social, economic, political and health status of the LGBTQ+ community.

Principles of Combination

The financial statements of HRC and the Foundation (collectively, the Organization) have been combined because they share common programmatic interest and management. All significant intercompany transactions have been eliminated in combination.

Cash Equivalents

For combined financial statement reporting purposes, the Organization considers demand deposits, money market accounts and all highly liquid investments with initial maturities of three months or less to be cash equivalents.

Investments

Investments, excluding cash, are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Purchases and sales are recorded on a trade-date basis. Unrealized gains or losses on Investments are determined by the change in fair value at the beginning and end of the reporting period and included in investment income in the accompanying

**HUMAN RIGHTS CAMPAIGN, INC. AND
HUMAN RIGHTS CAMPAIGN FOUNDATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
For the Year Ended March 31, 2023**

1. Organization and Summary of Significant Accounting Policies (continued)

Investments (continued)

combined statement of activities. Realized gains and losses on sales of investments are computed on an average cost basis and are recorded on the trade date of the transaction and included in investment income in the accompanying combined statement of activities.

Receivables

Receivables consist primarily of unconditional contributions, contracts and grants from foundations and corporate contributors. The Organization uses the allowance method to record potentially uncollectible accounts based upon an ongoing review of account balances, including the age of the balance and/or the historical experience with the donor/customer.

Property and Equipment and Accumulated Depreciation and Amortization

Property and equipment are stated at cost and are depreciated with no salvage value using the straight-line method over the estimated useful lives as follows:

Building and building improvements	10-40 years
Computer equipment and software	3 years
Furniture and fixtures	5 years

Leasehold improvements are amortized using the straight-line method over the remaining life of the lease. The Organization capitalizes all property and equipment purchased with a cost in excess of \$5,000 and a useful life of more than one year. The cost of property and equipment retired or disposed of is removed from the accounts along with the related accumulated depreciation or amortization, and any gain or loss is reflected in revenue and support or expenses in the accompanying combined statement of activities. Major additions are capitalized; conversely, expenditures for minor repairs and maintenance that do not improve or extend the lives of the respective assets are expensed when incurred. Construction in process is capitalized at costs and starts to depreciate once the asset is placed in service.

Impairment of Long-Lived Assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. There were no impairment losses recognized for the year ended March 31, 2023.

Fair Value Measurement

The Organization has categorized its applicable financial assets and liabilities into a required fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

**HUMAN RIGHTS CAMPAIGN, INC. AND
HUMAN RIGHTS CAMPAIGN FOUNDATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
For the Year Ended March 31, 2023**

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value Measurement (continued)

Level 3 – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

Classification of Net Assets

Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of the Organization at the discretion of management and the Boards of Directors (the Boards). Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for specific periods of time. These donor restrictions can be temporary in nature in that they will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity.

Revenue and Support Recognition

The Organization reports unconditional gifts of cash and other assets as having donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose of a restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the combined statement of activities as net assets released from restrictions. HRC has more than three million members and supporters nationwide. Amounts received from members have been classified as unconditional member contributions in the accompanying combined statement of activities and recognized when promised. Corporate and foundation grants and contracts also consist of unconditional contributions. There are no conditional contributions.

Planned giving includes gifts through wills, bequests and beneficial interests in trusts. Bequests through wills are recorded as unconditional gifts at the conclusion of probate proceedings and the proceeds are measurable. Trust interests are recognized as unconditional when they become irrevocable and the Organization becomes aware of its beneficial interest. As of March 31, 2023, bequests receivable are expected to be collected within one year and there are no other significant conditional outstanding amounts not recorded in the accompanying combined financial statements.

Special events revenue consists primarily of event registrations. Registrations are recognized at the point in time when the event occurs. Registrations received in advance of the event are recorded as deferred revenue and contract liabilities.

Consumer marketing revenue consists of merchandise sales and commercial co-venture agreements with national retailers. These agreements do not contain exchange-transaction components and are recorded when amounts are unconditionally promised.

Donated Goods and Services

In-kind contributions are recognized as revenue and support and expenses at their estimated fair value as provided by the donor at the date of receipt in the accompanying combined statement of activities. In-kind contributions consist of contributed services and goods.

**HUMAN RIGHTS CAMPAIGN, INC. AND
HUMAN RIGHTS CAMPAIGN FOUNDATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
For the Year Ended March 31, 2023**

1. Organization and Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying combined statement of functional expenses. Expenses directly attributed to specific functional areas of the Organization are reported as expenses of those functional areas, while shared costs that benefit multiple functional areas have been allocated among the various functional areas based on estimates determined by timesheets and by management. Costs that are part of the direct mail and telemarketing campaigns are allocated based on the line counts of the direct mail and telemarketing pieces.

Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

New Accounting Pronouncements

In September 2020, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to increase the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. ASU 2020-07 requires not-for-profits (NFPs) to present contributed nonfinancial assets as a separate line item in the statement of activities and provide additional disclosures about contributions of nonfinancial assets. The Organization adopted ASU 2020-07 on April 1, 2022 and the adoption of the standard did not result in a material change to the combined financial statements. See expanded disclosures in Note 13.

Effective April 1, 2022, the Organization adopted FASB Accounting Standards Codification, *Leases* (ASC 842). The Organization determines if an arrangement contains a lease at inception based on whether the Organization has the right to control the asset during the contract period and other facts and circumstances. The Organization elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward the historical lease classification. The Organization generally does not have access to the rate implicit in the leases, and therefore utilizes the risk-free rates as the discount rate which was 2.41%. The adoption of ASC 842 resulted in the recognition of right of use asset – operating and lease liability – operating of \$16,307,189 and as of April 1, 2022 under HRC. Results for periods beginning prior to April 1, 2022 continue to be reported in accordance with HRC's historical accounting treatment. The adoption of ASC 842 did not have a material impact on the Organization's results of operations and cash flows as the lease was treated as a related party transaction between HRC and the Foundation, and accordingly, the right of use asset – operating and lease liability – operating are eliminated in the accompanying combined statement of financial position.

**HUMAN RIGHTS CAMPAIGN, INC. AND
HUMAN RIGHTS CAMPAIGN FOUNDATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
For the Year Ended March 31, 2023**

2. Investments

Investments consisted of the following as of March 31, 2023:

Money market accounts	\$ 922,140
Certificates of deposit	12,591,710
Mutual funds	714,605
U.S. Treasury securities	8,420,966
Common stock	35,982
Cash	<u>10,008</u>
Total Investments	<u>\$ 22,695,411</u>

3. Contributions Receivable

Contributions receivable represent unconditional promises to give and are recorded at net realizable value if expected to be collected within one year and at the present value of the estimated future cash flows if expected to be collected in future years.

Contributions receivable consisted of the following as of March 31, 2023:

Contributions receivable due in one year or less	<u>\$ 1,353,197</u>
Less: Allowance for Uncollectible Accounts	<u>(265,690)</u>
Contributions Receivable, Net	<u>\$ 1,087,507</u>

4. Grants, Contracts and Other Receivables

Grants, contracts and other receivables are recorded at net realizable value if expected to be collected within one year and at the present value of the estimated future cash flows if expected to be collected in future years. These receivables principally consist of unconditional contributions.

Grants, contracts and other receivables consisted of the following as of March 31, 2023:

Grants, contracts and other receivables due in one year or less	\$ 3,930,254
Grants, contracts and other receivables due in one to five years	<u>3,783,333</u>
Grants, Contracts and Other Receivables	7,713,587
Less: Discount on Multiyear Receivables	(423,607)
Allowance for Uncollectible Accounts	<u>(230,582)</u>
Grants, Contracts and Other Receivables, Net	<u>\$ 7,059,398</u>

**HUMAN RIGHTS CAMPAIGN, INC. AND
HUMAN RIGHTS CAMPAIGN FOUNDATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
For the Year Ended March 31, 2023**

5. Interest Rate Swap

The Foundation has entered into an interest rate swap agreement with a financial institution to synthetically fix the interest rate on 100% of the \$4,350,000 initial notional amount of a note payable agreement (see Note 7). The swap agreement was entered into as a means to reduce the Foundation's exposure to volatility in rate indexes. Per the swap agreement, the Foundation pays a fixed rate of 2.05% on the note payable agreement. The swap agreement matured on March 31, 2023 and associated note was fully paid off on April 6, 2023 as disclosed in Note 7.

6. Property and Equipment and Accumulated Depreciation and Amortization

The Organization's property and equipment consisted of the following as of March 31, 2023:

Land	\$ 3,245,760
Building and building improvements	24,545,925
Computer equipment and software	4,552,493
Furniture and fixtures	1,743,111
Leasehold improvements	<u>985,096</u>
Total Property and Equipment	35,072,385
Less: Accumulated Depreciation and Amortization	<u>(17,745,297)</u>
Property and Equipment, Net	<u>\$ 17,327,088</u>

Depreciation and amortization expense totaled \$1,463,390 for the year ended March 31, 2023.

7. Note Payable

In April 2002, the Foundation purchased an existing building at 1640 Rhode Island Avenue, N.W., Washington, D.C. The Foundation renovated the building and currently leases a portion of the building to HRC, which, in turn, subleases a portion to other organizations.

The acquisition and renovation of the building were financed through a loan with a local financial institution. In April 2013, this loan was refinanced and the Foundation entered into a \$4,350,000 note payable agreement with a new financial institution. This note accrues interest at a variable rate which equals 50 basis points over the one-month London Interbank Offered Rate (LIBOR), which totaled 5.36% at March 31, 2023. The Foundation pays a fixed rate of 2.05% on the note payable pursuant to an interest rate swap agreement (see Note 5). The note is guaranteed by HRC and is secured by a deed of trust, an assignment of rents, a security agreement and a fixture filing totaling \$4,350,000, which creates a first lien against the building and a security instrument which creates an absolute assignment of rents and interests in any leases. The note agreement contains various covenants which, among other things, place restrictions on the Organization's ability to incur additional indebtedness, and requires the Organization to maintain certain balances of cash and investments and net assets without donor restrictions. All financial covenants have been met.

The note payable matured on March 31, 2023, and was fully paid off on April 6, 2023.

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8. Charitable Gift Annuity Payable

The Foundation has charitable gift annuity agreements with individuals. Under the terms of the agreements, the Foundation receives cash in exchange for survivor annuity agreements. The Foundation is obligated to make quarterly or annual payments for each individual's lifetime. The Foundation records the liability at the present value of the expected future cash flows based on the donor's life expectancy. As of March 31, 2023, the present value of the annuity payable totaled \$129,819 and is funded by the Foundation's investments.

9. Fair Value Measurement

The following table summarizes assets and liabilities measured at fair value on a recurring basis as of March 31, 2023:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Investments:				
Money market funds	\$ 922,140	\$ 922,140	\$ -	\$ -
Certificates of deposit	12,591,710	-	12,591,710	-
Mutual funds	714,605	714,605	-	-
U.S. Treasury securities	8,420,966	-	8,420,966	-
Common stock	35,982	<u>35,982</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents	<u>10,008</u>			
Total Investments	22,695,411	1,672,727	21,012,676	-
Beneficial interest in trusts	<u>259,085</u>	<u>-</u>	<u>-</u>	<u>259,085</u>
Total Assets	<u>\$ 22,954,496</u>	<u>\$ 1,672,727</u>	<u>\$ 21,012,676</u>	<u>\$ 259,085</u>
Liabilities:				
Charitable gift annuity payable	<u>\$ 129,819</u>	<u>\$ -</u>	<u>\$ 129,819</u>	<u>\$ -</u>
Total Liabilities	<u>\$ 129,819</u>	<u>\$ -</u>	<u>\$ 129,819</u>	<u>\$ -</u>

Money market funds, mutual funds and common stock – Fair value is based on the closing price reported on the active market in which the individual securities are traded.

Certificates of deposit – Fair value is based on original cost plus accrued interest, which approximates fair value.

U.S. Treasury securities – Fair value is based upon current yields available on comparable securities of issuers with similar ratings, the security's terms and conditions, and interest rate and credit risk.

Beneficial interest in trusts – Fair value is derived from the expected future cash flows from the trust, which are based on the fair value of the underlying assets and future expected returns, as well as a discount reflecting risk inherent in those cash flows.

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9. Fair Value Measurement (continued)

Charitable gift annuity payable – These liabilities are carried at actuarially determined present values which approximate fair value.

During the year ended March 31, 2023, there were trust interests of \$193,439 contributed by donors as financial assets whose fair value is measured using unobservable inputs (Level 3).

10. Commitments and Risks

Concentration of Credit Risk

The Organization maintains cash and cash equivalents with commercial financial institutions; at times, the aggregate balance may exceed the Federal Deposit Insurance Corporation insured limit of \$250,000 per depositor per institution. As of March 31, 2023, the aggregate balances were in excess of the insurance and therefore bear some risk since they are not collateralized. The Organization monitors the creditworthiness of these institutions and has not experienced any credit losses on its cash and cash equivalents.

Line of Credit

The Organization holds an unsecured line of credit with a financial institution in the amount of \$6,000,000 which expires on September 20, 2023. Amounts drawn on the line accrue interest at a variable rate equal to Adjusted Term SOFR. The interest rate was 4.98% at March 31, 2023. As of and for the year ended March 31, 2023, no amounts were drawn or outstanding on the line of credit.

Litigation

From time to time, the Organization is a party to litigation arising out of its business operations. It is the opinion of management and the Organization's legal counsel that at the present time it is not anticipated that the settlement or resolution of any such existing matters will have a material adverse impact on the Organization's financial condition, liquidity, or results of operations.

11. Net Assets With Donor Restrictions

As of March 31, 2023, net assets with donor restrictions were restricted as follows:

Subject to passage of time:	
HRC programs	\$ 6,705,425
Foundation programs	<u>2,424,453</u>
Total Subject to Passage of Time	<u>9,129,878</u>
Subject to expenditure for specified purpose:	
HRC programs	7,500
Foundation programs	<u>7,612,410</u>
Total Subject to Specified Purpose	<u>7,619,910</u>
Original value of gift to be held in perpetuity as an endowment	<u>23,485</u>
Total Net Assets With Donor Restrictions	<u>\$ 16,773,273</u>

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12. Availability and Liquidity

The Organization regularly monitors liquidity required to meet its annual operating needs and other contractual commitments. The Organization's financial assets available within one year of the combined statement of financial position date for general expenditures at March 31, 2023, were as follows:

Cash and cash equivalents	\$ 12,042,234
Investments	22,695,411
Contributions receivable, net	1,087,507
Bequests receivable	4,562,496
Grants, contracts and other receivables, net	7,059,398
Beneficial interests in trusts	<u>259,085</u>
Total Financial Assets	47,706,131
Less:	
Amounts unavailable for general expenditures within one-year due to donors' purpose restrictions	(7,619,910)
Amounts unavailable for general expenditures within one-year due to donors' time restrictions (including beneficial interests)	<u>(8,604,914)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 31,481,307</u>

The Organization has various sources of liquidity at its disposal, including cash and cash equivalents and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of the Organization throughout the year. This is done through monitoring and reviewing cash flow needs on a weekly basis. As a result, management is aware of the cyclical nature of cash flow related to the Organization's various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs. As part of its liquidity plan, excess cash is invested. The Organization can liquidate its investments anytime, and therefore the investments are available to meet current cash flow needs. To help manage unanticipated liquidity needs, the Organization has a committed line of credit of \$6,000,000 which was unused and available to draw upon as of March 31, 2023. The Organization's line of credit is secured by its investments.

While not designated by resolutions of the Boards, a portion of the available financial assets above are segregated into three reserve accounts per policies of the respective finance committees and include the HRC operating reserve, the Foundation operating reserve, and the Foundation building reserve. These reserve accounts are designed to provide funds in response to significant, unpredictable, exogenous events. Policies of the finance committees govern target levels for the accounts and annual funding formulas. These policies require approval of the respective finance committees before reserve funds can be accessed. The total of the available financial assets designated as reserve funds was \$13,938,084 as of March 31, 2023.

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13. In-Kind Support

The Organization receives in-kind support, including contributed professional services. These services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not donated. The Organization recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of the donation. Professional services are recorded based on prevailing hourly rates and number of hours contributed; advertising is recorded based on the market rate for comparable spots; and food and wine and the donated asset are recorded based on retail prices. The Organization does not generally monetize contributed goods. In the accompanying combined statement of functional expenses, legal services are included with professional services, and food and wine and donated asset are included in conferences, conventions and meetings.

The Organization received the following in-kind contributions of non-financial assets for the year ended March 31, 2023:

Professional services	\$ 4,524,582
Advertising and promotion	875,000
Food and wine	66,600
Donated asset	<u>50,000</u>
Total In-Kind Contributions	<u>\$ 5,516,182</u>

14. Pension Plan

HRC sponsors a 401(k) retirement plan (the Plan) covering full-time employees after a 90-day waiting period and non-full-time employees after the completion of one year of service and working 1,000 hours. HRC makes contributions to the Plan up to 3% of the employee's salary and will also match 50% of the first 5% of an employee's contribution (to a maximum benefit of 2.5% of an employee's salary). Pension expense for the year ended March 31, 2023 totaled \$1,246,277.

15. Allocation of Joint Costs

HRC conducts direct mail programs and certain gala events that include fundraising appeals and educational materials. HRC has established cost pools related to direct marketing, telemarketing and door-to-door expenses, as well as event administration and gala dinners. Based on its review of all direct mail, telemarketing, door-to-door scripts, and dinner programs, HRC allocates these costs as program, management and general, and fundraising. For the year ended March 31, 2023, HRC incurred joint costs of \$12,483,513 allocated to federal, field, electoral and legal advocacy (\$2,674,021), public policy, education and training (\$2,254,504), membership education and mobilization (\$2,245,957), management and general (\$401,034), fundraising (\$3,786,205), and direct benefit to donors (\$1,121,792).

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16. Income Taxes

HRC and the Foundation are exempt from the payment of taxes on income other than net unrelated business income under Sections 501(c)(4) and 501(c)(3), respectively, of the IRC. Accordingly, no provision for income taxes is required for the year ended March 31, 2023. HRC and the Foundation had no significant net taxable unrelated business income. The PACs are subject to federal and state income taxes on income other than exempt purpose income. For the year ended March 31, 2023, the PACs had no provision for income tax, as they did not have any net unrelated business income.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized as revenue or expense in the period that includes the enactment date. The Foundation had a deferred tax asset of approximately \$245,000 resulting from a federal net operating loss carryforward of approximately \$1,171,000 as of March 31, 2023. HRC had a deferred tax asset of approximately \$48,000 resulting from a federal charitable contribution deduction carryforward of approximately \$230,000 as of March 31, 2023. Both HRC's and the Foundation's deferred tax assets had been reserved by management as of March 31, 2023, due to uncertainty over the ability to recognize any future tax benefit from the carryforwards based upon projections for operating and taxable losses. There is no expiration date for the federal net operating loss carryforward, while the charitable deduction carryforward begins to expire after fiscal year 2023.

The combined net deferred tax asset consisted of the following as of March 31, 2023:

Deferred tax asset	\$ 293,000
Deferred tax valuation allowance	<u>(293,000)</u>
Combined Net Deferred Tax Asset	<u>\$ -</u>

The Organization performed an evaluation of uncertainty in income taxes for the year ended March 31, 2023, and determined that there were no matters that would require recognition or disclosure in the combined financial statements or that may have any effect on its tax-exempt status. As of March 31, 2023, the statute of limitations for certain tax years remained open for the various jurisdictions in which the Organization files tax returns; however, there are currently no examinations pending or in progress. It is the Organization's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax or interest expense. As of March 31, 2023, the Organization had no accruals for interest and/or penalties.

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17. Prior Year Financial Information

The combined financial statements include certain prior year summarized comparative information in total, but not by net asset class. Accordingly, such information should be read in conjunction with the Organization's combined financial statements for the year ended March 31, 2022, from which the summarized information was derived.

18. Reclassification

Certain prior year amounts have been classified to confirm to current year presentation. These reclassifications had no effect on net assets as previously reported.

19. Subsequent Events

In preparing these combined financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 25, 2023, the date the combined financial statements were available to be issued. Except as disclosed in Notes 5 and 7 related to the swap and note payable payoffs, there were no other subsequent events that require recognition or disclosure in these combined financial statements.