

HUMAN RIGHTS CAMPAIGN, INC. AND HUMAN RIGHTS CAMPAIGN FOUNDATION

Combined Financial Statements

For the Year Ended March 31, 2020

(With Summarized Financial Information for the Year Ended March 31, 2019)



**and
Report Thereon**



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

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For the Year Ended March 31, 2020**

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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 Financial Statements

We have audited the accompanying 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, 2020, 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.

Management's Responsibility 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the 2020 combined financial statements referred to above present fairly, in all material respects, the financial position of HRC and the Foundation as of March 31, 2020, 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.

Other Matter*Report on Summarized Comparative Information*

We have previously audited the HRC and the Foundation's 2019 financial statements, and in our report dated July 25, 2019, 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, 2019, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Marcum LLP

Washington, DC
August 12, 2020

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

COMBINED STATEMENT OF FINANCIAL POSITION

March 31, 2020

(With Summarized Financial Information as of March 31, 2019)

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 7,932,844	\$ 9,035,343
Investments	16,886,880	16,615,813
Pledges receivable, net	1,252,122	1,391,407
Contracts and other receivables, net	2,864,818	3,199,235
Prepaid expenses and other assets	1,165,510	1,504,201
Beneficial interests in trusts	323,812	291,466
Interest rate swap	-	26,092
Property and equipment, net	19,349,590	19,635,667
TOTAL ASSETS	\$ 49,775,576	\$ 51,699,224
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 4,921,876	\$ 5,652,826
Deferred revenue and contract liabilities	887,707	1,383,080
Note payable	1,399,761	1,847,558
Charitable gift annuity payable	184,162	193,196
Interest rate swap obligation	26,550	-
TOTAL LIABILITIES	7,420,056	9,076,660
Net Assets		
Without donor restrictions	38,724,445	38,540,350
With donor restrictions	3,631,075	4,082,214
TOTAL NET ASSETS	42,355,520	42,622,564
TOTAL LIABILITIES AND NET ASSETS	\$ 49,775,576	\$ 51,699,224

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, 2020**

(With Summarized Financial Information for the Year Ended March 31, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
REVENUE AND SUPPORT				
Contributions and grants:				
Member contributions	\$ 22,688,272	\$ 108,020	\$ 22,796,292	\$ 26,139,479
Federal Club members and major donor program	16,592,174	1,351,756	17,943,930	18,636,361
Corporate and foundation grants and contracts	2,859,601	4,203,464	7,063,065	8,982,795
Planned giving	673,434	139,866	813,300	1,630,818
In-kind	1,136,805	-	1,136,805	2,186,905
Special events	11,761,658	-	11,761,658	11,396,679
Consumer marketing	2,350,022	-	2,350,022	2,992,502
Other income	1,174,525	-	1,174,525	1,160,001
Investment income, net	336,477	-	336,477	284,336
Net assets released from restrictions:				
Satisfaction of time restrictions	3,823,871	(3,823,871)	-	-
Satisfaction of program restrictions	2,430,374	(2,430,374)	-	-
TOTAL REVENUE AND SUPPORT	65,827,213	(451,139)	65,376,074	73,409,876
EXPENSES				
Program Services:				
Federal, field, electoral and legal advocacy	11,279,144	-	11,279,144	18,296,212
Public policy, education and training	15,400,072	-	15,400,072	14,154,715
Communications and media advocacy	5,568,988	-	5,568,988	5,729,762
Membership education and mobilization	10,361,038	-	10,361,038	11,677,609
Total Program Services	42,609,242	-	42,609,242	49,858,298
Supporting Services:				
Management and general	11,252,574	-	11,252,574	11,523,868
Fundraising	10,790,046	-	10,790,046	11,599,273
Direct benefit to donors	938,614	-	938,614	817,959
Total Supporting Services	22,981,234	-	22,981,234	23,941,100
TOTAL EXPENSES	65,590,476	-	65,590,476	73,799,398
Change in net assets before other item	236,737	(451,139)	(214,402)	(389,522)
OTHER ITEM				
Unrealized (loss) on interest rate swap	(52,642)	-	(52,642)	(24,643)
CHANGE IN NET ASSETS	184,095	(451,139)	(267,044)	(414,165)
NET ASSETS, BEGINNING OF YEAR	38,540,350	4,082,214	42,622,564	43,036,729
NET ASSETS, END OF YEAR	\$ 38,724,445	\$ 3,631,075	\$ 42,355,520	\$ 42,622,564

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, 2020
(With Summarized Financial Information for the Year Ended March 31, 2019)**

	Program Services				Supporting Services				2020 Total	2019 Total	
	Federal, Field, Electoral and Legal Advocacy	Public Policy, Education and Training	Communications and Media Advocacy	Membership Education and Mobilization	Total Program Services	Management and General	Fundraising	Direct Benefit to Donors			Total Supporting Services
Salaries and benefits	\$ 5,246,837	\$ 6,857,276	\$ 3,708,980	\$ 3,094,381	18,907,474	\$ 7,264,001	\$ 3,433,301	\$ -	\$ 10,697,302	\$ 29,604,776	\$ 28,989,315
Professional services	2,279,760	1,218,218	773,469	2,522,912	6,794,359	1,118,388	1,218,826	-	2,337,214	9,131,573	14,118,178
Conferences, conventions and meetings	1,295,693	2,568,911	96,253	412,956	4,373,813	181,819	2,049,341	938,614	3,169,774	7,543,587	7,648,655
Travel	796,918	668,391	248,798	326,488	2,040,595	251,821	439,102	-	690,923	2,731,518	2,972,758
Equipment and technology costs	361,801	249,932	252,709	669,855	1,534,297	768,618	244,456	-	1,013,074	2,547,371	2,312,303
Occupancy costs	124,964	1,387,028	248,231	215,930	1,976,153	283,037	254,947	-	537,984	2,514,137	2,320,575
Other office expenses and miscellaneous	289,868	242,429	105,354	576,129	1,213,780	684,191	420,212	-	1,104,403	2,318,183	2,443,056
Direct mail and telemarketing	252,299	81,615	-	800,860	1,134,774	113,231	725,025	-	838,256	1,973,030	2,037,909
Taxes, bank and corporate fees	11,774	265,965	44,320	23,206	345,265	166,356	1,070,792	-	1,237,148	1,582,413	1,624,039
Postage and shipping	56,810	252,018	1,804	533,760	844,392	69,046	480,981	-	550,027	1,394,419	1,824,926
Premiums - development	18,481	86,052	878	854,621	960,032	102,265	193,712	-	295,977	1,256,009	1,298,856
Grants and contributions	311,778	604,012	12,514	72,490	1,000,794	210,077	8,470	-	218,547	1,219,341	2,108,393
Printing, publications and photocopying	121,623	449,806	41,689	148,768	761,886	39,724	224,164	-	263,888	1,025,774	915,050
Advertising and promotion	110,538	468,419	33,989	108,682	721,628	-	26,717	-	26,717	748,345	3,185,385
TOTAL EXPENSES	<u>\$ 11,279,144</u>	<u>\$ 15,400,072</u>	<u>\$ 5,568,988</u>	<u>\$ 10,361,038</u>	<u>\$ 42,609,242</u>	<u>\$ 11,252,574</u>	<u>\$ 10,790,046</u>	<u>\$ 938,614</u>	<u>\$ 22,981,234</u>	<u>\$ 65,590,476</u>	<u>\$ 73,799,398</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, 2020**

(With Summarized Financial Information for the Year Ended March 31, 2019)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (267,044)	\$ (414,165)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,468,081	1,239,734
Unrealized and realized gains on investments	(16,132)	(21,019)
Allowance for uncollected receivables	(110,709)	(9,332)
Unrealized loss on interest swap	52,642	24,643
Changes in assets and liabilities:		
Pledges receivable	239,366	773,416
Contracts and other receivables	345,045	(1,818,587)
Prepaid expenses and other assets	338,691	57,122
Beneficial interests in trusts	(32,346)	168,534
Accounts payable and accrued expenses	(730,950)	13,232
Deferred revenue	(495,373)	110,902
Charitable gift annuity payable	(9,034)	97,886
NET CASH PROVIDED BY OPERATING ACTIVITIES	782,237	222,366
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	1,628,678	2,159,569
Purchases of investments	(1,883,613)	(1,780,920)
Purchases of property and equipment	(1,182,004)	(892,712)
NET CASH USED IN INVESTING ACTIVITIES	(1,436,939)	(514,063)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	(447,797)	(438,718)
NET CASH USED IN FINANCING ACTIVITIES	(447,797)	(438,718)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,102,499)	(730,415)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,035,343	9,765,758
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 7,932,844	\$ 9,035,343
SUPPLEMENTAL DISCLOSURE		
Interest paid	\$ 33,729	\$ 42,558

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, 2020**

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 (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 a federal PAC registered with the Federal Election Commission. HRC also administers state PACs registered with state election agencies and the Internal Revenue Service (the IRS) as well as a non-federal PAC, registered solely with the IRS. 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 consolidated 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

The Organization considers demand deposits and money market accounts, other than those held for investment purposes, 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 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.

Continued

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
For the Year Ended March 31, 2020**

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

Receivables

Receivables consist primarily of unconditional pledges, 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.

Derivatives

The Foundation has entered into an interest rate swap agreement in conjunction with its note payable agreement to minimize its exposure to interest rate fluctuations. The fair value of this derivative is reflected in the combined statement of financial position, with the related gain or loss reflected in the combined statement of activities.

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 \$3,000 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. Software in process is capitalized as costs are incurred during the development of the software and amortized over the estimated useful life of the software upon completion.

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, 2020.

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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
For the Year Ended March 31, 2020**

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

Fair Value Measurement (continued)

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.

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 significant conditional contributions.

Planned giving includes gifts through wills 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.

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, 2020**

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 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 May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The Organization adopted ASU 2014-09 and related amendments on April 1, 2019, using the modified retrospective method and elected to apply the standard only to contracts that were not completed as of that date. The adoption of the standard did not impact the results of operations or change in net assets.

In June 2019, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides additional guidance to be used to determine whether a contribution is conditional and when a transaction should be accounted for as a contribution versus an exchange. The Organization adopted ASU 2018-08 as of April 1, 2019, and has applied the amendments of the standard on a modified prospective basis and elected to apply the standard only to agreements that were entered into after the effective date. This standard did not result in a significant change to the financial statements or the timing of revenue recognition for the Organization's contributions.

2. Investments

Investments consisted of the following as of March 31, 2020:

Money market accounts	\$ 6,904,658
Certificates of deposit	9,329,460
Mutual funds	538,862
U.S. Treasury securities	102,214
Common stock	10,632
Cash	<u>1,054</u>
Total Investments	<u>\$ 16,886,880</u>

Continued

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
For the Year Ended March 31, 2020**

3. Pledges Receivable

Pledges 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.

Pledges receivable consisted of the following as of March 31, 2020:

Pledges receivable due in one year or less	\$ 1,672,023
Pledges receivable due in one to five years	<u>833</u>
Total Pledges Receivable	1,672,856
Less: Allowance for Uncollectible Accounts	<u>(420,734)</u>
Pledges Receivable, Net	<u><u>\$ 1,252,122</u></u>

4. Contracts and Other Receivables

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.

Contracts and other receivables consisted of the following as of March 31, 2020:

Contracts and other receivables due in one year or less	\$ 2,577,398
Contracts and other receivables due in one to five years	<u>383,000</u>
Total Contracts and Other Receivables	2,960,398
Less: Discount on Multiyear Receivables	(26,734)
Allowance for Uncollectible Accounts	<u>(68,846)</u>
Contracts and Other Receivables, Net	<u><u>\$ 2,864,818</u></u>

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 maturity date of the swap agreement is March 31, 2023. As of March 31, 2020, the swap agreement had a negative fair value of \$26,550, which is included 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, 2020**

6. Property and Equipment and Accumulated Depreciation and Amortization

The Organization's property and equipment consisted of the following as of March 31, 2020:

Land	\$ 3,245,760
Building and building improvements	23,357,520
Computer equipment and software	6,546,552
Furniture and fixtures	1,788,732
Leasehold improvements	840,183
Software in process (non-depreciable)	<u>402,117</u>
Total Property and Equipment	36,180,864
Less: Accumulated Depreciation and Amortization	<u>(16,831,274)</u>
Property and Equipment, Net	<u>\$ 19,349,590</u>

Depreciation and amortization expense totaled \$1,468,081 for the year ended March 31, 2020.

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 which matures in March 2023. This note accrues interest at a variable rate which equals 50 basis points over the one-month London Interbank Offered Rate (LIBOR), which totaled 1.49% at March 31, 2020. 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.

As of March 31, 2020, the future minimum principal payments were due as follows:

For the Year Ending <u>March 31,</u>	
2021	\$ 457,063
2022	466,522
2023	<u>476,176</u>
	<u>\$ 1,399,761</u>

Continued

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
For the Year Ended March 31, 2020**

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 a survivor annuity agreement. 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, 2020, the present value of the annuity payable totaled \$184,162 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, 2020:

	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments:				
Money market funds	\$ 6,904,658	\$ 6,904,658	\$ -	\$ -
Certificates of deposit	9,329,460	-	9,329,460	-
Mutual funds	538,862	538,862	-	-
U.S. Treasury securities	102,214	-	102,214	-
Common stock	10,632	10,632	-	-
Beneficial interest in trusts	323,812	-	-	323,812
Total Assets	\$ 17,209,638	\$ 7,454,152	\$ 9,431,674	\$ 323,812
Liabilities:				
Charitable gift annuity payable	\$ 184,162	\$ -	\$ 184,162	\$ -
Interest rate swap	26,550	-	26,550	-
Total Liabilities	\$ 210,712	\$ -	\$ 210,712	\$ -

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.

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

During the year ended March 31, 2020, there were trust interests of \$139,866 contributed by donors to financial assets whose fair value is measured using unobservable inputs (Level 3).

Continued

**HUMAN RIGHTS CAMPAIGN, INC. AND
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**NOTES TO COMBINED FINANCIAL STATEMENTS
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10. Commitments and Risks

Concentration of Credit Risk

The Organization maintains cash and cash equivalents with certain commercial financial institution; 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, 2020, 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 July 31, 2020. Amounts drawn on the line accrue interest at 50 basis points over LIBOR (which was 1.49% at March 31, 2020). The line of credit was renewed on August 5, 2020 to expire July 31, 2021 with accrued interest at 75 basis point over LIBOR. As of and for the year ended March 31, 2020, no amounts were drawn or outstanding on the line of credit.

11. Net Assets

Net Assets Without Donor Restrictions

The Organization's net assets without donor restrictions are composed of undesignated amounts. As of March 31, 2020, the Organization's net assets without donor restrictions totaled \$38,724,445.

Net Assets With Donor Restrictions

As of March 31, 2020, net assets with donor restrictions were restricted as follows:

Subject to passage of time:	
HRC programs	\$ 1,743,713
Foundation programs	<u>775,843</u>
Total Subject to Passage of Time	<u>2,519,556</u>
Subject to expenditure for specified purpose:	
HRC programs	6,108
Foundation programs	<u>1,081,926</u>
Total Subject to Expenditure for Specified Purpose	<u>1,088,034</u>
Original value of gift to be held in perpetuity as an endowment	<u>23,485</u>
Total Net Assets With Donor Restrictions	<u>\$ 3,631,075</u>

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**NOTES TO COMBINED FINANCIAL STATEMENTS
For the Year Ended March 31, 2020**

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, 2020, were as follows:

Cash and cash equivalents	\$ 7,932,844
Investments	16,886,880
Pledges receivable, net	1,252,122
Contracts and other receivables, net	2,864,818
Beneficial interests in trusts	<u>323,812</u>
Total Financial Assets	29,260,476
Less:	
Amounts unavailable for general expenditures within one year due to donors' purpose restrictions	(1,088,034)
Amounts unavailable for general expenditures within one year due to donors' time restrictions (greater than one year including beneficial interests)	<u>(707,645)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 27,464,797</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, 2020. 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 \$12,451,024 as of March 31, 2020.

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**NOTES TO COMBINED FINANCIAL STATEMENTS
For the Year Ended March 31, 2020**

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 fair value of the professional services, consisting primarily of legal services and advertising, totaled \$1,054,254 for the year ended March 31, 2020, and is included in in-kind contributions in the accompanying combined statement of activities.

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, 2020 totaled \$1,102,202.

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, 2020, HRC incurred joint costs of \$9,055,436 allocated to federal, field, electoral and legal advocacy (\$1,484,017), public policy, education and training (\$2,167,734), membership education and mobilization (\$1,628,869), management and general (\$354,823), fundraising (\$2,481,379), and direct benefit to donors (\$938,614).

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, 2020. 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, 2020, 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.

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For the Year Ended March 31, 2020**

16. Income Taxes (continued)

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 \$238,000 resulting from a federal net operating loss carryforward of approximately \$1,133,000 as of March 31, 2020. HRC had a deferred tax asset of approximately \$57,000 resulting from a federal charitable contribution deduction carryforward of approximately \$270,000 as of March 31, 2020. Both HRC's and the Foundation's deferred tax assets had been reserved by management as of March 31, 2020, 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, 2020:

Deferred tax asset	\$ 295,000
Deferred tax valuation allowance	<u>(295,000)</u>
Combined Net Deferred Tax Asset	<u><u>\$ -</u></u>

The Organization performed an evaluation of uncertainty in income taxes for the year ended March 31, 2020, 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, 2020, the statute of limitations for certain tax years remained open for the various jurisdictions in which the Organization files tax returns; however, there are no audits for any tax periods 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, 2020, the Organization had no accruals for interest and/or penalties.

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, 2019, from which the summarized information was derived.

18. Subsequent Events

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States and world. The COVID-19 outbreak has caused unprecedented disruptions in every facet of life including the voluntary and mandated closings of businesses and prohibition of large gatherings across the country. There is currently considerable uncertainty about how long businesses and organizations will be affected. While the Organization has conducted a significant portion of its operations with employees working remotely, some of the Organization's programs and events

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18. Subsequent Events (continued)

have been postponed, cancelled or conducted virtually. The Organization has accrued the expenses related to such cancellations in the accompanying statement of financial position. While the precise extent to which COVID-19 may impact the Organization's finances is unknown, management reduced staff and revised the FY2021 budget to limit a potential deficit due to the pandemic.

In preparing these combined financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 12, 2020, the date the combined financial statements were available to be issued. Except as discussed previously and Note 10, there were no other subsequent events that require recognition or disclosure in these combined financial statements.