

# **Human Rights Watch, Inc.**

**Financial Statements**  
Year Ended June 30, 2006

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## **Financial Statements**

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# Human Rights Watch, Inc.

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## **Independent Auditors' Report**

Board of Directors  
Human Rights Watch, Inc.  
New York, New York

We have audited the accompanying statement of financial position of Human Rights Watch, Inc. as of June 30, 2006, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Human Rights Watch, Inc.'s management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Human Rights Watch, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Human Rights Watch, Inc. as of June 30, 2006, and its changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

August 25, 2006

# Human Rights Watch, Inc.

## Statement of Financial Position

June 30, 2006

<b>Assets</b>	
Cash and cash equivalents (Note 2)	\$ 19,430,247
Short-term investments, at fair value (Note 3)	71,952,432
Contributions receivable, net (Note 4)	7,486,755
Other receivables	1,673,315
Prepaid expenses	179,212
Security deposits	90,465
Fixed assets, net (Note 5)	2,557,951
	<b>\$103,370,377</b>
<b>Liabilities and Net Assets</b>	
<b>Liabilities:</b>	
Accounts payable and accrued expenses	\$ 1,756,380
Accrued pension expense	100,931
Deferred rent	1,090,447
Deferred revenue	32,454
<b>Total liabilities</b>	<b>2,980,212</b>
<b>Commitments and contingencies (Note 9)</b>	
<b>Net assets:</b>	
Unrestricted (Note 2)	10,247,832
Temporarily restricted (Notes 2 and 6)	90,142,333
<b>Total net assets</b>	<b>100,390,165</b>
	<b>\$103,370,377</b>

See accompanying notes to financial statements.

# Human Rights Watch, Inc.

## Statement of Activities

Year ended June 30, 2006

	Unrestricted	Temporarily restricted	Total
<b>Public support and revenue:</b>			
Public support:			
Contributions and grants	\$18,135,764	\$ 9,547,232	\$ 27,682,996
Special events	3,842,578	-	3,842,578
<b>Total public support</b>	<b>21,978,342</b>	<b>9,547,232</b>	<b>31,525,574</b>
Revenue:			
Investment income, net	424,811	7,531,801	7,956,612
Publications	140,926	-	140,926
Other	184,346	-	184,346
<b>Total revenue</b>	<b>750,083</b>	<b>7,531,801</b>	<b>8,281,884</b>
Net assets released from restrictions and transfers:	7,521,638	(7,521,638)	-
<b>Total support and revenue</b>	<b>30,250,063</b>	<b>9,557,395</b>	<b>39,807,458</b>
<b>Expenses:</b>			
Program services:			
Africa	3,512,535	-	3,512,535
Americas	1,124,973	-	1,124,973
Asia	2,347,892	-	2,347,892
Europe and Central Asia	3,077,415	-	3,077,415
Middle East and North Africa	1,859,289	-	1,859,289
United States	986,784	-	986,784
Children's Rights	1,271,053	-	1,271,053
International Justice	954,993	-	954,993
Women's Rights	1,104,683	-	1,104,683
Other Programs	6,090,961	-	6,090,961
<b>Total program services</b>	<b>22,330,578</b>	<b>-</b>	<b>22,330,578</b>
Supporting services:			
Management and general	1,647,223	-	1,647,223
Fundraising	6,207,685	-	6,207,685
<b>Total supporting services</b>	<b>7,854,908</b>	<b>-</b>	<b>7,854,908</b>
<b>Total expenses</b>	<b>30,185,486</b>	<b>-</b>	<b>30,185,486</b>
<b>Change in net assets:</b>			
Unrestricted	64,577	-	64,577
Temporarily restricted	-	9,557,395	9,557,395
<b>Total change in net assets</b>	<b>64,577</b>	<b>9,557,395</b>	<b>9,621,972</b>
<b>Net assets, beginning of year</b>	<b>10,183,255</b>	<b>80,584,938</b>	<b>90,768,193</b>
<b>Net assets, end of year:</b>			
Unrestricted	10,247,832	-	10,247,832
Temporarily restricted	-	90,142,333	90,142,333
<b>Total net assets, end of year</b>	<b>\$10,247,832</b>	<b>\$90,142,333</b>	<b>\$100,390,165</b>

See accompanying notes to financial statements.

# Human Rights Watch, Inc.

## Statement of Functional Expenses

Year ended June 30, 2006

	Program services										Supporting services				
	Africa	Americas	Asia	Europe & Central Asia	Middle East & North Africa	United States	Children's Rights	International Justice	Women's Rights	Other Programs	Total	Management and general	Fundraising	Total	Total
<b>Salaries and related expenses:</b>															
Salaries	\$1,646,101	\$ 618,807	\$1,184,298	\$1,513,081	\$ 952,164	\$508,717	\$ 698,078	\$504,277	\$ 527,690	\$2,783,722	\$10,936,935	\$ 650,442	\$1,787,890	\$2,438,332	<b>\$13,375,267</b>
Insurance and employee benefits	238,741	90,433	172,537	231,875	147,757	76,776	102,785	76,992	100,374	441,686	1,679,956	129,856	287,573	417,429	<b>2,097,385</b>
Retirement plan	89,380	38,993	72,356	113,041	47,441	29,804	56,649	22,426	39,544	179,513	689,147	45,753	90,135	135,888	<b>825,035</b>
Payroll taxes	156,393	46,452	107,943	139,573	76,731	46,050	63,563	54,116	49,955	240,345	981,121	81,735	155,795	237,530	<b>1,218,651</b>
<b>Total salaries and related expenses</b>	<b>2,130,615</b>	<b>794,685</b>	<b>1,537,134</b>	<b>1,997,570</b>	<b>1,224,093</b>	<b>661,347</b>	<b>921,075</b>	<b>657,811</b>	<b>717,563</b>	<b>3,645,266</b>	<b>14,287,159</b>	<b>907,786</b>	<b>2,321,393</b>	<b>3,229,179</b>	<b>17,516,338</b>
Consultants' fees	140,037	11,516	139,656	116,085	40,121	57,693	17,033	48,068	19,367	166,702	756,278	31,959	222,308	254,267	<b>1,010,545</b>
Publications	64,085	34,535	35,157	68,590	70,602	24,636	37,065	11,713	42,973	110,283	499,639	23,474	5,455	28,929	<b>528,568</b>
Information services	11,805	4,418	10,083	14,339	6,977	6,739	5,297	3,970	5,277	18,635	87,540	14,739	12,757	27,496	<b>115,036</b>
Travel, meals and meetings	255,028	47,649	104,379	142,105	87,739	40,015	37,694	44,152	36,101	276,963	1,071,825	61,183	196,170	257,353	<b>1,329,178</b>
Missions and advocacy	300,042	53,664	152,487	156,897	123,072	43,527	54,039	46,658	87,218	273,801	1,291,405	343	407	750	<b>1,292,155</b>
Outreach	-	-	-	-	-	-	-	-	-	715,193	715,193	-	-	-	<b>715,193</b>
Special projects	93,594	-	25,343	137,656	19,444	-	-	1,072	-	152,083	429,192	-	-	-	<b>429,192</b>
Special events	-	-	-	-	-	-	-	-	-	-	-	-	1,089,069	1,089,069	<b>1,089,069</b>
Direct mail	-	-	-	-	-	-	-	-	-	-	-	-	1,412,670	1,412,670	<b>1,412,670</b>
Rent	239,390	84,131	162,653	211,074	134,609	72,913	93,105	67,305	93,105	346,731	1,505,016	296,589	460,832	757,421	<b>2,262,437</b>
Office expenses	94,203	33,955	65,566	82,506	54,302	29,305	37,421	27,131	37,421	139,678	601,488	119,205	167,608	286,813	<b>888,301</b>
Postage and delivery	34,135	5,270	11,358	14,003	11,051	6,521	11,591	4,610	9,490	34,161	142,190	14,668	61,591	76,259	<b>218,449</b>
Telephone and fax	50,550	18,911	34,015	48,168	29,297	12,682	16,630	13,513	16,065	62,113	301,944	49,524	106,045	155,569	<b>457,513</b>
Professional fees	46,170	16,892	32,657	41,216	27,027	14,639	18,693	13,513	18,693	69,616	299,116	59,549	70,562	130,111	<b>429,227</b>
<b>Total expenses before depreciation and amortization</b>	<b>3,459,654</b>	<b>1,105,626</b>	<b>2,310,488</b>	<b>3,030,209</b>	<b>1,828,334</b>	<b>970,017</b>	<b>1,249,643</b>	<b>939,516</b>	<b>1,083,273</b>	<b>6,011,225</b>	<b>21,987,985</b>	<b>1,579,019</b>	<b>6,126,867</b>	<b>7,705,886</b>	<b>29,693,871</b>
<b>Depreciation and amortization</b>	<b>52,881</b>	<b>19,347</b>	<b>37,404</b>	<b>47,206</b>	<b>30,955</b>	<b>16,767</b>	<b>21,410</b>	<b>15,477</b>	<b>21,410</b>	<b>79,736</b>	<b>342,593</b>	<b>68,204</b>	<b>80,818</b>	<b>149,022</b>	<b>491,615</b>
<b>Total expenses</b>	<b>\$3,512,535</b>	<b>\$1,124,973</b>	<b>\$2,347,892</b>	<b>\$3,077,415</b>	<b>\$1,859,289</b>	<b>\$986,784</b>	<b>\$1,271,053</b>	<b>\$954,993</b>	<b>\$1,104,683</b>	<b>\$6,090,961</b>	<b>\$22,330,578</b>	<b>\$1,647,223</b>	<b>\$6,207,685</b>	<b>\$7,854,908</b>	<b>\$30,185,486</b>

See accompanying notes to financial statements.

# Human Rights Watch, Inc

## Statement of Cash Flows

*Year ended June 30, 2006*

<b>Cash flows from operating activities:</b>	
Change in net assets	\$9,621,972
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	491,613
Realized gain on investments	(7,339,208)
Unrealized gain on investments	(617,405)
Decrease (increase) in assets:	
Contributions receivable	1,271,617
Other receivables	(1,393,439)
Prepaid expenses	134,280
Security deposits	40
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	411,090
Accrued pension expense	2,725
Deferred rent	(65,670)
Deferred revenue	4,461
<b>Net cash provided by operating activities</b>	<b>2,522,076</b>
<b>Cash flows from investing activities:</b>	
Net purchases of investments	(2,350,955)
Purchases of fixed assets	(449,434)
<b>Net cash used in investing activities</b>	<b>(2,800,389)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(278,313)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>19,708,560</b>
<b>Cash, and cash equivalents, end of year</b>	<b>\$19,430,247</b>

*See accompanying notes to financial statements.*



# Human Rights Watch, Inc

## Notes to Financial Statements

### 1. Nature of Organization

Human Rights Watch, Inc. (“HRW”) is a nonprofit organization that works to stop human rights abuses. Currently, it monitors and promotes human rights in over 70 countries worldwide. Its program is 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, refugees, military affairs, international justice, the human rights responsibilities of corporations, gay and lesbian rights, and HIV AIDS.

HRW obtains financial support from the public - primarily individuals and foundations, but also estates, trusts and businesses. It does not seek or accept financial support from any government or government-funded agency. Principal offices in 2006 were located in New York, Washington, London, Brussels, Los Angeles, San Francisco, Toronto, Moscow and Geneva.

### 2. Summary of Significant Accounting Policies

#### (a) General

The financial statements have been prepared on an accrual basis. In the 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.

#### (b) 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.

# Human Rights Watch, Inc

## Notes to Financial Statements

The classes of net assets are defined as follows:

- (i) **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.
- (ii) **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.
- (iii) **Unrestricted** - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

(c) *Cash and Cash Equivalents*

HRW considers all money market funds and investments with maturities of three months or less at the time of purchase to be cash equivalents.

(d) *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 using a discount rate of 3.0%.

HRW uses the allowance method for uncollectible unconditional promises 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 allowance may be necessary if there are significant changes in economic conditions.

# Human Rights Watch, Inc

## Notes to Financial Statements

(e) *Contributed Services*

For the year ended June 30, 2006, the value of contributed services meeting the requirements for recognition in the 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 at the residents' facilities. HRW receives more than 5,000 volunteer hours per year.

(f) *Investments*

Investments are stated at market value. All investments for which market values are not readily available (including investments which are subject to limitations as to their sale) are valued at fair value as determined in good faith by the management of HRW although the actual calculations may be done by others.

(g) *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 will 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 at June 30, 2006 was \$70,793,934.

# Human Rights Watch, Inc

## Notes to Financial Statements

(h) *Investment Impairment*

HRW's investments consist of corporate bonds, US government obligations, equity securities and limited partnerships. At June 30, 2006, HRW has deemed that all securities, which were in an unrealized loss position, were temporarily impaired. Positive evidence considered in reaching HRW's conclusion that the investments in an unrealized loss position are not other-than-temporarily impaired consisted of:

- (i) there were no specific events which caused concerns;
- (ii) HRW's ability and intent to retain the investment for a sufficient amount of time to allow an anticipated recovery in value; and
- (iii) HRW also determined that the changes in market value were considered normal in relation to overall fluctuations in market conditions.

(i) *Fixed Assets*

Fixed assets are recorded at cost when purchased. Depreciation is computed on an accelerated basis or on a straight-line basis over the estimated useful lives of the assets, as follows:

Furniture and fixtures	7 years
Office equipment	5 years
Computer hardware and software	5 years

Leasehold improvements are depreciated over the shorter of the term of the lease or their useful lives.

# Human Rights Watch, Inc

## Notes to Financial Statements

(j) *Functional Allocation of Expenses*

The cost of providing the various programs and other activities has been summarized on an individual basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(k) *Revenue Recognition*

The operations of HRW are financed principally by foundation grants and contributions received from the general public. 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.

(l) *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and other disclosures in the financial statements. Accordingly, actual results could differ from those estimates.

(m) *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 financial statements. HRW has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code.

# Human Rights Watch, Inc

## Notes to Financial Statements

(n) *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.

**3. Short-Term Investments, at Fair Value**

Short-term investments, at fair value are comprised of the following at June 30, 2006:

*Operating Fund*

Corporate bonds	\$ 321,595
US government agency obligations	109,844
Certificates of deposit	2,643,275
Corporate stock	1,066,787
Limited partnerships	1,354,400
Total	\$5,495,901

*Temporarily Restricted Endowment Fund*

Corporate bonds	\$ 4,099,139
US government agency obligations	5,508,188
Corporate stock	31,816,810
Limited partnerships	25,032,394
Total	\$66,456,531

**4. Contributions Receivable, Net**

At June 30, 2006, the net present value of contributions receivable is \$6,631,560. Net present value was calculated using a discounted rate equal to the estimated earnings rate of HRW, which was calculated to be 3.0%.

# Human Rights Watch, Inc

## Notes to Financial Statements

Net present value of contributions receivable, net of a reserve for undocumented commitments, at June 30, 2006 is summarized below:

<i>June 30, 2006</i>	
Total contributions receivable at June 30, 2006	\$7,608,133
Discount at 3.0%	(121,378)
Net present value of contributions receivable at June 30, 2006	\$7,486,755
Amounts due in:	
One year	\$4,673,843
Two to five years	2,934,290
Total	\$7,608,133

5. **Fixed Assets, Net** Fixed assets, net consist of the following:

<i>June 30, 2006</i>	
Leasehold improvements	\$ 3,095,135
Furniture and fixtures	724,794
Office equipment	237,232
Computer hardware and software	1,548,213
	5,605,374
Less: Accumulated depreciation and amortization	(3,047,423)
	\$ 2,557,951

6. **Temporarily Restricted Net Assets** Temporarily restricted net assets were available for the following purposes at June 30, 2006:

Donor imposed time restrictions	\$17,006,684
Endowment fund	73,135,649
	\$90,142,333

# Human Rights Watch, Inc

## Notes to Financial Statements

- 7. Unrestricted Net Assets** HRW seeks to maintain unrestricted net assets equivalent to approximately 33% of annual operating expenses.
- 8. Retirement Plan** HRW has a defined contribution plan, whereby HRW shall contribute 10% of each employee's salary, subject to annual IRS limitations. Employees become eligible after two years of continuous full-time employment. The contribution for the year ended June 30, 2006 was \$825,035.
- 9. Commitments** Pursuant to facility and equipment lease agreements, HRW is obligated for minimum annual rentals to nonrelated parties, as indicated below. Minimum future annual rental payments under the lease agreements expiring in 2014 are as follows:

<i>Year ending June 30,</i>	
2007	\$ 1,738,479
2008	1,768,110
2009	1,752,603
2010	1,469,854
2011	1,464,461
Thereafter	3,788,801
	<hr/>
	\$11,982,308

HRW leases office space in various countries on a month-to-month basis. Rent expense for the year ended June 30, 2006 amounted to \$2,262,437.