

Human Rights Watch, Inc.

Financial Statements
Year Ended June 30, 2008

Human Rights Watch, Inc.

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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, 2008, 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, 2008, 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.

Information for the year ended June 30, 2007 is presented for comparative purposes only and was extracted from the financial statements of Human Rights Watch, Inc. for that year, on which we expressed an unqualified opinion, dated August 31, 2007.

BDO Seidman, LLP

November 3, 2008

Human Rights Watch, Inc.

Statement of Financial Position (with comparative totals for 2007)

<i>June 30,</i>	2008	2007
Assets		
Cash and cash equivalents (Note 2)	\$ 21,042,008	\$ 21,904,205
Investments, at market or fair value (Note 3)	43,455,828	51,148,938
Investments in limited partnerships (Note 4)	35,349,824	31,850,757
Contributions receivable, net (Note 5)	18,901,461	15,082,031
Other receivables	174,845	330,053
Prepaid expenses	766,255	497,921
Security deposits	164,995	156,709
Fixed assets, net (Note 6)	2,226,223	2,246,792
	\$122,081,439	\$123,217,406
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,186,029	\$ 1,937,068
Accrued pension expense	67,563	112,601
Deferred rent	949,736	1,044,701
Deferred revenue	22,575	27,906
Total liabilities	3,225,903	3,122,276
Commitments (Note 10)		
Net assets:		
Unrestricted (Note 2)	9,661,402	10,634,711
Temporarily restricted (Notes 2 and 7)	109,194,134	109,460,419
Total net assets	118,855,536	120,095,130
	\$122,081,439	\$123,217,406

See accompanying notes to financial statements.

Human Rights Watch, Inc.

Statement of Activities (with comparative totals for 2007)

Year ended June 30,

	Unrestricted	Temporarily restricted	Total	
			2008	2007
Public support and revenue:				
Public support:				
Contributions and grants	\$22,112,941	\$ 15,068,859	\$ 37,181,800	\$ 37,638,644
Special events	6,580,474	-	6,580,474	4,366,268
Total public support	28,693,415	15,068,859	43,762,274	42,004,912
Revenue:				
Investment income (loss), net	682,623	(5,238,980)	(4,556,357)	9,043,754
Investment income (loss), net from limited partnerships	-	1,815,282	1,815,282	3,791,826
Publications	95,771	-	95,771	143,091
Other	83,538	-	83,538	180,532
Total revenue	861,932	(3,423,698)	(2,561,766)	13,159,203
Net assets released from restrictions and transfers (Note 7)	11,911,446	(11,911,446)	-	-
Total support and revenue	41,466,793	(266,285)	41,200,508	55,164,115
Expenses:				
Program services:				
Africa	5,532,631	-	5,532,631	4,027,200
Americas	1,479,265	-	1,479,265	1,390,736
Asia	3,212,850	-	3,212,850	2,879,884
Europe and Central Asia	4,001,853	-	4,001,853	3,378,567
Middle East and North Africa	2,258,459	-	2,258,459	2,177,836
United States	1,195,673	-	1,195,673	1,069,441
Children's Rights	1,641,064	-	1,641,064	1,615,406
International Justice	1,385,121	-	1,385,121	1,200,080
Women's Rights	1,854,228	-	1,854,228	1,419,140
Other Programs	9,252,974	-	9,252,974	7,953,259
Total program services	31,814,118	-	31,814,118	27,111,549
Supporting services:				
Management and general	1,984,626	-	1,984,626	1,887,841
Fundraising	8,641,358	-	8,641,358	6,459,760
Total supporting services	10,625,984	-	10,625,984	8,347,601
Total expenses	42,440,102	-	42,440,102	35,459,150
Change in net assets	(973,309)	(266,285)	(1,239,594)	19,704,965
Net assets, beginning of year	10,634,711	109,460,419	120,095,130	100,390,165
Total net assets, end of year	\$ 9,661,402	\$109,194,134	\$118,855,536	\$120,095,130

See accompanying notes to financial statements.

Human Rights Watch, Inc.

Statement of Functional Expenses (with comparative totals for 2007)

Year ended June 30,

	Program services										Supporting services			2008	2007	
	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
Salaries and related expenses:																
Salaries	\$2,601,009	\$ 826,542	\$1,599,543	\$1,997,845	\$1,078,632	\$ 671,511	\$ 864,867	\$ 754,283	\$ 902,151	\$4,497,869	\$15,794,252	\$ 816,459	\$2,194,632	\$ 3,011,091	\$18,805,343	\$15,957,682
Insurance and employee benefits	395,144	123,468	227,865	302,695	154,284	96,877	139,584	111,303	178,984	719,274	2,449,478	161,356	375,059	536,415	2,985,893	2,288,331
Retirement plan	139,512	54,243	97,322	113,679	70,312	31,664	59,358	52,597	53,470	287,488	959,645	50,458	132,267	182,725	1,142,370	973,744
Payroll taxes	260,825	53,125	110,634	227,054	69,185	52,856	85,786	79,398	70,455	388,886	1,398,204	71,461	229,509	300,970	1,699,174	1,515,769
Total salaries and related expenses	3,396,490	1,057,378	2,035,364	2,641,273	1,372,413	852,908	1,149,595	997,581	1,205,060	5,893,517	20,601,579	1,099,734	2,931,467	4,031,201	24,632,780	20,735,526
Consultants' fees	95,787	30,429	210,669	70,046	46,500	11,700	20,108	38,700	45,371	285,090	854,400	33,689	585,187	618,876	1,473,276	1,264,031
Publications	126,306	29,500	89,453	127,065	143,425	27,830	45,349	17,946	72,705	203,214	882,793	49,831	14,108	63,939	946,732	621,383
Information services	28,404	8,432	20,264	23,157	10,875	7,409	17,737	8,425	19,297	125,066	269,066	22,740	16,257	38,997	308,063	176,789
Travel, meals and meetings	960,518	124,731	373,419	480,729	307,070	98,296	137,396	130,649	220,518	914,931	3,748,257	121,152	285,734	406,886	4,155,143	3,299,316
Outreach	-	-	-	-	-	-	-	-	-	434,296	434,296	-	134,481	134,481	568,777	382,192
Special projects	65,036	-	14,344	43,307	19,998	1,422	-	1,757	-	199,535	345,399	-	-	-	345,399	418,610
Special events	-	-	-	-	-	-	-	-	-	-	-	-	1,565,303	1,565,303	1,565,303	1,302,983
Direct mail	-	-	-	-	-	-	-	-	-	-	-	-	2,300,158	2,300,158	2,300,158	1,512,654
Rent	312,768	102,845	203,052	300,022	166,782	91,275	119,557	89,989	132,412	551,808	2,070,510	317,019	312,830	629,849	2,700,359	2,611,729
Office expenses	262,237	34,427	84,272	95,289	56,013	22,706	36,401	18,472	35,321	142,559	787,697	64,416	133,227	197,643	985,340	1,052,237
Postage and delivery	50,194	6,112	25,391	16,214	13,707	6,009	14,551	6,867	13,215	52,496	204,756	12,767	117,588	130,355	335,111	252,426
Telephone and fax	57,215	21,191	38,858	47,944	30,117	18,807	24,634	18,542	27,283	113,693	398,284	65,320	62,086	127,406	525,690	381,501
Professional fees	93,835	33,168	60,822	86,551	47,426	29,752	39,638	29,022	43,066	170,160	633,440	102,240	92,118	194,358	827,798	688,285
Total expenses before depreciation and amortization	5,448,790	1,448,213	3,155,908	3,931,597	2,214,326	1,168,114	1,604,966	1,357,950	1,814,248	9,086,365	31,230,477	1,888,908	8,550,544	10,439,452	41,669,929	34,699,662
Depreciation and amortization	83,841	31,052	56,942	70,256	44,133	27,559	36,098	27,171	39,980	166,609	583,641	95,718	90,814	186,532	770,173	759,488
Total expenses	\$5,532,631	\$1,479,265	\$3,212,850	\$4,001,853	\$2,258,459	\$1,195,673	\$1,641,064	\$1,385,121	\$1,854,228	\$9,252,974	\$31,814,118	\$1,984,626	\$8,641,358	\$10,625,984	\$42,440,102	\$35,459,150

See accompanying notes to financial statements.

Human Rights Watch, Inc.

Statement of Cash Flows (with comparative totals for 2007)

<i>Year ended June 30,</i>	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ (1,239,594)	\$19,704,965
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	770,173	759,488
Realized gain on investments	(3,890,134)	(8,693,135)
Unrealized (gain) loss on investments	6,631,209	(4,142,445)
Change in discount on contributions receivable	90,746	196,525
Decrease (increase) in assets:		
Contributions receivable	(3,910,176)	(7,791,801)
Other receivables	155,208	1,343,262
Prepaid expenses	(268,334)	(318,709)
Security deposits	(8,286)	(66,244)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	248,961	180,688
Accrued pension expense	(45,038)	11,670
Deferred rent	(94,965)	(45,746)
Deferred revenue	(5,331)	(4,548)
Net cash provided by (used in) operating activities	(1,565,561)	1,133,970
Cash flows from investing activities:		
Net sales of investments	1,452,968	1,788,318
Purchases of fixed assets	(749,604)	(448,330)
Net cash provided by investing activities	703,364	1,339,988
Net increase (decrease) in cash and cash equivalents	(862,197)	2,473,958
Cash and cash equivalents, beginning of year	21,904,205	19,430,247
Cash, and cash equivalents, end of year	\$21,042,008	\$21,904,205

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, terrorism/counterterrorism, 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 2008 were located in New York, Washington, London, Brussels, Berlin, Chicago, Los Angeles, San Francisco, Toronto, Moscow, Geneva, Paris and Johannesburg.

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, 2008, 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 at Market or Fair Value*

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) *Investments in Limited Partnerships*

HRW's investments in limited partnerships ("investment entities") are accounted for under the equity method. These investments are stated at fair value based upon HRW's equity interest reported by the investment entities. Income is recorded on a quarterly basis upon receipt of reports submitted by the investment entities.

Investment entities and other investment companies are selected by the Investment Committee which receives offering documents and performance history of each investment manager. The Investment Committee interviews the manager to determine whether the investment philosophy (particularly with respect to risk) and strategies of the partnership are in the best interests of HRW. Only after the Investment Committee makes a positive recommendation does HRW invest in an investment entity. In addition, the actions of the Investment Committee are subject to review and approval by the Board of Directors of HRW, as the case may be.

Human Rights Watch, Inc.

Notes to Financial Statements

(h) *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, 2008 was \$81,752,208.

(i) *Investment Impairment*

HRW's investments consist of corporate bonds, US government obligations, equity securities and limited partnerships. At June 30, 2008, 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.

Human Rights Watch, Inc.

Notes to Financial Statements

(j) *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.

(k) *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.

(l) *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.

Human Rights Watch, Inc.

Notes to Financial Statements

(m) *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.

(n) *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.

(o) *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.

(p) *Effect of Recently Issued Accounting Pronouncement*

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements”. This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. As of June 30, 2008, HRW does not believe the adoption of SFAS No. 157 will impact the amounts reported in the financial statements. However, additional disclosures

Human Rights Watch, Inc.

Notes to Financial Statements

will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statements of activities for a physical period.

3. Investments, at Market or Fair Value

Investments, at market or fair value are comprised of the following at June 30, 2008:

Corporate bonds	\$ 5,415,596
US government agency obligations	5,758,549
Certificates of deposit	1,811,256
Corporate stock	30,470,427
Total	\$43,455,828

4. Investments in Limited Partnerships

As of June 30, 2008, \$35,349,824 (45%) of HRW's investment portfolio consisted of interests in limited partnerships, which are engaged in a variety of investment strategies. As audited financial statements of these partnerships are only available as at the prior year end (December 31, 2007), HRW uses a valuation process to determine the value at the close of its fiscal year (June 30, 2008). The valuation process utilizes a variety of due diligence efforts including, but not limited to, advice of its investment advisors, Cambridge Associates, benchmarking data of comparable partnerships which are available, fund manager credentials, and queries of the partnerships by their independent auditors. Income generated from these investments was \$1,815,282 of unrealized gains as of June 30, 2008.

These investment entities invest in various domestic and international types of securities and derivative financial instruments. Redemptions of HRW's investments in these investment entities vary, but are primarily available at month-end, quarter-end, or year-end with appropriate notice. Management fees and incentive fees are charged by these investment entities at an annual rate ranging from .5% to 1.5% plus an incentive allocation, usually 20% of profits.

Human Rights Watch, Inc.

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In general, risks associated with such investments include those related to their underlying investments.

There can be no assurance that HRW will continue to achieve the same level of returns on its investments in limited partnerships and other investment companies that it has received during the past periods or that it will achieve any returns on such investments at all. In addition, there can be no assurance that HRW will receive a return of all or any portion of its current or future capital investments in limited partnerships and other investment companies. The failure of HRW to receive the return of a material portion of its capital investments in these investments, or to achieve historic levels of returns on such investments, could have a material adverse effect on HRW's financial condition and results of operations.

5. Contributions Receivable, Net

At June 30, 2008, the net present value of contributions receivable is \$18,901,461. Net present value was calculated using a discounted rate equal to the estimated earnings rate of HRW, which was calculated to be 3.0%.

Net present value of contributions receivable, net of a reserve for undocumented commitments, at June 30, 2008 is summarized below:

<i>June 30, 2008</i>	
Total contributions receivable at June 30, 2008	\$19,310,110
Discount at 3.0%	(408,649)
Net present value of contributions receivable at June 30, 2008	\$18,901,461
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Amounts due in:	
One year	\$11,355,707
Two to five years	7,954,403
Total	\$19,310,110

Human Rights Watch, Inc.

Notes to Financial Statements

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

<i>June 30, 2008</i>	
Leasehold improvements	\$ 3,298,830
Furniture and fixtures	696,717
Office equipment	219,236
Computer hardware and software	2,287,933
	<u>6,502,716</u>
Less: Accumulated depreciation and amortization	(4,276,493)
	<u>\$ 2,226,223</u>

7. **Temporarily Restricted Net Assets and Net Assets Released from Restrictions** Temporarily restricted net assets were available for the following purposes at June 30, 2008:

Donor imposed time restrictions	\$ 27,441,926
Endowment fund	81,752,208
	<u>\$109,194,134</u>

Temporarily restricted net assets that were released from donor restrictions at June 30, 2008 are as follows:

Donor-imposed time restrictions	<u>\$ 11,911,446</u>
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8. **Unrestricted Net Assets** HRW seeks to maintain unrestricted net assets equivalent to approximately 33% of annual operating expenses.
9. **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, 2008 was \$1,142,370.

Human Rights Watch, Inc.

Notes to Financial Statements

10. 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>	
2009	\$ 1,986,522
2010	1,689,523
2011	1,687,014
2012	1,662,444
2013	1,307,460
Thereafter	2,093,012
	<hr/>
	\$10,425,975

HRW leases office space in various countries on a month-to-month basis. Rent expense for the year ended June 30, 2008 amounted to \$2,700,359.