

COMBINED FINANCIAL STATEMENTS

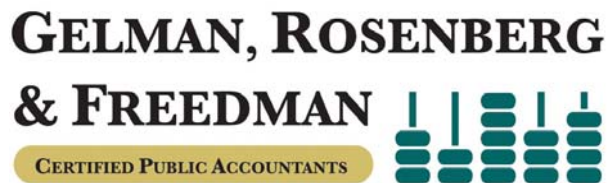
**HUMAN RIGHTS CAMPAIGN
HUMAN RIGHTS CAMPAIGN FOUNDATION**

**FOR THE YEARS ENDED
MARCH 31, 2017 AND 2016**

**HUMAN RIGHTS CAMPAIGN
HUMAN RIGHTS CAMPAIGN FOUNDATION**

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INDEPENDENT AUDITOR'S REPORT

To the Boards of Directors
Human Rights Campaign
Human Rights Campaign Foundation
Washington, D.C.

We have audited the accompanying combined financial statements of the Human Rights Campaign (HRC) and the Human Rights Campaign Foundation (the Foundation), which comprise the combined statements of financial position as of March 31, 2017 and 2016, and the related combined statements of activities and changes in net assets, functional expenses and cash flows for the years 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from 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 auditor's 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.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of HRC and the Foundation as of March 31, 2017 and 2016, and the combined changes in their net assets and their combined cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying Schedules 1 through 5 are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Gelman Rosenberg & Freedman

August 18, 2017

**HUMAN RIGHTS CAMPAIGN
HUMAN RIGHTS CAMPAIGN FOUNDATION**

**COMBINED STATEMENTS OF FINANCIAL POSITION
AS OF MARCH 31, 2017 AND 2016**

ASSETS

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents (Note 2)	\$ 5,785,416	\$ 2,013,004
Investments (Notes 3 and 16)	15,709,466	12,689,759
Pledges receivable, net of allowance for doubtful accounts of \$339,975 for 2017 and \$300,270 for 2016 (Note 4)	1,360,260	1,205,093
Grants and accounts receivable, net of allowance for doubtful accounts of \$69,730 for 2017 and \$91,823 for 2016 (Note 5)	2,092,799	1,990,320
Accrued interest	17,880	12,868
Interest rate swap obligation (Notes 9, 10 and 16)	17,872	-
Prepaid expenses	1,380,453	1,456,214
Inventory	178,473	222,776
Property, furniture, equipment and improvements, net of accumulated depreciation and amortization of \$12,592,332 for 2017 and \$11,344,583 for 2016 (Notes 6 and 7)	20,260,201	20,695,366
Deposits	58,612	39,795
	<u>20,260,201</u>	<u>20,695,366</u>
TOTAL ASSETS	<u>\$46,861,432</u>	<u>\$40,325,195</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Note payable (Notes 9 and 10)	\$ 2,716,100	\$ 3,137,209
Accounts payable and accrued expenses (Note 7)	2,299,267	2,345,332
Accrued salaries and related benefits	1,351,348	1,213,278
Charitable gift annuity payable (Note 16)	116,019	124,003
Deferred revenue	2,255,118	1,853,016
Interest rate swap obligation (Notes 9, 10 and 16)	-	61,098
Security deposits	71,637	70,387
	<u>8,809,489</u>	<u>8,804,323</u>
Total liabilities	8,809,489	8,804,323

NET ASSETS

Unrestricted	34,838,584	28,132,350
Temporarily restricted (Note 11)	3,189,874	3,365,037
Permanently restricted (Note 12)	23,485	23,485
	<u>38,051,943</u>	<u>31,520,872</u>
Total net assets	38,051,943	31,520,872
TOTAL LIABILITIES AND NET ASSETS	<u>\$46,861,432</u>	<u>\$40,325,195</u>

See accompanying notes to combined financial statements.

**HUMAN RIGHTS CAMPAIGN
HUMAN RIGHTS CAMPAIGN FOUNDATION**

**COMBINED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED MARCH 31, 2017 AND 2016**

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Contributions:						
Member contributions	\$21,416,288	\$ 1,661,686	\$23,077,974	\$19,072,581	\$ 453,905	\$19,526,486
Federal Club Members/Major donor program	18,925,678	1,096,049	20,021,727	13,733,781	964,926	14,698,707
Corporate/Foundation grants	636,029	4,328,777	4,964,806	846,364	4,137,092	4,983,456
Bequests	1,988,706	-	1,988,706	1,420,675	-	1,420,675
In-kind	2,427,228	-	2,427,228	1,264,826	-	1,264,826
Special events	9,911,456	794,012	10,705,468	9,398,984	234,511	9,633,495
Merchandise sales	1,990,189	-	1,990,189	1,538,832	-	1,538,832
Investment and other income (Notes 3 and 15)	856,683	-	856,683	898,171	-	898,171
Net assets released from restrictions - satisfaction of donor restrictions (Note 11)	8,055,687	(8,055,687)	-	6,141,794	(6,141,794)	-
Total revenue and support	66,207,944	(175,163)	66,032,781	54,316,008	(351,360)	53,964,648
EXPENSES						
Program Services:						
Federal, Field, Electoral and Legal Advocacy	14,467,110	-	14,467,110	10,451,430	-	10,451,430
Public Policy, Education and Training	12,472,720	-	12,472,720	14,855,254	-	14,855,254
Communications and Media Advocacy	4,161,325	-	4,161,325	3,990,713	-	3,990,713
Membership Education and Mobilization	11,855,940	-	11,855,940	9,665,466	-	9,665,466
Total program services	42,957,095	-	42,957,095	38,962,863	-	38,962,863
Supporting Services:						
Management and General	8,088,678	-	8,088,678	8,652,042	-	8,652,042
Fundraising	8,534,907	-	8,534,907	8,578,192	-	8,578,192
Total supporting services	16,623,585	-	16,623,585	17,230,234	-	17,230,234
Total expenses	59,580,680	-	59,580,680	56,193,097	-	56,193,097
Changes in net assets before other item	6,627,264	(175,163)	6,452,101	(1,877,089)	(351,360)	(2,228,449)
OTHER ITEM						
Return of funds to donor	-	-	-	-	(51,815)	(51,815)
Unrealized gain (loss) on interest rate swap (Note 10)	78,970	-	78,970	(34,816)	-	(34,816)
CHANGES IN NET ASSETS	\$ 6,706,234	\$ (175,163)	\$ 6,531,071	\$(1,911,905)	\$ (403,175)	\$(2,315,080)

See accompanying notes to combined financial statements.

**HUMAN RIGHTS CAMPAIGN
HUMAN RIGHTS CAMPAIGN FOUNDATION**

**COMBINED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED MARCH 31, 2017 AND 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets at March 31, 2015	\$30,044,255	\$3,768,212	\$23,485	\$33,835,952
Changes in net assets	<u>(1,911,905)</u>	<u>(403,175)</u>	<u>-</u>	<u>(2,315,080)</u>
Net assets at March 31, 2016	28,132,350	3,365,037	23,485	31,520,872
Changes in net assets	<u>6,706,234</u>	<u>(175,163)</u>	<u>-</u>	<u>6,531,071</u>
NET ASSETS AT MARCH 31, 2017	<u>\$34,838,584</u>	<u>\$3,189,874</u>	<u>\$23,485</u>	<u>\$38,051,943</u>

See accompanying notes to combined financial statements.

**HUMAN RIGHTS CAMPAIGN
HUMAN RIGHTS CAMPAIGN FOUNDATION**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2017**

	Program Services				Supporting Services				Total Expenses
	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	Total Supporting Services	
Grants and contributions	\$ 1,006,948	\$ 278,068	\$ 39	\$ 27,718	\$ 1,312,773	\$ 28,448	\$ 341	\$ 28,789	\$ 1,341,562
Salaries and benefits (Note 13)	3,958,070	6,024,060	2,662,336	2,740,468	15,384,934	5,187,595	2,715,896	7,903,491	23,288,425
Legal fees	22	1,111	7,848	275	9,256	31,729	193	31,922	41,178
Supplies	25,221	49,611	15,592	89,490	179,914	35,310	43,628	78,938	258,852
Telephone	151,115	89,783	48,113	59,971	348,982	57,915	78,171	136,086	485,068
Postage and shipping	52,934	221,240	3,012	285,739	562,925	20,133	736,308	756,441	1,319,366
Occupancy costs	25,956	524,963	50,556	141,401	742,876	65,561	81,238	146,799	889,675
Equipment rental and maintenance	6,859	51,995	239,704	2,734	301,292	331,522	13,201	344,723	646,015
Printing, publications and photocopying	102,740	370,855	14,216	155,749	643,560	16,436	480,749	497,185	1,140,745
Travel	756,971	375,270	141,548	303,809	1,577,598	128,085	424,388	552,473	2,130,071
Conferences, conventions and meetings	279,789	367,375	128,147	401,302	1,176,613	132,672	4,807,361	4,940,033	6,116,646
Interest expense	755	37,339	4,159	-	42,253	27,214	6,488	33,702	75,955
Depreciation/amortization	86,930	599,236	118,162	59,445	863,773	259,772	140,799	400,571	1,264,344
Professional services	3,805,812	1,211,270	537,484	4,456,684	10,011,250	700,459	993,379	1,693,838	11,705,088
Accounting fees	-	-	-	-	-	113,350	-	113,350	113,350
Advertising and promotion	1,738,206	565,416	101,077	33,071	2,437,770	3,019	111,935	114,954	2,552,724
Data processing	8,230	-	-	490,071	498,301	83,164	65,617	148,781	647,082
Insurance	3,200	25,959	1,860	4	31,023	164,834	4,049	168,883	199,906
Taxes/Corporate registration fees	8,221	272,917	30,417	33	311,588	109,319	47,742	157,061	468,649
Direct mail/telemarketing	238,716	60,558	-	368,658	667,932	-	1,234,390	1,234,390	1,902,322
Miscellaneous	21	918	102	1,873	2,914	357	2,428	2,785	5,699
Bank and credit card fees	-	-	-	19,318	19,318	41,970	891,917	933,887	953,205
Dues and subscriptions	206,631	32,364	39,738	16,887	295,620	18,450	19,597	38,047	333,667
Business entertainment	8,574	23,762	3,349	4,144	39,829	2,758	31,407	34,165	73,994
Employee recruitment costs	4,083	6,908	5,694	1,745	18,430	26,344	4,300	30,644	49,074
Bad debt expenses	-	-	-	-	-	-	195,000	195,000	195,000
Premiums – development	104,248	37,559	8,167	277,949	427,923	2,545	406,141	408,686	836,609
Volunteer support	5,722	7,167	5	19,147	32,041	20	34,291	34,311	66,352
Cost of merchandise	-	-	-	439,529	439,529	-	40,528	40,528	480,057
Subtotal	12,585,974	11,235,704	4,161,325	10,397,214	38,380,217	7,588,981	13,611,482	21,200,463	59,580,680
Allocation of joint costs (Note 14)	1,881,136	1,237,016	-	1,458,726	4,576,878	499,697	(5,076,575)	(4,576,878)	-
TOTAL	\$14,467,110	\$12,472,720	\$ 4,161,325	\$11,855,940	\$42,957,095	\$8,088,678	\$ 8,534,907	\$16,623,585	\$59,580,680

See accompanying notes to combined financial statements.

**HUMAN RIGHTS CAMPAIGN
HUMAN RIGHTS CAMPAIGN FOUNDATION**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2016**

	Program Services				Supporting Services				Total Expenses
	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	Total Supporting Services	
Grants and contributions	\$ 926,142	\$ 403,995	\$ 2,715	\$ 32,883	\$ 1,365,735	\$ 34,789	\$ 529	\$ 35,318	\$ 1,401,053
Salaries and benefits (Note 13)	3,898,252	5,974,716	2,392,803	2,296,947	14,562,718	5,591,232	2,487,465	8,078,697	22,641,415
Legal fees	280	5,000	-	-	5,280	54,853	-	54,853	60,133
Supplies	33,851	117,694	14,402	81,383	247,330	47,936	50,388	98,324	345,654
Telephone	178,416	113,652	36,346	40,205	368,619	90,318	101,251	191,569	560,188
Postage and shipping	27,556	329,132	9,694	228,192	594,574	21,772	696,711	718,483	1,313,057
Occupancy costs	19,586	581,070	74,962	135,186	810,804	183,803	83,646	267,449	1,078,253
Equipment rental and maintenance	13,530	63,715	200,405	15,292	292,942	359,911	30,154	390,065	683,007
Printing, publications and photocopying	51,112	503,517	3,866	145,798	704,293	6,827	404,121	410,948	1,115,241
Travel	581,343	693,153	105,501	297,406	1,677,403	152,566	435,399	587,965	2,265,368
Conferences, conventions and meetings	150,246	741,779	120,839	466,728	1,479,592	150,453	4,685,131	4,835,584	6,315,176
Interest expense	773	41,412	6,119	-	48,304	33,090	6,681	39,771	88,075
Depreciation/amortization	124,256	641,572	153,623	74,286	993,737	340,202	152,242	492,444	1,486,181
Professional services	2,014,586	1,891,092	576,367	2,423,090	6,905,135	645,049	1,254,480	1,899,529	8,804,664
Accounting fees	900	-	-	-	900	100,250	-	100,250	101,150
Advertising and promotion	139,079	739,201	175,611	57,954	1,111,845	1,980	12,954	14,934	1,126,779
Data processing	2,500	-	-	482,800	485,300	111,767	59,986	171,753	657,053
Insurance	3,912	38,828	3,121	464	46,325	159,881	4,471	164,352	210,677
Taxes/Corporate registration fees	5,698	233,848	34,520	439	274,505	116,112	42,698	158,810	433,315
Direct mail/telemarketing	355,734	88,174	-	560,539	1,004,447	-	1,822,938	1,822,938	2,827,385
Miscellaneous	25	322	-	-	347	2,545	2,276	4,821	5,168
Bank and credit card fees	-	-	-	17,485	17,485	51,577	833,623	885,200	902,685
Dues and subscriptions	156,990	36,059	64,722	19,566	277,337	5,301	16,680	21,981	299,318
Business entertainment	9,237	33,135	5,248	6,805	54,425	4,962	38,724	43,686	98,111
Employee recruitment costs	5,126	9,378	6,777	1,378	22,659	10,789	11,398	22,187	44,846
Bad debt expenses	-	-	-	1,108	1,108	17,520	98,452	115,972	117,080
Premiums – development	104,251	53,725	2,263	329,474	489,713	2,810	214,325	217,135	706,848
Volunteer support	5,924	6,354	809	13,597	26,684	116	21,744	21,860	48,544
Cost of merchandise	-	-	-	406,292	406,292	-	50,381	50,381	456,673
Subtotal	8,809,305	13,340,523	3,990,713	8,135,297	34,275,838	8,298,411	13,618,848	21,917,259	56,193,097
Allocation of joint costs (Note 14)	1,642,125	1,514,731	-	1,530,169	4,687,025	353,631	(5,040,656)	(4,687,025)	-
TOTAL	\$10,451,430	\$14,855,254	\$ 3,990,713	\$ 9,665,466	\$38,962,863	\$ 8,652,042	\$ 8,578,192	\$17,230,234	\$56,193,097

See accompanying notes to combined financial statements.

**HUMAN RIGHTS CAMPAIGN
HUMAN RIGHTS CAMPAIGN FOUNDATION**

**COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 6,531,071	\$ (2,315,080)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation/amortization	1,264,344	1,486,181
Unrealized/realized (gain) loss on sale of investments	(59,803)	25,299
Allowance for uncollected receivables	(17,612)	(2,908)
Unrealized (gain) loss on interest swap obligation	(78,970)	34,816
(Increase) decrease in:		
Pledges receivable	(115,462)	(9,459)
Grants and accounts receivable	(124,572)	(465,233)
Accrued interest	(5,012)	4,513
Prepaid expenses	75,761	(726,246)
Inventory	44,303	45,042
Deposits	(18,817)	50
Increase (decrease) in:		
Accounts payable and accrued expenses	18,212	(2,113,448)
Accrued salaries and related benefits	121,344	224,166
Charitable gift annuity payable	(7,984)	(18,725)
Deferred revenue	402,102	748,846
Security deposits	1,250	10,074
Net cash provided (used) by operating activities	8,030,155	(3,072,112)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase/proceeds of investments	(2,959,904)	3,151,951
Purchase of property, furniture, equipment and Improvements	(829,179)	(835,021)
Net cash (used) provided by investing activities	(3,789,083)	2,316,930
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	(421,109)	(412,572)
Principal payments on capital lease obligation	(47,551)	(43,851)
Proceeds from line of credit	-	200,000
Principal payments on line of credit	-	(200,000)
Net cash used by financing activities	(468,660)	(456,423)
Net increase (decrease) in cash and cash equivalents	3,772,412	(1,211,605)
Cash and cash equivalents at beginning of year	2,013,004	3,224,609
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 5,785,416	\$ 2,013,004

See accompanying notes to combined financial statements.

HUMAN RIGHTS CAMPAIGN
HUMAN RIGHTS CAMPAIGN FOUNDATION

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
SUPPLEMENTAL DISCLOSURE		
Interest Paid	<u>\$ 75,575</u>	<u>\$ 87,553</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS		
Donated Securities	<u>\$ 600,454</u>	<u>\$ 459,332</u>

See accompanying notes to combined financial statements.

**HUMAN RIGHTS CAMPAIGN
HUMAN RIGHTS CAMPAIGN FOUNDATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Human Rights Campaign (HRC) was incorporated in the District of Columbia in 1982 and is organized as a social welfare organization pursuant to section 501(c)(4) of the Internal Revenue Code (IRC). The Human Rights Campaign is organized and operated for the promotion of the social welfare of the lesbian, gay, bisexual and transgender community. By inspiring and engaging people from around the globe, 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 (IRS) as well as a non-Federal PAC registered solely with the IRS. These PACs are separate entities established under section 527 of the IRC with their own tax ID numbers and IRS filing obligations. All PAC activity is included with HRC in the accompanying financial statements.

The Human Rights Campaign Foundation (the Foundation) was incorporated in the District of Columbia in 1985. The Human Rights Campaign Foundation is organized for the charitable and educational purposes of promoting public education and welfare of the lesbian, gay, bisexual and transgender 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.

The financial statements of the Organizations have been combined because they are under common control. All intercompany transactions have been eliminated.

Basis of presentation -

The accompanying combined financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958-810, *Not-for-Profit Entities, Consolidation*.

Cash and cash equivalents -

HRC and the Foundation considers all cash and other highly liquid investments, including certificates of deposit with maturities of three months or less, and excluding cash and money market funds held by investment managers in the amounts of \$7,366,929 and \$2,256,771 for the years ended March 31, 2017 and 2016, respectively, to be cash equivalents.

Grants, accounts and pledges receivable -

Grants, accounts and short-term pledges receivables are recorded at their net realizable value, which approximates fair value. Long-term receivables are presented at their net present value.

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MARCH 31, 2017 AND 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Grants, accounts and pledges receivable (continued) -

The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the donor.

Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in investment and other income in the Combined Statements of Activities.

Inventory -

Inventory consists primarily of clothing which is recorded at the lower of cost or market using the first-in/first-out (FIFO) method of accounting. HRC reviews the value of their inventory on an annual basis. If inventory is deemed to be slow moving or obsolete, HRC will adjust accordingly.

Property, furniture, equipment and improvements -

Furniture and equipment are recorded at cost and are depreciated over their estimated useful lives, generally three to ten years. Leasehold improvements are recorded at cost and amortized over the life of the lease.

The building and building improvements are recorded at cost and are depreciated over 40 years. Expenditures for major repairs and improvements in excess of \$3,000 are capitalized; conversely, expenditures for minor repairs and maintenance costs are expensed when incurred.

Charitable gift annuity payable -

HRC and the Foundation entered into Charitable Gift Annuity Agreements in which the donor receives payment for a specified period of time, with any remainder at the end of the period reverting to HRC and the Foundation.

The liability is determined based on actuarial assumptions and is included in the liability section of the accompanying combined financial statements. The amount of the contribution recorded by HRC and the Foundation is the fair value of the assets, less the present value of the estimated annuity payments. The charitable gift annuity payable for the years ended March 31, 2017 and 2016 totaled \$116,019 and \$124,003, respectively.

Deferred revenue -

Deferred revenue consists of event registrations. HRC and the Foundation recognize event revenue when the related event has occurred.

Contributions -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Contributions (continued) -

Such funds in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying combined financial statements.

Membership -

HRC has more than 2 million members and supporters nationwide. Amounts received from members have been classified as contributions in the accompanying Combined Statements of Activities and recognized when earned. Membership education and services expenses include costs incurred for the education, retention and services provided to existing members.

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of HRC and the Foundation and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of HRC and the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Combined Statements of Activities as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by HRC and the Foundation. There are restrictions placed on the use of investment earnings from these endowment funds.

Income taxes -

HRC is exempt from Federal and state income taxes under Section 501(c)(4) of the Internal Revenue Code. The Foundation is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision has been made for Federal income taxes in the accompanying combined financial statements. The Foundation is not a private foundation. HRC does have income subject to unrelated business income tax. However, no material tax liability results from this activity. The HRC PAC is subject to Federal income taxes on the excess of (a) gross income for the tax year (excluding exempt function income) over (b) deductions directly connected with the earning of gross income (excluding exempt function income). During the years ending March 31, 2017 and 2016, there was no tax due.

Uncertain tax positions -

For the years ended March 31, 2017 and 2016, HRC, HRC PAC and the Foundation have documented their consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the combined financial statements.

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**NOTES TO COMBINED FINANCIAL STATEMENTS
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Allocation of functional expenses -

The costs of providing the various programs and supporting services have been summarized on a functional basis in the Combined Statements of Activities. Accordingly, certain costs have been allocated among the programs and the supporting services based on employee time records and ratios determined by management.

Risks and uncertainties -

HRC invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying combined financial statements.

Fair value measurements -

HRC and the Foundation adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. HRC and the Foundation account for a significant portion of their financial instruments at fair value or consider fair value in their measurement.

In-kind contributions -

HRC and the Foundation recognize revenue and expenses from donated professional services received. The amount reported is based on the estimated fair value of professional services rendered.

Use of estimates -

The preparation of the 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New accounting pronouncement -

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets.

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**NOTES TO COMBINED FINANCIAL STATEMENTS
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

New accounting pronouncement (continued) -

The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of HRC and the Foundation's financial statements, it is not expected to alter the reported financial position.

2. CONCENTRATION OF CREDIT RISK

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, HRC and the Foundation maintain cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

3. INVESTMENTS

At March 31, 2017 and 2016, investments consisted of the following:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Common stocks	\$ 11,813	\$ 22,963	\$ 16,917	\$ 28,637
Mutual funds	126,660	149,728	1,650,837	1,678,505
Certificates of deposit	8,062,703	8,060,662	8,643,000	8,625,453
Treasury bonds	109,397	109,184	95,914	100,393
Cash and money market funds	7,366,929	7,366,929	2,256,771	2,256,771
TOTAL INVESTMENTS	<u>\$15,677,502</u>	<u>\$15,709,466</u>	<u>\$12,663,439</u>	<u>\$12,689,759</u>

Investment income, included in investment and other income, is as follows at March 31, 2017 and 2016:

	2017	2016
Interest and dividends	\$ 103,633	\$ 151,656
Unrealized/realized gain (loss) on sale of investments	59,803	(25,299)
TOTAL INVESTMENT INCOME	<u>\$ 163,436</u>	<u>\$ 126,357</u>

4. PLEDGES RECEIVABLE

All pledges receivable are considered to be collectible within one year unless otherwise stated by the donor.

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4. PLEDGES RECEIVABLE (Continued)

Following is a summary, by years, of pledges to be received at March 31, 2017 and 2016:

<u>Year Ending March 31,</u>	<u>2017</u>	<u>2016</u>
2017	\$ -	\$ 1,505,363
2018	1,700,235	-
	1,700,235	1,505,363
Less: Allowance for uncollected pledges	(339,975)	(300,270)
TOTAL PLEDGES RECEIVABLE	<u>\$1,360,260</u>	<u>\$ 1,205,093</u>

5. GRANTS AND ACCOUNTS RECEIVABLE

All grants and accounts receivable are considered to be collectible within one year, unless otherwise stated by the donor. Grants receivable which will not be paid within one year have been discounted at March 31, 2017, using a current interest rate of 4.0%.

Grants and accounts receivable are due as follows at March 31, 2017 and 2016:

<u>Year Ending March 31,</u>	<u>2017</u>	<u>2016</u>
2017	\$ -	\$ 1,801,979
2018	1,973,919	100,000
2019	100,000	100,000
2020	100,000	100,000
	2,173,919	2,101,979
Less: Allowance for uncollected grants and accounts receivable	(69,730)	(91,823)
Less: Discount to present value	(11,390)	(19,836)
	<u>\$ 2,092,799</u>	<u>\$ 1,990,320</u>

6. PROPERTY, FURNITURE, EQUIPMENT AND IMPROVEMENTS

At March 31, 2017 and 2016, property, furniture, equipment and improvements consisted of the following:

	<u>2017</u>			<u>2016</u>		
	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Net Book Value</u>	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Net Book Value</u>
Land	\$ 3,245,760	\$ -	\$ 3,245,760	\$ 3,245,760	\$ -	\$ 3,245,760
Building	6,554,240	2,134,080	4,420,160	6,554,240	1,970,224	4,584,016
Building improvements	16,580,563	5,308,315	11,272,248	16,299,335	4,877,560	11,421,775
Furniture and fixtures	1,739,485	1,439,682	299,803	1,739,485	1,323,196	416,289
Computer equipment and software	3,919,024	3,414,623	504,401	3,705,539	3,015,538	690,001
Leasehold improvements	813,461	295,632	517,829	495,590	158,065	337,525
	<u>\$ 32,852,533</u>	<u>\$ 12,592,332</u>	<u>\$ 20,260,201</u>	<u>\$32,039,949</u>	<u>\$ 11,344,583</u>	<u>\$ 20,695,366</u>

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**NOTES TO COMBINED FINANCIAL STATEMENTS
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7. CAPITAL LEASE OBLIGATION

In 2015, HRC and the Foundation entered into a capital lease obligation for a computer server, which expires in 2017. As of March 31, 2017, the cost and related accumulated amortization of the leased asset was \$135,450 and \$79,013 respectively. As of March 31, 2016, the cost and related accumulated amortization of the leased asset was \$135,450 and \$33,863 respectively. The balance at March 31, 2017 and 2016 of the obligation is \$ 16,726 and \$64,276, respectively, and is included in accounts payable and accrued expenses in the accompanying Combined Statements of Financial Position. Future minimum lease payments at March 31, 2017 are as follows:

<u>Year Ending March 31,</u>	
2018	\$ 17,010
Less: Interest	<u>(284)</u>
	<u>\$ 16,726</u>

8. LINE OF CREDIT

HRC and the Foundation have a \$3,000,000 unsecured line of credit with a local bank. Borrowings on the line of credit bear interest at .50% plus LIBOR (.983% at March 31, 2017). The line of credit expires July 31, 2017. There were no outstanding borrowings during the year.

9. NOTE PAYABLE

On April 2, 2002, the Foundation purchased an existing building at 1640 Rhode Island Avenue, N.W., Washington, D.C. The Foundation has renovated the building and currently leases a portion of the building to HRC and other organizations.

The acquisition and renovation were financed through a loan with a local financial institution. On April 1, 2013, the Foundation refinanced the note payable with a new financial institution. The ten-year note has a variable interest rate of fifty basis points over the LIBOR (.983% at March 31, 2017). The principal balance of the loan will be repaid in monthly payments of \$40,123, plus interest beginning April 30, 2013. As of March 31, 2017 and 2016, the Foundation had outstanding balances of \$2,716,100 and \$3,137,209, respectively.

HRC and the Foundation entered into an interest rate swap agreement with Citibank dated April 8, 2013 (see Note 10 for further details). The loan is secured by a Deed of Trust, assignment, security agreement and fixture filing in the amount of \$4,350,000, creating a first lien against the building, and a security instrument creating a an absolute assignment of rents and landlord's interests in leases.

Principal payments are due as follows:

<u>Year Ending March 31,</u>	
2018	\$ 429,824
2019	438,718
2020	447,797
2021	457,063
2022	466,522
Thereafter	<u>476,176</u>
	<u>\$2,716,100</u>

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9. NOTE PAYABLE (Continued)

The loan agreement contains various covenants which, among other things, place restrictions on HRC's ability to incur additional indebtedness and requires HRC to maintain certain financial ratios.

10. INTEREST RATE SWAP AGREEMENT

As discussed in Note 9, HRC and the Foundation entered into an interest rate swap agreement. The intention of the swap agreement is to synthetically fix the interest rate on the note as a means to reduce its exposure to volatility in the rate indexes.

HRC entered in to a ten-year swap agreement with Citibank, with an effective date of April 8, 2013, at a fixed rate of 2.05% with an original notional amount of \$4,350,000. Interest on the swap is due monthly.

As of March 31, 2017, the swap agreement had a positive fair value of \$17,872, which is reflected as an asset in the accompanying combined financial statements. As of March 31, 2016, the swap agreement had a negative fair value of \$61,098, which is reflected as a liability in the accompanying combined financial statements.

The maturity date of the swap agreement is March 31, 2023. Interest expense with respect to the rate swap for the years ended March 31, 2017 and 2016 totaled \$29,166 and \$43,817, respectively.

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at March 31, 2017 and 2016:

	2017	2016
Present value of long-term pledges receivable for general support, net of allowance for bad debt	\$ -	\$ 1,173
Various grants/sponsorships/time restrictions	2,518,505	2,787,891
Political Action Committee contributions	671,369	575,973
	\$3,189,874	\$3,365,037

Net assets released from restrictions during 2017 and 2016 were as follows:

	2017	2016
Political Action Committee funds contributed to political campaigns	\$ 3,147,851	\$ 1,181,234
Various grants/sponsorships/passage of time	4,907,836	4,960,560
	\$ 8,055,687	\$ 6,141,794

12. PERMANENTLY RESTRICTED NET ASSETS

The Foundation's endowment consists of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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12. PERMANENTLY RESTRICTED NET ASSETS (Continued)

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

Permanently restricted net assets consisted of the following at March 31, 2017 and 2016:

- \$10,000 of contributions restricted by the donors to be invested in-perpetuity. Interest earned on the invested balance is to be used to support the general operations of the Foundation.
- \$13,485 of contributions restricted by the donors to be invested in-perpetuity. Interest earned on the invested balance is to be used to support the law fellowship program.

13. EMPLOYEE RETIREMENT PLAN

HRC funds a 401(k) plan after a 90-day waiting period for full-time employees and for non-full-time employees after the completion of one year of service in which they worked 1,000 hours. HRC contributes 4% of compensation up to \$40,000, plus 3% of compensation in excess of \$40,000. HRC will also match employee contributions to the Plan at a rate of \$0.50 for every \$1.00 up to the first 4% of compensation contributed to the Plan. Beginning January 1, 2016, eligible employees are automatically enrolled to defer 2% of their pay as of the date they enter the Plan, unless they elect a different deferral. Employees remain 100% vested when they enter the Plan.

Retirement expense for the years ended March 31, 2017 and 2016 totaled \$936,760 and \$836,287, respectively.

14. ALLOCATION OF JOINT COSTS

In 2017, HRC incurred joint costs of \$5,076,575 for informational materials and activities that included fundraising appeals. Such costs were included in fundraising and then allocated to Federal, field, electoral and legal advocacy (\$1,881,136), public policy, education and training (\$1,237,016), membership education and mobilization (\$1,458,726) and management and general (\$499,697).

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14. ALLOCATION OF JOINT COSTS (Continued)

In 2016, HRC incurred joint costs of \$5,040,656 for informational materials and activities that included fundraising appeals. Such costs were included in fundraising and then allocated to Federal, field, electoral and legal advocacy (\$1,642,125), public policy, education and training (\$1,514,731), membership education and mobilization (\$1,530,169) and management and general (\$353,631).

15. LEASE COMMITMENTS

Operating leases - office space -

HRC has entered into several lease agreements for office and retail space in Alabama, Arkansas, California, Mississippi and Texas. HRC also leases space for merchandise sales and an education center under a short-term lease in Massachusetts.

Net future minimum lease payments required under the lease agreements, exclusive of real estate taxes and operating expenses, are as follows:

<u>Year Ending March 31,</u>	
2018	\$ 199,429
2019	149,401
2020	80,514
2021	83,062
2022	35,058
	<u>\$ 547,464</u>

Rent expense totaled \$210,947 and \$196,533 for the years ended March 31, 2017 and 2016, respectively.

Operating leases - HRC Headquarters -

During 2003, HRC entered into lease agreements with several organizations (the tenants) to lease office space within HRC's Headquarters. The periods of the leases are from July 1, 2003 through December 31, 2023. Total rental income for the years ended March 31, 2017 and 2016 was \$571,660 and \$613,005, respectively, and is included in investment and other income in the accompanying Combined Statements of Activities.

The following is a schedule of future minimum rental payments to be received by HRC as of March 31, 2017:

<u>Year Ending March 31,</u>	<u>Tenants</u>
2018	\$ 832,527
2019	586,139
2020	546,693
2021	560,348
2022	373,767
Thereafter	386,791
	<u>\$ 3,286,265</u>

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16. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, HRC and the Foundation have categorized their financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Combined Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are financial instruments where values are based on unadjusted quoted prices for identical assets in an active market that HRC and the Foundation have the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement. These financial instruments do not have an active market.

Following is a description of the valuation methodology used for financial instruments measured at fair value. There have been no changes in the methodologies used at March 31, 2017 and 2016.

- *Common stocks* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Mutual funds* - Fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.
- *Certificates of deposit* - Generally valued at original cost plus accrued interest, which approximates fair value.
- *Treasury bonds* - 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.
- *Cash and money market funds* - Fair value is equal to the reported net asset value of the fund.
- *Charitable gift annuity payable* - These liabilities are carried at actuarial determined present values which approximate current value.
- *Interest rate swap agreements* - Fair value is derived from quotes from a dealer or broker, where available. Models used in valuing such agreements consider the contractual terms of and specific risks inherent in the instrument, and inputs used typically include yield curve, instrument volatility, prepayment rates and assumptions concerning nonperformance risk.

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16. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, HRC's investments as of March 31, 2017 and 2016:

	Level 1	Level 2	Level 3	Total March 31, 2017
Assets:				
Common stocks	\$ 22,963	\$ -	\$ -	\$ 22,963
Mutual funds	149,728	-	-	149,728
Certificates of deposit	-	8,060,662	-	8,060,662
Treasury bonds	-	109,184	-	109,184
Cash and money market funds	7,366,929	-	-	7,366,929
Interest rate swap	-	17,872	-	17,872
TOTAL	\$7,539,620	\$ 8,187,718	\$ -	\$ 15,727,338

Liabilities:

Charitable gift annuity payable	\$ -	\$ 116,019	\$ -	\$ 116,019
TOTAL	\$ -	\$ 116,019	\$ -	\$ 116,019

	Level 1	Level 2	Level 3	Total March 31, 2016
Assets:				
Common stocks	\$ 28,637	\$ -	\$ -	\$ 28,637
Mutual funds	1,678,505	-	-	1,678,505
Certificates of deposit	-	8,625,453	-	8,625,453
Treasury bonds	-	100,393	-	100,393
Cash and money market funds	2,256,771	-	-	2,256,771
TOTAL	\$3,963,913	\$ 8,725,846	\$ -	\$ 12,689,759

Liabilities:

Charitable gift annuity payable	\$ -	\$ 124,003	\$ -	\$ 124,003
Interest rate swap	-	61,098	-	61,098
TOTAL	\$ -	\$ 185,101	\$ -	\$ 185,101

17. SUBSEQUENT EVENTS

In preparing these combined financial statements, HRC and the Foundation have evaluated events and transactions for potential recognition or disclosure through August 18, 2017, the date the combined financial statements were issued.