

THE HUMANE SOCIETY OF THE UNITED STATES

COMBINED FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT AUDITORS

DECEMBER 31, 1995

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THE HUMANE SOCIETY OF THE UNITED STATES

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 1995

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Members of the American Institute of
Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
The Humane Society of the United States
Gaithersburg, Maryland

We have audited the accompanying combined statement of financial position of The Humane Society of the United States as of December 31, 1995 and 1994, and the related combined statements of activities, of functional expenses and of cash flows for the years then ended. These combined financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of The Humane Society of the United States as of December 31, 1995 and 1994, and the combined changes in net assets and cash flows for the years then ended, in conformity with generally accepted accounting principles.

As discussed in Note 2c, the financial statements for the year ended December 31, 1995, have been prepared in accordance with the newly issued Statements of Financial Accounting Standards No. 116 and 117. Accordingly, the December 31, 1994 and 1993 fund balances have been reclassified and the financial statements for the year ended December 31, 1994 have been restated to conform with the 1995 presentation.

February 9, 1996

Thomas Havey LLP

THE HUMANE SOCIETY OF THE UNITED STATES
COMBINED STATEMENT OF FINANCIAL POSITION

	December 31,	
	1995	1994
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents (Note 2g)	\$11,822,779	\$ 8,051,630
Accounts receivable	226,587	24,426
Accrued interest receivable	83,167	89,701
Prepaid expenses	323,995	56,741
Inventory at cost (Note 2i)	54,524	116,987
Deposits	21,758	27,676
Total current assets	12,532,810	8,367,161
Deferred compensation annuity contracts (Note 13)	410,647	291,616
Notes receivable	187,236	268,824
Investments (Note 8)	24,063,326	23,578,875
Property and equipment, at cost less accumulated depreciation of \$2,720,980 and \$2,257,920, respectively (Note 7)	10,422,237	9,734,164
Total assets	\$47,616,256	\$42,240,640
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 1,285,766	\$ 1,234,754
Other current liabilities	289,229	220,418
Total current liabilities	1,574,995	1,455,172
Mortgage note payable (Note 16)	130,000	-
Accrued pension obligation (Note 11)	608,980	612,559
Deferred compensation liability (Note 13)	410,647	291,616
Total liabilities	2,724,622	2,359,347
Net assets:		
Unrestricted (Notes 2c and 3):		
Board designated	19,992,984	16,433,936
Undesignated	16,051,495	15,085,102
Total unrestricted	36,044,479	31,519,038
Temporarily restricted (Notes 2c and 4)	3,587,376	3,627,869
Permanently restricted (Notes 2c and 5)	5,259,779	4,734,386
Total net assets	44,891,634	39,881,293
Total liabilities and net assets	\$47,616,256	\$42,240,640

See accompanying notes to the combined financial statements.

THE HUMANE SOCIETY OF THE UNITED STATES

COMBINED STATEMENT OF ACTIVITIES

	<u>Year Ended December 31, 1995</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, other additions and transfers:				
Dues and contributions	\$21,501,342	\$ 948,950	\$ -	\$22,450,292
Grants and trust contributions	1,246,726	473,452	539,377	2,259,555
Bequests (Note 2h)	9,376,899	312	-	9,377,211
Investment income	1,156,813	355,703	-	1,512,516
Gain (loss) on sale of investments	1,081,117	149,633	(13,984)	1,216,766
Rental income	545,738	-	-	545,738
Sales of literature and other income, net of catalog expenses of \$142,846 and \$175,441, respectively	<u>740,089</u>	<u>-</u>	<u>-</u>	<u>740,089</u>
Total revenue and other additions	<u>35,648,724</u>	<u>1,928,050</u>	<u>525,393</u>	<u>38,102,167</u>
Transfers:				
Net assets released from restrictions (Note 6)	<u>1,968,543</u>	<u>(1,968,543)</u>	<u>-</u>	<u>-</u>
Total revenue, other additions and transfers	<u>37,617,267</u>	<u>(40,493)</u>	<u>525,393</u>	<u>38,102,167</u>
Expenses and other deductions:				
Program services	23,548,835	-	-	23,548,835
Payments to annuitants	180,232	-	-	180,232
Management and general	2,475,415	-	-	2,475,415
Membership development	3,187,043	-	-	3,187,043
Fund raising	<u>3,700,301</u>	<u>-</u>	<u>-</u>	<u>3,700,301</u>
Total expenses and other deductions	<u>33,091,826</u>	<u>-</u>	<u>-</u>	<u>33,091,826</u>
Change in net assets	4,525,441	(40,493)	525,393	5,010,341
Net assets at beginning of year	<u>31,519,038</u>	<u>3,627,869</u>	<u>4,734,386</u>	<u>39,881,293</u>
Net assets at end of year	<u>\$36,044,479</u>	<u>\$ 3,587,376</u>	<u>\$ 5,259,779</u>	<u>\$44,891,634</u>

See accompanying notes to the combined financial statements.

<u>Year Ended December 31, 1994</u>			
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$15,305,952	\$ 466,862	\$ -	\$15,772,814
692,683	606,911	-	1,299,594
4,033,646	-	-	4,033,646
895,872	457,206	-	1,353,078
378,508	30,885	-	409,393
466,941	-	-	466,941
<u>1,037,910</u>	<u>3,027</u>	<u>-</u>	<u>1,040,937</u>
<u>22,811,512</u>	<u>1,564,891</u>	<u>-</u>	<u>24,376,403</u>
<u>1,620,397</u>	<u>(1,620,397)</u>	<u>-</u>	<u>-</u>
<u>24,431,909</u>	<u>(55,506)</u>	<u>-</u>	<u>24,376,403</u>
18,703,307	-	-	18,703,307
161,865	-	-	161,865
1,887,170	-	-	1,887,170
1,197,065	-	-	1,197,065
<u>2,277,777</u>	<u>-</u>	<u>-</u>	<u>2,277,777</u>
<u>24,227,184</u>	<u>-</u>	<u>-</u>	<u>24,227,184</u>
204,725	(55,506)	-	149,219
<u>31,314,313</u>	<u>3,683,375</u>	<u>4,734,386</u>	<u>39,732,074</u>
<u>\$31,519,038</u>	<u>\$3,627,869</u>	<u>\$ 4,734,386</u>	<u>\$39,881,293</u>

THE HUMANE SOCIETY OF THE UNITED STATES
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 1995

	<u>Public Education, Membership Information and Publications</u>	<u>Cruelty Investigations and Regional Offices</u>	<u>Wildlife, Animal Habitat and Sheltering</u>	<u>Youth and Higher Education</u>
Salaries	\$ 1,578,635	\$ 1,303,804	\$ 1,146,477	\$ 562,687
Payroll taxes	120,961	99,902	87,847	43,087
Employee benefits	<u>253,008</u>	<u>208,672</u>	<u>183,493</u>	<u>90,041</u>
Total compensation	1,952,604	1,612,378	1,417,817	695,815
Consultant and contracted services	890,944	35,754	184,910	50,023
Professional fees	14,681	-	1,820	-
Office supplies and expenses	114,707	46,863	15,151	74,672
Telephone	54,055	109,578	50,507	22,520
Postage and shipping	2,175,785	110,954	44,891	248,101
Occupancy and building expense	148,538	134,551	52,029	22,801
Investment expenses and trustees' fees	789	-	2,371	-
Board meetings and conference expenses	192,190	-	863	10,256
Travel, meals and lodging	307,219	316,861	216,052	48,782
Insurance and bonds	25,942	25,325	11,208	970
Depreciation	125,563	120,904	48,361	-
Equipment rental and maintenance	161,340	36,050	34,967	10,434
Contributions and grants	541,843	74,115	133,159	55,770
Real estate and personal property taxes	17,759	11,300	6,540	50
Educational material, publications and campaigns	5,355,140	77,826	732,835	593,649
Mailing costs	1,692,326	(1,508)	-	-
Payments to annuitants	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$13,771,425</u>	<u>\$ 2,710,951</u>	<u>\$ 2,953,481</u>	<u>\$ 1,833,843</u>

See accompanying notes to the combined financial statements.

<u>Legal Assistance, Legislation and Government Relations</u>	<u>Laboratory Bioethics and Farm Animals</u>	<u>Gifts and Grants to Other Humane Organizations</u>	<u>Payments to Annuitants</u>	<u>Management and General</u>	<u>Membership Development</u>	<u>Fund Raising</u>	<u>Total</u>
\$ 651,818	\$389,949	\$ -	\$ -	\$ 681,263	\$ 39,939	\$ 220,423	\$ 6,574,995
49,945	29,879	-	-	52,201	3,060	16,890	503,772
<u>104,322</u>	<u>62,411</u>	-	-	<u>109,386</u>	<u>6,392</u>	<u>35,278</u>	<u>1,053,003</u>
806,085	482,239	-	-	842,850	49,391	272,591	8,131,770
74,201	20,728	-	-	154,270	-	52,850	1,463,680
26,967	3,460	-	-	376,375	-	-	423,303
7,795	3,498	-	-	50,588	-	57,010	370,284
24,156	13,143	-	-	24,145	-	6,965	305,069
5,180	2,799	-	-	87,946	1,085,240	792,732	4,553,628
12,005	21,086	-	-	152,892	-	15,236	559,138
-	-	-	-	342,354	-	-	345,514
-	-	-	-	47,786	-	-	251,095
54,016	54,637	-	-	31,639	-	23,688	1,052,894
10,355	9,903	-	-	40,634	-	380	124,717
48,361	48,361	-	-	96,724	-	-	488,274
16,972	4,485	-	-	39,544	88,778	213,510	606,080
-	26,817	199,855	-	68,786	-	76,046	1,176,391
5,744	-	-	-	82,427	-	-	123,820
273,598	22,689	-	-	36,104	1,067,113	1,814,265	9,973,219
-	-	-	-	351	896,521	375,028	2,962,718
-	-	-	<u>180,232</u>	-	-	-	<u>180,232</u>
<u>\$1,365,435</u>	<u>\$713,845</u>	<u>\$199,855</u>	<u>\$180,232</u>	<u>\$2,475,415</u>	<u>\$3,187,043</u>	<u>\$3,700,301</u>	<u>\$33,091,826</u>

THE HUMANE SOCIETY OF THE UNITED STATES
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 1994

	<u>Public Education, Membership Information and Publications</u>	<u>Cruelty Investigations and Regional Offices</u>	<u>Wildlife, Animal Habitat and Sheltering</u>	<u>Youth and Higher Education</u>
Salaries	\$ 1,409,624	\$ 1,159,879	\$ 910,087	\$ 325,127
Payroll taxes	110,534	91,136	71,509	25,546
Employee benefits	<u>334,284</u>	<u>275,617</u>	<u>216,260</u>	<u>77,511</u>
Total compensation	1,854,442	1,526,632	1,197,856	428,184
Consultants and contracted services	631,121	33,426	62,569	606
Professional fees	2,866	1,739	-	-
Office supplies and expenses	109,596	45,500	18,176	43,465
Telephone	53,568	92,449	46,298	12,781
Postage and shipping	75,397	166,840	32,012	192,135
Occupancy and building expense	131,058	106,401	52,314	23,171
Investment expenses and trustees' fees	-	-	-	-
Board meetings and conference expenses	210,224	309	732	-
Travel, meals and lodging	244,204	342,299	207,267	21,278
Insurance and bonds	32,854	32,071	14,244	1,032
Depreciation	109,712	109,712	43,885	-
Equipment rental and maintenance	46,316	36,905	13,865	7,690
Contributions and grants	12,217	500	55,630	-
Real estate and personal property taxes	15,415	11,675	860	-
Educational material, publications and campaigns	2,471,965	247,001	862,864	340,717
Mailings costs	3,985,350	-	-	-
Payments to annuitants	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 9,986,305</u>	<u>\$ 2,753,459</u>	<u>\$ 2,608,572</u>	<u>\$1,071,059</u>

See accompanying notes to the combined financial statements.

EXHIBIT "C"
(Continued)

<u>Legal Assistance, Legislation and Government Relations</u>	<u>Laboratory Bioethics and Farm Animals</u>	<u>Gifts and Grants to Other Humane Organizations</u>	<u>Payments to Annuitants</u>	<u>Management and General</u>	<u>Membership Development</u>	<u>Fund Raising</u>	<u>Total</u>
\$ 633,979	\$ 380,683	\$ -	\$ -	\$ 610,293	\$ -	\$ 296,374	\$ 5,726,046
49,813	29,912	-	-	47,952	-	23,287	449,689
<u>150,650</u>	<u>90,460</u>	-	-	<u>153,138</u>	-	<u>70,426</u>	<u>1,368,346</u>
834,442	501,055	-	-	811,383	-	390,087	7,544,081
95,891	19,490	-	-	93,484	21,060	46,395	1,004,042
44,393	-	-	-	102,824	-	-	151,822
12,556	4,415	-	-	36,552	-	17,179	287,439
24,997	11,198	-	-	28,333	-	6,302	275,926
4,659	3,357	-	-	30,588	10	62,278	567,276
43,660	21,730	-	-	120,693	-	15,249	514,276
-	-	-	-	319,425	-	-	319,425
-	-	-	-	38,134	-	-	249,399
25,636	39,378	-	-	52,065	-	17,174	949,301
13,368	12,564	-	-	24,649	-	940	131,722
43,885	43,885	-	-	91,550	-	-	442,629
16,648	2,765	-	-	25,573	-	5,526	155,288
-	358	247,785	-	55,725	-	-	372,215
32,660	44,745	-	-	48,089	-	180	153,624
137,652	740	-	-	8,103	-	158,104	4,227,146
-	-	-	-	-	1,175,995	1,558,363	6,719,708
-	-	-	161,865	-	-	-	161,865
<u>\$ 1,330,447</u>	<u>\$ 705,680</u>	<u>\$ 247,785</u>	<u>\$ 161,865</u>	<u>\$ 1,887,170</u>	<u>\$ 1,197,065</u>	<u>\$ 2,277,777</u>	<u>\$24,227,184</u>

THE HUMANE SOCIETY OF THE UNITED STATES

COMBINED STATEMENT OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>1995</u>	<u>1994</u>
Cash flows from operating activities:		
Dues and contributions	\$ 22,235,292	\$15,262,406
Grants and trust contributions	2,259,555	1,299,594
Bequests	9,377,211	3,086,328
Investment income	1,519,050	1,384,854
Rental income	545,738	467,024
Sales of literature and other income	693,325	1,070,817
Salaries, payroll taxes and benefits	(8,062,959)	(7,590,196)
Mailing vendors	(2,962,718)	(6,610,690)
Service providers, vendors and others	<u>(21,803,350)</u>	<u>(8,700,246)</u>
Net cash provided by (used for) operating activities	<u>3,801,144</u>	<u>(330,109)</u>
Cash flows from investing activities:		
Principal payments received on notes receivable	81,588	382,442
Purchase of investments	(9,593,602)	(8,750,411)
Proceeds from sale of investments	10,325,917	9,542,380
Purchase of property and equipment	(985,022)	(568,765)
Proceeds from sale of property and equipment	<u>11,124</u>	<u>3,053</u>
Net cash provided by (used for) investing activities	<u>(159,995)</u>	<u>608,699</u>
Cash flows from financing activities:		
Proceeds from mortgage note payable	<u>130,000</u>	<u>-</u>
Net increase in cash	3,771,149	278,590
Cash balance:		
Beginning of year	<u>8,051,630</u>	<u>7,773,040</u>
End of year - Exhibit "A"	<u>\$11,822,779</u>	<u>\$ 8,051,630</u>

Supplemental disclosure of non-cash investing activities:

During 1995 and 1994 the Society received \$215,000 and \$722,778, respectively, of donated investments and property and equipment. During 1994, bequests received by the Society included one note receivable of \$19,370 and donated investments valued at \$649,986.

See accompanying notes to the combined financial statements.

THE HUMANE SOCIETY OF THE UNITED STATES

COMBINED STATEMENT OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>1995</u>	<u>1994</u>
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Change in net assets - Exhibit "B"	\$ 5,010,341	\$ 149,219
Non-cash charges (credits) not affecting cash flows:		
Depreciation	488,274	442,628
Non-cash bequests	-	(669,356)
Gain on sale of investments	(1,216,766)	(408,142)
Loss on disposition of fixed assets	12,551	75,916
Non-cash contributions	(215,000)	(722,778)
Changes in accruals of operating assets and liabilities:		
Decrease (increase) in accounts receivable	(202,161)	35,027
Decrease in accrued interest receivable	6,534	30,633
Decrease (increase) in prepaid expenses	(267,254)	106,144
Decrease (increase) in deposits	5,918	(12,024)
Decrease (increase) in inventory	52,463	(116,987)
Decrease in pension intangible asset	-	18,027
Increase in accounts payable	51,012	787,828
Increase (decrease) in other current liabilities	68,811	(32,492)
Decrease in accrued pension obligation	(3,579)	(13,752)
Net cash provided by (used for) operating activities	<u>\$ 3,801,144</u>	<u>\$(330,109)</u>

See accompanying notes to the combined financial statements.

THE HUMANE SOCIETY OF THE UNITED STATES

NOTES TO COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 1995

Note 1. Nature of Organization

The Humane Society of the United States (the Society) is a not-for-profit organization whose primary purpose is the world-wide advancement of humane treatment of animals through public education and awareness programs.

Note 2. Summary of Significant Accounting Policies

- a. **Basis of Presentation** - The accompanying combined financial statements include the assets, liabilities, net assets and activities of the Society's financially interrelated organizations that are controlled by the management of the Society. The interrelated organizations are Humane Society International, Humane Society International Australian Office, Inc., Humane Society International - Canada, The Humane Society International of the Netherlands, The Humane Society International of Latin America, National Association for Humane and Environmental Education, Humane Society of Canada for the Protection of Animals and the Environment, Center for The Respect of Life and Environment, Earthkind USA, Earthkind International, Association Humanataria De Costa Rica, National Humane Education Center and The Humane Society of the United States Wildlife Land Trust. All balances and transactions among the organizations included in the combined financial statements have been eliminated.
- b. **Method of Accounting** - The combined financial statements have been prepared on the accrual basis of accounting.
- c. **Fund Accounting** - The accounts and the financial statements of the Society are maintained in accordance with the principles of "fund accounting", in order to ensure observance of limitations and restrictions placed on the use of resources available to the restrictions placed on the use of resources available to the organization.

The financial statements of the Society for the years ended December 31, 1995 and 1994 have been prepared in accordance with newly-issued Statements of Financial Accounting Standards No. 117 and 116 (SFAS No. 117 and SFAS No. 116). Certain amounts in the 1993 fund balances (see Note 15), and in the 1994 financial statements have been reclassified to conform with the 1995 presentation. These reclassifications did not result in any change in the total assets, total liabilities, total fund balances, total revenue or total expenditures as reported in 1994.

Note 2. Summary of Significant Accounting Policies (continued)

SFAS No. 117 requires that the financial statements provided by a not-for-profit organization report the amounts for each of three distinct classes of net assets and the changes therein - permanently restricted net assets, temporarily restricted net assets and unrestricted net assets - based on the existence or absence of donor-imposed restrictions. Additional information concerning these three classes of net assets are presented in Notes 3, 4 and 5.

- d. Depreciation - Depreciation of property and equipment is computed on the straight-line method at rates calculated to prorate the cost of the assets over their estimated useful lives (see Note 7).
- e. Investments - Investments are recorded at cost or, in the case of gifts and bequests, fair market value at date of donation.
- f. Allocation of Joint Costs - All joint costs of informational materials or activities that include a fund raising appeal are allocated between fundraising and the appropriate program or membership development function (see Note 12).
- g. Cash and Cash Equivalents - For the purposes of the combined statement of cash flows, cash is considered as amounts available for immediate withdrawal from bank accounts and highly-liquid cash investments such as money market accounts. The Society regards certificates of deposit, regardless of their maturity dates, as short-term investments rather than cash equivalents.
- h. Bequests - Individual bequests in excess of \$25,000 are recognized as revenue in the undesignated net assets at the rate of 20% and in the board designated investment fund net assets at the rate of 80% in the year of receipt. The 80% reported as revenue in the board designated net assets is transferred to the undesignated net assets equally over the following four years. The effect of this policy is to apportion individual bequests to the undesignated net assets over a five year period.
- i. Inventory - Inventory is recorded at cost using the first-in first-out (FIFO) method of accounting.
- j. 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3. Unrestricted Net Assets

Unrestricted net assets are available to finance the general operations of the Society. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Society, the environment in which it operates, and the purpose specified in its articles of incorporation. Voluntary resolutions by the Society's Directors to designate a portion of its unrestricted net assets for specified purposes do not result in restricted funds. Since designations are voluntary and may be reversed by the governing board at any time, designated net assets are included under the caption "unrestricted net assets".

Unrestricted net assets are held by the following funds:

	<u>December 31,</u>	
	<u>1995</u>	<u>1994</u>
Board designated:		
Investment fund	\$19,374,588	\$15,803,238
Endowment fund	248,285	248,285
Special purpose funds	<u>370,111</u>	<u>382,413</u>
Total board designated	19,992,984	16,433,936
Unrestricted, undesignated	<u>16,051,495</u>	<u>15,085,102</u>
 Total	 <u>\$36,044,479</u>	 <u>\$31,519,038</u>

Note 4. Temporarily Restricted Net Assets

Temporarily restricted net assets result from gifts of cash and other assets with donor imposed restrictions as to (a) support of particular operating activities, (b) investment for a specified term, (c) use in a specified future period, or (d) acquisition of long-lived assets.

Temporarily restricted net assets are available for the following purposes:

	<u>December 31,</u>	
	<u>1995</u>	<u>1994</u>
Provide annuities	\$3,185,591	\$3,177,660
Construction and operation of education centers	-	240,207
Education and training programs	186,295	164,188
Natural habitat land held for resale	131,976	-
Provide scholarships	46,574	45,814
Support of other humane organizations	<u>36,940</u>	<u>-</u>
 Total	 <u>\$3,587,376</u>	 <u>\$3,627,869</u>

Note 5. Permanently Restricted Net Assets

Permanently restricted net assets result from gifts of cash and other assets with the stipulation that they (a) be used for a specified purpose, be preserved, and not be sold, or (b) that they be invested in perpetuity to provide a permanent source of income. The latter result from gifts and bequests that create permanent endowment funds.

Permanently restricted assets (endowment funds) are restricted to investment in perpetuity:

	<u>December 31,</u>	
	<u>1995</u>	<u>1994</u>
Income producing assets; income is expendable to support the following:		
To defray building operating expenses	\$ 400,000	\$ 400,000
To award scholarships to Connecticut secondary school students	2,479	2,479
To use for the best interest of the organization	403,133	417,117
To support other humane organizations	1,539,151	1,539,151
20% of income to be used to support the Norma Terris Humane Education and Nature Center and 80% of income to be used for general purposes of the organization	2,375,639	2,375,639
For the betterment of song birds	<u>142,377</u>	<u>-</u>
	4,862,779	4,734,386
Non-income producing assets:		
Land and easements held to preserve natural habitats for wildlife	<u>397,000</u>	<u>-</u>
Total	<u>\$ 5,259,779</u>	<u>\$ 4,734,386</u>

Income from permanently restricted assets are reported on Exhibit "B" as unrestricted funds or as temporarily restricted funds and then as net assets released from restriction as used for their designated purpose. (See Note 6).

Note 6. Net Assets Released From Restrictions

Net assets described in Note 4 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>December 31</u>	
	<u>1995</u>	<u>1994</u>
Purpose for which restrictions were accomplished:		
Annuity payments	\$ 180,235	\$ 161,866
Purchase of land	-	159,793
Other restricted fund and program expenses of the organization	1,209,915	1,189,539
Gifts to other humane organizations	67,061	55,725
Restricted fund investment expenses	47,950	53,474
Death of annuitant recipients	221,175	-
Construction and operation of education centers	240,207	-
Payment of scholarships	2,000	-
Total	<u>\$ 1,968,543</u>	<u>\$ 1,620,397</u>

Note 7. Property and Equipment

At December 31, 1995 and 1994 property and equipment consisted of the following:

	<u>Useful Life</u>	<u>December 31, 1995</u>	<u>December 31, 1994</u>
Land		\$ 4,089,389	\$ 3,413,121
Buildings and improvements	10 to 40 years	6,746,776	6,580,743
Office furniture and equipment	10 years	2,253,212	1,944,380
Automobiles	3 years	<u>53,840</u>	<u>53,840</u>
		13,143,217	11,992,084
Less: Accumulated depreciation		<u>(2,720,980)</u>	<u>(2,257,920)</u>
Net property and equipment		<u>\$10,422,237</u>	<u>\$ 9,734,164</u>

Note 8. Investments

The following summary presents the cost or value at date of gift and market value, as determined by quoted market price for each investment category at December 31, 1995 and 1994. Investments which do not have a readily available quoted market price are estimated to have market price which generally approximates the original cost of the investment.

	<u>December 31, 1995</u>		<u>December 31, 1994</u>	
	<u>Cost or Value at Date of Gift</u>	<u>Market Value</u>	<u>Cost or Value at Date of Gift</u>	<u>Market Value</u>
At quoted market prices:				
U.S. corporate stocks	\$ 16,691,710	\$ 24,810,903	\$ 15,899,190	\$18,893,837
Foreign corporate stocks	1,708,172	1,700,223	1,456,745	1,305,109
Government obligations	3,390,635	3,499,159	2,766,459	2,710,687
Certificates of deposit	191,000	191,000	286,000	286,000
U.S. corporate bonds	1,255,976	1,372,537	1,965,529	1,869,383
Foreign corporate bonds	<u>12,518</u>	<u>9,870</u>	<u>29,831</u>	<u>27,024</u>
	<u>23,250,011</u>	<u>31,583,692</u>	<u>22,403,754</u>	<u>25,092,040</u>
At estimated market value:				
Real property	662,961	662,961	1,016,937	977,867
Personal property	<u>150,354</u>	<u>150,354</u>	<u>158,184</u>	<u>158,184</u>
	<u>813,315</u>	<u>813,315</u>	<u>1,175,121</u>	<u>1,136,051</u>
	<u>\$ 24,063,326</u>	<u>\$ 32,397,007</u>	<u>\$ 23,578,875</u>	<u>\$ 26,228,091</u>

Note 9. Future Minimum Lease Receipts

The Society, as lessor, leases space to other parties under various agreements. Total monthly rental payments due under these leases as of December 31, 1995 amount to \$41,150. Future minimum rental payments due under noncancellable leases with terms of one year or more are as follows:

	<u>Amount</u>
Year Ending December 31, 1996	\$ 466,076
1997	165,056
1998	143,424
1999	76,147
2000	<u>16,620</u>
	<u>\$ 867,323</u>

Note 10. Tax Status

The Society qualifies under Section 501(c)(3) of the Internal Revenue Code and is classified as an organization which is not a private foundation. Therefore, the Society is generally not subject to tax under present income tax laws; however, any unrelated business income may be subject to Federal and state income taxes.

Note 11. Pension Plan for Employees

The Humane Society of the United States Retirement Income Plan is a defined benefit plan that provides regular employees of the Society benefits equal to 2% of earnings for each year of credited service up to a maximum of 25 years. Participants accrue benefits over the years of their employment, although normal pension benefits are not payable until age 65. Participants choosing earlier payment receive substantially reduced benefits.

Based on the latest actuarial valuations prepared by The Segal Company as of January 1, 1996 and CIGNA Employee Benefits Services, Inc. as of January 1, 1995, the net periodic pension cost of the plan for the years ended December 31, 1995 and 1994 is summarized as follows:

	<u>1995</u>	<u>1994</u>
Service cost	\$ 311,815	\$ 429,790
Interest cost	332,659	317,454
Actual return on plan assets	(627,564)	(245,465)
Net amortization and deferral	<u>376,570</u>	<u>73,014</u>
Net periodic pension cost	<u>\$ 393,480</u>	<u>\$ 574,793</u>

Note 11. Pension Plan for Employees (continued)

The following assumptions were used by the actuary in determining net periodic pension cost:

	<u>1995</u>	<u>1994</u>
a. Weighted average discount rate	8.0%	8.0%
b. Weighted average rate of compensation increase	5.5%	5.5%
c. Expected long-term rate of return on plan assets	8.0%	8.5%

The plan's funded status projected to December 31, 1995 and 1994 is summarized as follows:

	<u>1995</u>	<u>1994</u>
Accumulated benefit obligation:		
Vested	\$ 4,040,535	\$ 3,080,964
Nonvested	<u>123,067</u>	<u>89,582</u>
	4,163,602	3,170,546
Additional benefit based on estimated future salary levels	<u>1,234,586</u>	<u>1,152,885</u>
Projected benefit obligation	5,398,188	4,323,431
Fair value of plan assets held by the insurance company	<u>4,387,758</u>	<u>3,315,245</u>
Deficiency of plan assets over projected benefit obligation	(1,010,430)	(1,008,186)
Unrecognized prior service cost	105,833	113,980
Unrecognized net loss	98,371	62,796
Unrecognized transition liability	<u>197,246</u>	<u>218,851</u>
Net pension obligation included on balance sheet	<u><u>\$ (608,980)</u></u>	<u><u>\$ (612,559)</u></u>

The Society's funding policy is to contribute an amount annually based upon actuarial and economic assumptions designed to achieve adequate funding of projected benefit obligations. On this basis the Society contributed \$522,322 and \$570,518 to the Plan in 1995 and 1994, respectively.

Note 12. Allocation of Joint Costs

The Humane Society has allocated the joint costs of providing educational materials and activities that include a fund-raising appeal. For the years ended December 31, 1995 and 1994, the allocation of the joint costs is summarized as follows:

Note 12. Allocation of Joint Costs (continued)

	<u>1995</u>	<u>1994</u>
Membership development	\$ 3,122,953	\$1,175,995
Programs	7,326,715	3,985,350
Fund raising	<u>3,166,664</u>	<u>1,558,363</u>
Total joint cost	<u>\$13,616,332</u>	<u>\$6,719,708</u>

Note 13. Deferred Compensation Plan

In 1983, the Society established the HSUS Deferred Compensation Plan for certain executive employees. The Society and the participants may elect to defer a portion of the compensation which the participants would otherwise be entitled to receive in cash; those deferrals are invested in annuity contracts offered by an insurance company. The annuity contracts are owned by the Society, subject to the claims of its general creditors. The obligation of the Society under this plan is purely contractual and is not secured. All income earned by the annuity contracts is added to the deferred compensation liability. The amounts deferred by participants during 1995 and 1994, which are included in the amounts reported in the accompanying financial statements as salaries, were \$24,500 for each year.

The annuity contract assets and the related liability at December 31, 1995 and 1994 totaled \$410,647 and \$291,616, respectively.

Note 14. Uninsured Cash Balance

The Society maintains its cash in bank accounts which at times, may exceed federally insured limits. The Society has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 15. December 31, 1993 Fund Balances

As discussed in Note 2c, the December 31, 1993 fund balances have been reclassified to conform to the 1995 presentation as follows:

	<u>Unrestricted Funds</u>	<u>Restricted Funds</u>	<u>Endowment Funds</u>	<u>Annuity Funds</u>	<u>Trust Fund</u>	<u>Totals (As Restated)</u>
Unrestricted:						
Board designated	\$17,976,455	\$ -	\$ -	\$ -	\$ -	\$17,976,455
Undesignated	<u>13,082,439</u>	<u>251,551</u>	<u>3,868</u>	<u>-</u>	<u>-</u>	<u>13,337,858</u>
Total unrestricted	<u>31,058,894</u>	<u>251,551</u>	<u>3,868</u>	<u>-</u>	<u>-</u>	<u>31,314,313</u>
Restricted:						
Temporarily restricted	-	527,420	31,259	3,120,912	3,784	3,683,375
Permanently restricted	<u>-</u>	<u>-</u>	<u>3,195,235</u>	<u>-</u>	<u>1,539,151</u>	<u>4,734,386</u>
Total restricted	<u>-</u>	<u>527,420</u>	<u>3,226,494</u>	<u>3,120,912</u>	<u>1,542,935</u>	<u>8,417,761</u>
Total fund balances	<u>\$31,058,894</u>	<u>\$778,971</u>	<u>\$3,230,362</u>	<u>\$3,120,912</u>	<u>\$1,542,935</u>	<u>\$39,732,074</u>

Note 16. Mortgage Note Payable

The mortgage note payable of \$130,000 at December 31, 1995 is a purchase money mortgage on a house and 59 acres of land located in Swanzey, New Hampshire. The mortgage is non-interest bearing and repayment is contingent upon the sale of the house.

Note 17. Contingencies

In November 1995 the Society filed a complaint for compensatory and consequential damages against a former employee. In December 1995, this former employee filed a counterclaim against the Society and certain of its employees in the U.S. District Court for the District of Maryland, claiming compensatory damages of \$2 million and punitive damages of \$20 million. The Society's management, based on the opinion of the Society's General Counsel, believes that the Society will prevail in this matter and that the outcome of the proceedings will not have a material adverse effect on the Society.

The Society is also involved in other legal proceedings and claims of various types. In the opinion of the Society's management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of the Society.