

THE HUMANE SOCIETY OF THE UNITED STATES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002

**HUMANEWATCH.ORG**



**THE HUMANE SOCIETY OF THE UNITED STATES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2002 AND 2001**

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of  
The Humane Society of the United States

We have audited the accompanying consolidated statement of financial position of The Humane Society of the United States and its interrelated organizations as of December 31, 2002, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of The Humane Society of the United States and its interrelated organizations as of December 31, 2001, were audited by other auditors, whose report thereon dated March 1, 2002 expressed an unqualified opinion on those statements. Their report also expressed the opinion that the additional information for 2001 presented on pages 17 and 18 of the accompanying financial statements was fairly stated in all material respects in relation to the 2001 basic financial statements taken as a whole.

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 an 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 the Society's 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 2002 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Humane Society of the United States and its interrelated organizations as of December 31, 2002, and the changes in their net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the 2002 consolidated financial statements taken as a whole. The additional information on pages 18 and 19, which is the responsibility of the Society's management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2002 consolidated financial statements taken as a whole.

*Calibre CPA Group PLLC*

March 22, 2003

**THE HUMANE SOCIETY OF THE UNITED STATES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

DECEMBER 31, 2002 AND 2001

	2002	2001
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 7,200,698	\$ 8,424,107
Contributions and bequests receivable	2,031,322	-
Miscellaneous receivables	771,220	275,879
Accrued interest receivable	285,793	407,989
Prepaid expenses and deferred charges	1,905,970	1,019,563
Deposits	28,747	29,742
Total current assets	12,223,750	10,157,280
<b>NONCURRENT ASSETS</b>		
Contributions and bequests receivable, net of current portion	529,522	-
Prepaid pension cost	553,410	335,313
Investments	76,778,364	85,359,256
Investments to fund deferred compensation liability	438,558	503,725
Property and equipment, at cost less accumulated depreciation of \$7,572,940 and \$6,749,630, respectively	9,817,932	9,945,377
Intangible pension asset	867,119	-
Total noncurrent assets	88,984,905	96,143,671
Total assets	\$101,208,655	\$106,300,951
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 5,329,592	\$ 3,281,664
Contributions payable	-	163,356
Other current liabilities	778,857	578,025
Total current liabilities	6,108,449	4,023,045
<b>NONCURRENT LIABILITIES</b>		
Annuities and unitrusts	4,252,320	4,297,184
Accrued pension and severance obligation	2,268,155	898,229
Deferred compensation liability	438,558	503,725
Total noncurrent liabilities	6,959,033	5,699,138
Total liabilities	13,067,482	9,722,183
<b>NET ASSETS</b>		
Unrestricted		
Board designated	42,132,104	45,681,813
Undesignated	19,399,721	24,609,828
Total unrestricted	61,531,825	70,291,641
Temporarily restricted	6,031,018	5,740,373
Permanently restricted	20,578,330	20,546,754
Total net assets	88,141,173	96,578,768
Total liabilities and net assets	\$101,208,655	\$106,300,951

See accompanying notes to consolidated financial statements.

**THE HUMANE SOCIETY OF THE UNITED STATES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**

**YEARS ENDED DECEMBER 31, 2002 AND 2001**

	Year Ended December 31, 2002			Year Ended December 31, 2001		
	Unrestricted	Temporarily	Permanently	Unrestricted	Temporarily	Permanently
		Restricted	Restricted		Restricted	Restricted
			Total			Total
<b>REVENUE, OTHER ADDITIONS AND TRANSFERS</b>						
Dues and contributions	\$ 49,006,171	\$ 3,669,159	\$ 52,675,330	\$ 41,781,775	\$ 3,115,078	\$ 44,896,853
Grants and trust contributions	1,802,332	2,216,623	4,025,477	2,751,587	1,003,266	3,903,283
Bequests	11,261,150	496,687	11,770,657	5,654,767	902,784	6,672,551
Annuitants and unitrusts	676,525	-	676,525	218,111	-	218,111
Change in valuation of annuities and unitrusts	385,082	198,814	583,896	-	(520,414)	(520,414)
Investment income	2,050,332	442,206	2,492,538	2,609,432	645,934	3,255,366
Rental income	730,884	-	730,884	666,594	-	666,594
Sales of literature and publications	342,417	-	342,417	326,253	-	326,253
Other income	2,833,768	-	2,833,768	2,587,765	222,513	2,810,278
Net assets released from restrictions	5,886,917	(5,886,917)	-	4,328,849	(4,328,849)	-
Total revenue, other additions and transfers	74,975,578	1,136,572	76,131,492	60,925,133	1,040,312	62,228,875
<b>EXPENSES AND OTHER DEDUCTIONS</b>						
Program services	43,731,799	-	43,731,799	38,187,340	-	38,187,340
Management and general	5,630,311	-	5,630,311	5,385,645	-	5,385,645
Membership development	1,406,064	-	1,406,064	1,242,884	-	1,242,884
Fund raising	21,709,193	-	21,709,193	19,304,781	-	19,304,781
Total expenses and other deductions	72,477,367	-	72,477,367	64,120,650	-	64,120,650
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>						
Minimum pension liability adjustment	2,498,211	1,136,572	3,654,125	(3,195,517)	1,040,312	(1,891,775)
Net assets received in acquisition of Ark Trust, Inc.	(451,206)	-	(451,206)	-	-	-
Net appreciation (depreciation) in fair value of investments	198,774	-	198,774	-	-	-
	(11,005,595)	(845,927)	(11,839,288)	(9,493,842)	(693,523)	(10,186,318)
<b>CHANGE IN NET ASSETS</b>						
Beginning of year	(8,759,816)	290,645	(8,437,595)	(12,689,359)	346,789	(12,078,093)
End of year	70,291,641	5,740,373	96,578,768	82,981,000	5,393,584	108,656,861
	\$ 61,531,825	\$ 6,031,018	\$ 88,141,173	\$ 70,291,641	\$ 5,740,373	\$ 96,578,768

See accompanying notes to consolidated financial statements.

**THE HUMANE SOCIETY OF THE UNITED STATES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2002

	Public Education, Membership Information and Publications	Cruelty Investigations and Regional Offices	Wildlife, Animal Habitat and Sheltering	Youth and Higher Education	Legal Assistance, Litigation and Government Relations	Laboratory Bioethics and Farm Animals	Management and General	Membership Development	Fund Raising	Total
Salaries	\$ 2,077,405	\$ 2,395,012	\$ 3,099,129	\$ 982,237	\$ 1,018,221	\$ 938,977	\$ 1,575,452	\$ 61,578	\$ 1,051,765	\$ 13,199,776
Payroll taxes	152,441	177,929	230,130	73,047	75,781	69,824	115,527	4,590	77,441	976,710
Employee benefits	386,256	450,680	713,100	185,021	191,947	179,895	313,838	11,626	196,563	2,628,926
Total compensation	2,616,102	3,023,621	4,042,359	1,240,305	1,285,949	1,188,696	2,004,817	77,794	1,325,769	16,805,412
Consultant and contracted services	2,060,786	370,992	1,712,842	308,865	164,386	172,124	1,516,064	1,155	588,336	6,895,550
Professional fees	33,596	3,198	42,096	280	128,635	293	90,441	13	383	298,935
Office supplies and expenses	191,251	230,848	453,777	71,776	37,902	36,933	94,811	9,135	14,110	1,140,543
Telephone	93,446	103,561	65,616	38,477	26,657	23,938	47,631	6,799	17,734	423,859
Postage and shipping	432,194	211,695	76,449	298,988	8,476	13,854	51,215	37	24,850	1,117,758
Occupancy and building expense	201,850	171,356	142,579	33,649	29,424	10,793	181,633	5,896	21,197	798,377
Investment expenses and trustees' fees	8,821	-	26,576	-	-	-	996,835	-	1,349	1,033,581
Travel, meals and lodging	358,812	481,050	953,928	210,073	162,005	283,004	214,760	1,243	115,432	2,780,307
Insurance and bonds	77,004	74,807	48,755	-	29,848	30,098	59,695	-	-	320,207
Depreciation	203,069	104,609	134,024	45,333	38,630	24,059	240,090	5,224	29,970	825,008
Contributions and grants	315,418	71,059	679,715	38,300	266,000	81,095	38,200	-	5,000	1,494,787
Real estate and personal property taxes	7,936	5,930	21,210	418	9,493	537	57,022	3	1,916	104,465
Education material, publications and campaigns	3,019,847	216,665	870,302	565,359	77,472	94,702	36,925	1,034	131,820	5,014,126
Mailing costs	12,680,391	40	11,879	1,032	-	1,880	172	1,297,731	19,431,327	33,424,452
Total	\$22,300,523	\$5,069,431	\$9,282,107	\$2,852,855	\$2,264,877	\$1,962,006	\$5,630,311	\$1,406,064	\$21,709,193	\$72,477,367

See accompanying notes to consolidated financial statements.

**THE HUMANE SOCIETY OF THE UNITED STATES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2001

	Public Education, Membership Information and Publications	Cruelty Investigations and Regional Offices	Wildlife, Animal Habitat and Sheltering	Youth and Higher Education	Legal Assistance, Litigation and Government Relations	Laboratory Bioethics and Farm Animals	Management and General	Membership Development	Fund Raising	Total
Salaries	\$ 1,949,804	\$ 2,310,109	\$ 2,911,133	\$ 965,734	\$ 971,610	\$ 823,464	\$ 1,441,492	\$ 59,252	\$ 745,367	\$ 12,177,965
Payroll taxes	147,641	166,435	196,433	73,188	82,675	69,845	111,589	3,885	51,864	903,555
Employee benefits	330,122	372,145	581,420	163,647	184,860	156,302	304,289	8,687	115,968	2,217,440
Total compensation	2,427,567	2,848,689	3,688,986	1,202,569	1,239,145	1,049,611	1,857,370	71,824	913,199	15,298,960
Consultant and contracted services	2,108,379	289,870	1,452,731	260,721	115,813	118,201	1,318,326	2,707	405,539	6,072,287
Professional fees	7,298	5,685	23,513	548	130,512	731	146,220	-	2,471	316,978
Office supplies and expenses	163,966	131,939	347,307	81,167	43,484	26,132	140,103	9,566	18,586	962,250
Telephone	88,378	104,711	60,238	40,059	30,111	16,102	51,131	5,595	13,681	410,006
Postage and shipping	458,941	254,054	93,806	336,675	6,000	6,627	68,175	26	34,593	1,258,897
Occupancy and building expense	155,804	150,150	128,475	33,495	29,871	33,942	155,318	4,516	19,011	710,582
Investment expenses and trustees' fees	7,058	-	25,352	17,705	-	20	945,216	-	-	995,351
Travel, meals and lodging	333,084	470,563	1,019,270	181,740	70,363	149,492	277,236	2,178	92,120	2,596,046
Insurance and bonds	48,388	46,356	29,543	-	18,542	18,542	37,982	-	-	198,453
Depreciation	193,821	94,041	132,805	52,237	38,197	26,261	233,247	14,166	18,408	803,183
Contributions and grants	179,709	100,640	1,033,303	9,350	152,500	145,122	3,000	-	-	1,623,624
Real estate and personal property taxes	7,658	1,007	28,132	369	9,034	1,042	57,174	-	922	105,338
Education material, publications and campaigns	2,417,004	250,478	880,883	633,256	78,600	84,363	96,047	499	187,808	4,628,938
Mailing costs	9,406,997	-	1,560	950	-	-	-	1,131,807	17,598,443	28,139,757
Total	\$ 18,004,052	\$ 4,748,183	\$ 8,945,904	\$ 2,850,841	\$ 1,962,172	\$ 1,676,188	\$ 5,385,645	\$ 1,242,884	\$ 19,304,781	\$ 64,120,650

See accompanying notes to consolidated financial statements.



THE HUMANE SOCIETY OF THE UNITED STATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Dues and contributions	\$ 52,602,512	\$ 43,699,384
Grants and trust contributions	3,332,683	3,903,283
Bequests	10,034,059	6,557,551
Charitable gift annuities	1,215,557	-
Investment income	2,614,734	3,528,006
Rental income	730,884	666,594
Sales of literature and other income	2,034,228	2,656,548
Payments to vendors, suppliers and employees	<u>(70,114,628)</u>	<u>(63,678,625)</u>
Net cash provided by (used for) operating activities	<u>2,450,029</u>	<u>(2,667,259)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(65,840,980)	(67,125,093)
Proceeds from sale of investments	62,835,348	68,038,824
Purchase of property and equipment	(681,033)	(580,722)
Proceeds from sale of property and equipment	<u>407</u>	<u>2,601</u>
Net cash provided by (used for) investing activities	<u>(3,686,258)</u>	<u>335,610</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Permanently restricted contributions and bequests	<u>12,820</u>	<u>115,000</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(1,223,409)</b>	<b>(2,216,649)</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>8,424,107</u>	<u>10,640,756</u>
End of year	<u>\$ 7,200,698</u>	<u>\$ 8,424,107</u>

During 2002 and 2001 the Society received \$271,592 and 1,007,389, respectively, of donated investments and property and equipment.

See accompanying notes to consolidated financial statements.

**THE HUMANE SOCIETY OF THE UNITED STATES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

	2002	2001
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET</b>		
<b>CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>		
Change in net assets	\$ (8,437,595)	\$(12,078,093)
Non-cash charges (credits) not affecting cash flows		
Depreciation	825,008	803,183
Net depreciation in fair value of investments	11,839,288	10,186,318
Loss on disposition of property and equipment	8,413	20,168
Non-cash contributions	(271,592)	(1,007,389)
Permanently restricted contributions and bequests	(19,342)	(115,000)
Decrease (increase) in operating assets		
Contributions and bequests receivable	(2,560,844)	-
Miscellaneous receivables	(495,341)	(221,082)
Accrued interest receivable	122,196	272,640
Prepaid expenses and deferred charges	(886,407)	396,643
Deposits	995	(1,309)
Prepaid pension cost	(218,097)	(335,313)
Intangible pension asset	(867,119)	-
Increase (decrease) in operating liabilities		
Accounts payable	2,047,928	(1,175,601)
Contributions payable	(163,356)	(198,610)
Other current liabilities	200,832	(12,222)
Annuities and unitrusts	(44,864)	769,938
Accrued pension and severance obligation	1,369,926	28,470
	\$ 2,450,029	\$ (2,667,259)
Net cash provided by (used for) operating activities	\$ 2,450,029	\$ (2,667,259)

See accompanying notes to consolidated financial statements.

**THE HUMANE SOCIETY OF THE UNITED STATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2002 AND 2001

**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**

**Basis of Presentation** - The accompanying consolidated 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., National Association for Humane and Environmental Education, Center for The Respect of Life and Environment, EarthVoice, World Wide Network, Inc., Association Humanataria De Costa Rica, National Humane Education Center, Meadow Creek, Inc., Humane Society of the United States Wildlife Land Trust and, effective August 2002, the Ark Trust, Inc. All balances and transactions among the organizations included in the consolidated financial statements have been eliminated.

**Method of Accounting** - The consolidated financial statements have been prepared on the accrual basis of accounting.

**Net Assets** - In accordance with U.S. generally accepted accounting principles, the Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Classification of net assets into classes is based on existence or absence of donor-imposed restrictions. Additional information concerning these three classes of net assets are presented in Notes 3, 4 and 5.

**Investments** - Investments in securities that have readily determinable fair values are recorded at fair value. All other investments which do not have a readily determinable fair value are estimated to have a fair value which usually approximates the original cost of the investments. Interest and dividends earned on investments are included in the determination of the change in net assets from operations. Gains and losses attributable to changes in the fair value of investments are reported as other changes in net assets in the statement of activities.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Allocation of Joint Costs** - All joint costs of informational materials or activities that include a fund raising appeal are allocated between fund raising and the appropriate program or membership development function.

**Cash and Cash Equivalents** - For the purposes of the consolidated 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.

**Bequests** - Individual unrestricted 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.

**Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

**Property and Equipment** - The Society capitalizes property and equipment having an acquisition cost greater than \$1,000. Donated property is recorded at fair value or donor's basis at the time of donation if fair value cannot be reasonably estimated. Donated land conservation easements are recorded at \$1. Improvements to fixed assets which extend the useful lives of the assets are also capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

**Contributions Payable** - Pledges to give contributions are recorded as expense when the Society makes the pledge.

**Reclassifications** - Certain amounts previously reported in the 2001 financial statements have been reclassified to conform with the 2002 presentation.

**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 purposes 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 with unrestricted net assets.

**NOTE 3. UNRESTRICTED NET ASSETS (CONTINUED)**

Unrestricted net assets are held by the following funds:

	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
Board designated:		
Investment fund	\$ 41,389,912	\$ 44,967,214
Endowment fund	255,083	254,458
Special purpose funds	<u>487,109</u>	<u>460,141</u>
Total board designated	42,132,104	45,681,813
Undesignated	<u>19,399,721</u>	<u>24,609,828</u>
 Total	 <u>\$ 61,531,825</u>	 <u>\$ 70,291,641</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>2002</u>	<u>2001</u>
Annuities and unitrusts	\$ 781,535	\$ 1,016,583
Education and training programs	3,360,059	2,918,288
Provide scholarships	63,309	60,622
Support of other humane organizations	470,889	835,247
For the betterment of song birds	322,657	235,744
Wildlife Land Trust	<u>1,032,569</u>	<u>673,889</u>
 Total	 <u>\$ 6,031,018</u>	 <u>\$ 5,740,373</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.

**NOTE 5. PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)**

Permanently restricted assets (endowment funds) are restricted to investment in perpetuity, the income from which is to be used for the following purposes:

	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
Income producing assets; income is expendable to support the following:		
To defray building operating expenses	\$ 419,565	\$ 407,331
To award scholarships to Connecticut secondary school students	2,479	2,479
To use for the best interest of the organization	14,042,959	14,042,959
To support other humane organizations	1,509,387	1,509,387
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 State of New Hampshire wildlife	127,820	115,000
For the betterment of song birds	<u>802,464</u>	<u>802,464</u>
	19,280,313	19,255,259
Non-income producing assets:		
Land and easements held to preserve natural habitats for wildlife	<u>1,298,017</u>	<u>1,291,495</u>
Total	<u>\$ 20,578,330</u>	<u>\$ 20,546,754</u>

Income earned on investments in the permanently restricted net asset class are reported in the accompanying consolidated statements of activities as increases in unrestricted, temporarily restricted, or permanently restricted net assets depending on the nature of donor-imposed restrictions on such earnings. Earnings reported in the temporarily restricted net asset class are released from restriction when such amounts are used for their donor-restricted purposes.

**NOTE 6. NET ASSETS RELEASED FROM RESTRICTIONS**

During 2002 and 2001 assets were released from donor restrictions by the Society incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2002</u>	<u>2001</u>
Purpose for which restrictions were accomplished:		
Donor specified program expenses of the organization	\$ 5,180,280	\$ 3,919,181
Gifts to other humane organizations	615,248	345,332
Restricted fund investment expenses	<u>91,389</u>	<u>64,336</u>
Total	<u>\$ 5,886,917</u>	<u>\$ 4,328,849</u>

**NOTE 7. 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 8. 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 2002 and 2001, which are included in the amounts reported in the accompanying financial statements as salaries, totaled \$17,000 and \$19,877, respectively.

The annuity contract assets and the related liability at December 31, 2002 and 2001 totaled \$438,558 and \$503,725, respectively.

**NOTE 9. 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, 2002 and 2001. Investments which do not have a readily available quoted market price are estimated to have a market value which generally approximates the original cost of the investment.

	<u>December 31, 2002</u>		<u>December 31, 2001</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	\$ 28,774,598	\$ 27,825,736	\$ 28,224,827	\$ 32,035,822
Foreign corporate stocks	2,790,153	2,557,852	3,077,671	2,825,273
Government obligations	20,015,019	20,705,382	25,137,100	25,125,526
U.S. corporate bonds	4,450,771	4,665,881	5,570,867	5,651,935
Foreign corporate bonds	83,983	96,682	406,672	425,920
Mutual funds	12,047	10,803	8,102,025	6,392,637
Money market accounts	20,734,533	20,734,533	12,723,001	12,723,001
	<u>76,861,104</u>	<u>76,596,869</u>	<u>83,242,163</u>	<u>85,180,114</u>
At estimated market value:				
Real property	167,973	167,973	165,620	165,620
Personal property	13,522	13,522	13,522	13,522
	<u>181,495</u>	<u>181,495</u>	<u>179,142</u>	<u>179,142</u>
	<u>\$ 77,042,599</u>	<u>\$ 76,778,364</u>	<u>\$ 83,421,305</u>	<u>\$ 85,359,256</u>

**NOTE 10. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

	<u>Useful Life</u>	<u>December 31,</u>	
		<u>2002</u>	<u>2001</u>
Land		\$ 5,078,363	\$ 5,011,290
Buildings and improvements	10 to 40 years	7,562,574	7,420,726
Office furniture and equipment	5 years	4,622,968	4,174,705
Automobiles	3 years	<u>126,967</u>	<u>88,286</u>
		17,390,872	16,695,007
Less accumulated depreciation		<u>(7,572,940)</u>	<u>(6,749,630)</u>
Net property and equipment		<u>\$ 9,817,932</u>	<u>\$ 9,945,377</u>

**NOTE 11. CONTRIBUTIONS PAYABLE**

The Humane Society of the United States and Humane Society International (HSUS/HSI) entered into an agreement with the National Parks Board of South Africa (NPB) which provides for a five year program, which can be renewed by mutual consent, of financial and programmatic support to develop and implement a new paradigm for human stewardship and management of elephants and other wildlife. The HSUS/HSI committed to provide the NPB with an amount of \$1,000,000 over five years beginning in January 1997. Should the money provided by the HSUS/HSI not be used strictly in accordance with the terms and conditions agreed to for such use by the HSUS/HSI and the NPB, then the HSUS/HSI shall be entitled to withdraw the grant including any balance of the \$1,000,000 which still may be due. During the year 2000, HSUS/HSI agreed to grant NPB an additional \$200,000 in 2001. This is an additional amount above the \$200,000 already granted to NPB for the year 2001. The current liability was reduced by \$38,034 for expenses already paid during the year 2000. The \$361,966 due for 2001 was reported in the accompanying consolidated statement of financial position as a current liability at December 31, 2000. At December 31, 2001, the balance remaining due was \$163,356. This amount was paid in full during 2002.

**NOTE 12. ANNUITIES AND UNITRUSTS**

The annuities and unitrusts liability represents the actuarially determined liability for future annuity payments due under charitable gift annuities and charitable remainder unitrusts.

Under the charitable gift annuities, donors make contributions to the Society, for which they receive an annuity from the Society. Contribution revenue is recognized as the excess of the fair value of assets received over the net present value of the future annuity payments due. The liability was actuarially determined using the Annuity Table of Mortality 90CM and assumed interest rates of 3.6%-10.2%. A portion of the monies received from these split-interest agreements is required by law to be reserved for making the annuity payments. The amount



**NOTE 12. ANNUITIES AND UNITRUSTS (CONTINUED)**

required to be reserved has been actuarially determined using the Annuity Table of Mortality 83-a and an assumed interest rate of 6%. At December 31, 2002 and 2001 the Society has investments of \$10,833,291 and \$11,317,898, respectively, reserved for paying annuities. The amounts required to be reserved as calculated by the actuary are \$4,563,986 and \$3,793,156, respectively.

Under the charitable remainder unitrusts, donors make contributions to the Society, which remain in trust until a stipulated event, at which time, the remaining trust balance conveys to the Society for unrestricted use. The gifts are valued at their fair market value at the time of the gift. In consideration of the gifts, donors receive an annuity from the trust based on the lesser of 1) the trust principal times a stated interest rate; or 2) the actual earnings of the trust. The future liability was calculated using assumed interest rates of 6% to 7.2%. At December 31, 2002 and 2001, the amounts of assets held in charitable remainder unitrusts, which are restricted for the payment of related annuities, are \$1,126,847 and \$1,520,611, respectively. The actuarially calculated liabilities at December 31, 2002 and 2001 are \$345,312 and \$504,028, respectively. The net assets of the trusts of \$781,535 and \$1,016,583, respectively, are included in temporarily restricted net assets in the accompanying consolidated statements of financial position.

**NOTE 13. PENSION PLAN FOR EMPLOYEES**

The Humane Society of the United States Retirement Income Plan is a qualified participating 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.

The Society also has a Supplemental Executive Retirement Plan (SERP) that is a non-qualified defined benefit plan under which the Society will pay supplemental pension benefits to its President in addition to amounts received under the qualified retirement income plan.

The following table summarizes the projected benefit obligations, the fair value of assets and the funded status of the plans at December 31, 2002 and 2001.

	<u>2002</u>	<u>2001</u>
Projected benefit obligation	\$ (11,447,441)	\$ (10,310,613)
Fair value of assets	<u>8,108,002</u>	<u>8,087,538</u>
Funded status at December 31	<u>\$ (3,339,439)</u>	<u>\$ (2,223,075)</u>

The amount of contributions and benefits from the plans are as follows:

	<u>2002</u>	<u>2001</u>
Employer contributions to the plans	\$1,305,049	\$ 1,282,740
Participant contributions to the plans	185,071	180,068
Benefit payments from the plans	29,416	16,704

**NOTE 13. PENSION PLAN FOR EMPLOYEES (CONTINUED)**

The amounts recognized as prepaid benefit costs in the accompanying consolidated statements of financial position at December 31, 2002 and 2001 were \$553,410 and \$335,313, respectively. In addition, at December 31, 2002 there is an additional minimum liability of \$1,318,325 and related intangible pension asset of \$867,119 as the plan's accumulated benefit obligation exceeded its net assets available for benefits.

The net periodic benefit cost for the plans for the years 2002 and 2001 were \$1,086,952 and \$847,970, respectively.

The following assumptions were used by the actuary in determining the Society's benefit obligation:

	<u>2002</u>	<u>2001</u>
a. Weighted average discount rate	7.25%	7.50%
b. Weighted average rate of compensation increase	5.25%	5.50%
c. Expected long-term rate of return on plan assets	7.75%	7.75%

**NOTE 14. FUTURE MINIMUM LEASE RECEIPTS**

The Society, as lessor, leases space to other parties under various agreements. Future minimum rental receipts due under noncancellable leases with terms of one year or more are as follows:

	<u>Amount</u>
Year Ending December 31, 2003	\$ 712,568
2004	739,599
2005	140,454
2006	65,643
2007	67,940
Thereafter	<u>70,318</u>
	<u>\$ 1,796,522</u>

**NOTE 15. ALLOCATION OF JOINT COSTS**

The Society has allocated the joint costs of providing educational materials and activities that include a fund-raising appeal. For the years ended December 31, 2002 and 2001, the allocation of the joint costs is summarized as follows:

**NOTE 15. ALLOCATION OF JOINT COSTS (CONTINUED)**

	<u>2002</u>	<u>2001</u>
Membership development	\$ 1,297,728	\$ 1,131,846
Programs	12,469,841	9,259,743
Fund raising	<u>13,779,447</u>	<u>11,688,744</u>
Total joint costs	<u>\$ 27,547,016</u>	<u>\$ 22,080,333</u>

**NOTE 16. CASH CONCENTRATION**

The Society maintains its cash accounts primarily with a bank located in the Washington, D.C. area, which at times may exceed the \$100,000 insured by the FDIC. Additionally, the Society maintains money market accounts, overnight sweep accounts and other cash equivalents which are held at investment institutions. These amounts are not federally insured. 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. At December 31, 2002 and 2001, the Society's cash balances in excess of the FDIC insurance limits were \$573,000 and \$372,000, respectively.

**NOTE 17. CONTINGENCIES**

The Society is a party to a number of lawsuits. Liability, if any, associated with these matters is not presently determinable. In the opinion of management, resolution of these matters should not have a material effect on the Society's financial position.

**NOTE 18. SEVERANCE PLAN**

The Society established the Humane Society of the United States Severance Pay Plan on September 13, 1997 to provide severance pay to eligible employees. These benefits and related expense are paid from the general assets of the Society. Only employees hired before January 1, 1998 who have completed a minimum of fifteen years of continuous full time employment are eligible to become a participant. Upon termination of employment a participant receives a lump sum equal to 2 percent of the average of their base annual salary for the three calendar years before cessation of their employment, multiplied by the number of years of continuous full-time employment.

The actuarial present value of the projected benefit obligations under the Plan as of December 31, 2002 and 2001 of \$949,830 and \$898,229, respectively, are reported as a liability in accrued pension and severance obligation on the consolidated statements of financial position.

**NOTE 19. CONTRIBUTIONS RECEIVABLE**

Contributions and bequests receivable as of December 31, 2002 are due to be collected as follows:

Due in less than one year	\$ 2,039,572
Due in two to five years	<u>596,000</u>
	2,635,572
Less allowance for uncollectible amounts	(38,050)
Less discount to net present value	<u>(36,678)</u>
	<u>\$ 2,560,844</u>

**ADDITIONAL INFORMATION**

# HUMANE SOCIETY OF THE UNITED STATES WILDLIFE LAND TRUST

## SCHEDULES OF FINANCIAL POSITION

DECEMBER 31, 2002 AND 2001

	2002	2001
<b>ASSETS</b>		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,926,246	\$ 1,643,078
Cash restricted to land acquisition	84,448	145,000
Property, easements and equipment	1,247,099	1,177,753
Prepaid expenses	347,805	177,690
Accrued interest receivable	-	2,172
Total assets	\$ 4,605,598	\$ 3,145,693
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 16,209	\$ 15,048
Advance from The Humane Society of the United States	2,258,803	1,165,261
Total liabilities	2,275,012	1,180,309
<b>NET ASSETS</b>		
Unrestricted	1,014,505	673,889
Temporarily restricted	18,064	-
Permanently restricted	1,298,017	1,291,495
Total net assets	2,330,586	1,965,384
Total liabilities and unrestricted net assets	\$ 4,605,598	\$ 3,145,693

HUMANE SOCIETY OF THE UNITED STATES WILDLIFE LAND TRUST

SCHEDULES OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002			2001				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE</b>								
Contributions								
Cash	\$3,687,424	\$ 18,064	-	\$3,705,488	\$3,113,684	\$ -	\$ 75,000	\$3,188,684
Land and easements	-	-	6,522	6,522	-	-	73,430	73,430
Bequests	42,547	-	-	42,547	-	-	-	-
Other income	155,468	-	-	155,468	209,900	-	-	209,900
Investment income	24,607	-	-	24,607	69,981	-	-	69,981
Total revenue	<u>3,910,046</u>	<u>18,064</u>	<u>6,522</u>	<u>3,934,632</u>	<u>3,393,565</u>	<u>-</u>	<u>148,430</u>	<u>3,541,995</u>
<b>EXPENSES</b>								
Salaries, payroll taxes and benefits	302,319	-	-	302,319	297,892	-	-	297,892
Professional fees	101,140	-	-	101,140	88,982	-	-	88,982
Travel, meals and lodging	75,553	-	-	75,553	102,709	-	-	102,709
Direct mail expense	2,879,877	-	-	2,879,877	2,491,752	-	-	2,491,752
Advertising	5,245	-	-	5,245	45,972	-	-	45,972
Office supplies and other	109,076	-	-	109,076	141,851	-	-	141,851
Management overhead allocation from The Humane Society of the United States	96,220	-	-	96,220	223,328	-	-	223,328
Total expenses	<u>3,569,430</u>	<u>-</u>	<u>-</u>	<u>3,569,430</u>	<u>3,392,486</u>	<u>-</u>	<u>-</u>	<u>3,392,486</u>
<b>CHANGE IN NET ASSETS</b>								
	340,616	18,064	6,522	365,202	1,079	-	148,430	149,509
<b>NET ASSETS</b>								
Beginning of year	673,889	-	1,291,495	1,965,384	672,810	-	1,143,065	1,815,875
End of year	<u>\$1,014,505</u>	<u>\$ 18,064</u>	<u>\$1,298,017</u>	<u>\$2,330,586</u>	<u>\$ 673,889</u>	<u>\$ -</u>	<u>\$1,291,495</u>	<u>\$1,965,384</u>

