

Consolidated Financial Statements and Report of  
Independent Certified Public Accountants  
The Humane Society of the United States  
December 31, 2003 and 2002

**HUMANEWATCH.ORG**

# The Humane Society of the United States

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**Report of Independent Certified Public Accountants**

Board of Directors  
The Humane Society of the United States

We have audited the accompanying consolidated statements of financial position of The Humane Society of the United States (the Society) and its interrelated organizations as of December 31, 2003, and the related consolidated statements of activities and changes in net assets, 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 as of and for the year ended December 31, 2002, were audited by other auditors whose report dated March 22, 2003, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Humane Society of the United States, as of December 31, 2003, and the changes in its net assets, functional expenses and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the 2003 consolidated financial statements taken as a whole. The additional information on pages 21 and 22, 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 2003 consolidated financial statements taken as a whole.

*Grant Thornton LLP*

Vienna, Virginia  
March 5, 2004

The Humane Society of the United States

Consolidated Statements of Financial Position

<i>December 31,</i>	2003	2002
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 5,082,758	\$ 7,200,698
Contributions and bequests receivable, net of allowance of \$138,284 and \$74,728 at December 31, 2003 and 2002, respectively	1,184,932	2,031,322
Miscellaneous receivables	1,830,427	771,220
Accrued interest receivable	266,232	285,793
Prepaid expenses and deferred charges	1,767,956	1,905,970
Deposits	30,752	28,747
<b>Total current assets</b>	<b>10,163,057</b>	<b>12,223,750</b>
<b>Non-current Assets</b>		
Contributions and bequests receivable, net of current portion and discount	2,164,598	529,522
Prepaid pension cost	793,546	553,410
Investments	92,937,715	76,778,364
Investments to fund deferred compensation liability	594,471	438,558
Property and equipment, less accumulated depreciation of \$8,316,213 and \$7,572,940, respectively	9,552,495	9,817,932
Intangible pension asset	—	867,119
<b>Total non-current assets</b>	<b>106,042,825</b>	<b>88,984,905</b>
<b>Total Assets</b>	<b>\$ 116,205,882</b>	<b>\$ 101,208,655</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 5,674,839	\$ 5,329,592
Other current liabilities	1,068,685	778,857
<b>Total current liabilities</b>	<b>6,743,524</b>	<b>6,108,449</b>
<b>Non-current Liabilities</b>		
Annuities and unitrusts	5,081,225	4,252,320
Accrued severance obligation	1,090,079	949,830
Accrued pension obligation	—	1,318,325
Deferred compensation liability	594,471	438,558
<b>Total non-current liabilities</b>	<b>6,765,775</b>	<b>6,959,033</b>
<b>Total Liabilities</b>	<b>13,509,299</b>	<b>13,067,482</b>
<b>Net Assets</b>		
<b>Unrestricted:</b>		
Board-designated	47,950,646	42,132,104
Undesignated	24,179,041	19,399,721
<b>Total unrestricted</b>	<b>72,129,687</b>	<b>61,531,825</b>
Temporarily restricted	9,941,440	6,031,018
Permanently restricted	20,625,456	20,578,330
<b>Total net assets</b>	<b>102,696,583</b>	<b>88,141,173</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 116,205,882</b>	<b>\$ 101,208,655</b>

The accompanying notes are an integral part of these statements.

The Humane Society of the United States

Consolidated Statements of Activities and Changes in Net Assets

	Year Ended December 31, 2003			Year Ended December 31, 2002				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue, Other Additions and Transfers</b>								
Dues and contributions	\$ 49,685,264	\$ 4,794,092	\$ —	\$ 54,479,356	\$ 49,006,171	\$ 3,669,159	\$ —	\$ 52,675,330
Grants and trust contributions	2,817,382	1,099,016	61,227	3,977,625	1,802,332	2,216,623	6,522	4,025,477
Bequests	7,565,788	2,854,008	—	10,419,796	11,261,150	496,687	12,820	11,770,657
Annuities and unitrusts	585,501	—	—	585,501	676,525	—	—	676,525
Change in valuation of annuities and unitrusts	(662,484)	(45,616)	—	(708,100)	385,082	198,814	—	583,896
Investment income	2,725,708	258,388	—	2,984,096	2,050,332	442,206	—	2,492,538
Rental income	808,667	—	—	808,667	730,884	—	—	730,884
Sales of literature and publications	361,331	—	—	361,331	342,417	—	—	342,417
Other income	3,745,681	269,717	—	4,015,398	2,833,768	—	—	2,833,768
Net assets released from restrictions	6,243,694	(6,243,694)	—	—	5,886,917	(5,886,917)	—	—
<b>Total revenue, other additions and transfers</b>	<b>73,876,532</b>	<b>2,985,911</b>	<b>61,227</b>	<b>76,923,670</b>	<b>74,975,578</b>	<b>1,136,572</b>	<b>19,342</b>	<b>76,131,492</b>
<b>Expenses and Other Deductions</b>								
Program services	47,379,795	—	—	47,379,795	43,731,799	—	—	43,731,799
Management and general	6,039,120	—	—	6,039,120	5,630,311	—	—	5,630,311
Membership development	1,015,755	—	—	1,015,755	1,406,064	—	—	1,406,064
Fundraising	20,430,014	—	—	20,430,014	21,709,193	—	—	21,709,193
Total expenses and other deductions	74,864,684	—	—	74,864,684	72,477,367	—	—	72,477,367
<b>Change in Net Assets from Operations</b>	<b>(988,152)</b>	<b>2,985,911</b>	<b>61,227</b>	<b>2,058,986</b>	<b>2,498,211</b>	<b>1,136,572</b>	<b>19,342</b>	<b>3,654,125</b>
Minimum pension liability adjustment	451,206	—	—	451,206	(451,206)	—	—	(451,206)
Net assets received in acquisition of Ark Trust, Inc.	—	—	—	—	198,774	—	—	198,774
Net appreciation (depreciation) in fair value of investments	11,134,808	924,511	(14,101)	12,045,218	(11,005,595)	(845,927)	12,234	(11,839,288)
<b>Change in Net Assets</b>	<b>10,597,862</b>	<b>3,910,422</b>	<b>47,126</b>	<b>14,555,410</b>	<b>(8,759,816)</b>	<b>290,645</b>	<b>31,576</b>	<b>(8,437,595)</b>
<b>Net Assets, beginning of year</b>	<b>61,531,825</b>	<b>6,031,018</b>	<b>20,578,330</b>	<b>88,141,173</b>	<b>70,291,641</b>	<b>5,740,373</b>	<b>20,546,754</b>	<b>96,578,768</b>
<b>Net Assets, end of year</b>	<b>\$ 72,129,687</b>	<b>\$ 9,941,440</b>	<b>\$ 20,625,456</b>	<b>\$ 102,696,583</b>	<b>\$ 61,531,825</b>	<b>\$ 6,031,018</b>	<b>\$ 20,578,330</b>	<b>\$ 88,141,173</b>

The Humane Society of the United States

Consolidated Statements of Functional Expenses

Year ended December 31, 2003

	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 Farm and Animals	Total Program Expense	Management and General	Membership Development	Fundraising	Grand Total
Salaries	\$ 2,284,882	\$ 2,397,521	\$ 3,339,306	\$ 1,052,170	\$ 1,072,353	\$ 874,616	\$ 11,020,848	\$ 1,626,876	\$ 64,838	\$ 1,018,922	\$ 13,731,484
Payroll taxes	169,724	174,599	247,994	78,130	79,660	64,972	819,079	120,867	4,794	75,682	1,020,422
Employee benefits	509,413	534,517	748,538	235,522	239,094	196,610	2,463,694	410,307	14,388	241,609	3,129,998
Total compensation	2,964,019	3,110,637	4,335,838	1,365,822	1,391,107	1,136,198	14,303,621	2,158,050	84,020	1,336,213	17,881,904
Consultant and contracted services	3,367,882	467,979	1,978,335	290,632	149,967	74,988	6,329,783	1,677,943	2,987	671,567	8,682,280
Professional fees	52,846	2,388	165,787	—	162,376	—	383,397	116,651	—	15,780	515,828
Office supplies and expenses	276,187	339,842	579,468	76,175	30,865	34,859	1,337,396	132,604	8,664	20,753	1,499,417
Telephone	103,502	109,917	65,439	34,406	26,391	23,885	363,540	46,533	6,655	16,832	433,580
Postage and shipping	221,083	239,529	128,978	380,059	53,768	17,433	1,040,850	32,053	30	69,406	1,142,339
Occupancy and building expense	210,812	178,987	182,452	45,287	41,266	10,867	669,671	186,056	4,454	19,833	880,014
Investment expenses and trustees' fees	13,899	80	27,643	30	—	—	41,652	1,057,481	—	—	1,099,133
Travel, meals and lodging	401,541	490,973	970,695	209,232	65,985	125,970	2,264,396	156,963	1,144	113,233	2,535,736
Insurance and bonds	78,537	71,548	66,021	—	28,619	28,619	273,344	57,238	—	—	330,582
Depreciation	168,285	112,187	127,636	41,488	33,865	21,575	505,036	223,879	3,171	28,926	761,012
Contributions and grants	336,428	77,836	702,118	134,254	234,990	209,463	1,695,089	95,500	—	5,275	1,795,864
Real estate and personal property taxes	5,827	7,596	26,602	7	9,949	10	49,991	69,505	—	146	119,642
Education material, publications and campaigns	3,107,711	255,080	1,175,074	516,904	67,883	88,705	5,211,357	28,644	251	124,115	5,364,367
Mailing costs	12,887,926	—	19,441	1,066	724	1,515	12,910,672	—	904,379	18,007,935	31,822,986
	\$ 24,196,485	\$ 5,464,579	\$ 10,551,527	\$ 3,095,362	\$ 2,297,755	\$ 1,774,087	\$ 47,379,795	\$ 6,039,120	\$ 1,015,755	\$ 20,430,014	\$ 74,864,684

The accompanying notes are an integral part of these statements.

The Humane Society of the United States  
Consolidated Statements of Functional Expenses—Continued

Year ended December 31, 2002

	Public Education, Membership Information and Publications	Cruelty Investigations Regional Offices	Wildlife, Animal Habitat and Sheltering	Youth and Higher Education	Legal Assistance, Litigation and Government Relations	Laboratory Biotechnology Farm Animal	Total Program Expense	Management and General	Membership Development	Fundraising	Grand Total
Salaries	\$ 2,077,405	\$ 2,395,012	\$ 3,099,129	\$ 982,237	\$ 1,018,221	\$ 998,977	\$ 10,510,981	\$ 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	779,152	115,527	4,590	77,441	976,710
Employee benefits	386,256	450,680	713,100	185,021	191,947	179,895	2,106,899	315,838	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	13,397,032	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	4,789,995	1,516,064	1,155	588,336	6,895,550
Professional fees	33,596	3,198	42,096	280	128,635	293	208,098	90,441	13	383	298,935
Office supplies and expenses	191,251	230,848	453,777	71,776	37,902	36,933	1,022,487	94,811	9,135	14,110	1,140,543
Telephone	93,446	103,561	65,616	38,477	26,657	23,938	351,695	47,631	6,799	17,734	423,859
Postage and shipping	432,194	211,695	76,449	298,988	8,476	13,854	1,041,656	51,215	37	24,850	1,117,758
Occupancy and building expense	201,850	171,356	142,579	33,649	29,424	10,793	589,651	181,633	5,896	21,197	798,377
Investment expenses and trustees' fees	8,821	—	26,576	—	—	—	35,397	996,835	—	1,349	1,033,581
Travel, meals and lodging	358,812	481,050	953,928	210,073	162,005	283,004	2,448,872	214,760	1,243	115,432	2,780,307
Insurance and bonds	77,004	74,807	48,755	—	29,848	30,098	260,512	59,695	—	—	320,207
Depreciation	203,069	104,609	134,024	45,333	38,630	24,059	549,724	240,090	5,224	29,970	825,008
Contributions and grants	315,418	71,059	679,715	38,300	266,000	81,095	1,451,587	38,200	—	5,000	1,494,787
Real estate and personal property taxes	7,936	5,930	21,210	418	9,493	537	45,524	57,022	3	1,916	104,465
Education material, publications and campaigns	3,019,847	216,665	870,502	565,359	77,472	94,702	4,844,347	36,925	1,034	131,820	5,014,126
Mailing costs	12,680,391	40	11,879	1,032	—	1,880	12,695,222	172	1,297,731	19,431,327	33,424,452
	\$ 22,300,523	\$ 5,069,431	\$ 9,282,107	\$ 2,852,855	\$ 2,264,877	\$ 1,962,006	\$ 43,731,799	\$ 5,630,311	\$ 1,406,064	\$ 21,709,193	\$ 72,477,367

# The Humane Society of the United States

## Consolidated Statements of Cash Flows

December 31,	2003	2002
<b>Increase (Decrease) in Cash and Cash Equivalents</b>		
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 14,555,410	\$ (8,437,595)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	761,012	825,008
Loss on disposal of property and equipment	1,426	8,413
Net unrealized (gains) loss on investment	(12,045,218)	11,839,288
Donated stock	(812,257)	(271,592)
Donated equipment	(1,800)	—
Donated land	(61,225)	—
Changes in operating assets and liabilities:		
Contributions and bequests receivable	(788,686)	(2,567,366)
Miscellaneous receivables	(1,059,207)	(495,341)
Accrued interest receivable	19,561	122,196
Prepaid expenses and deferred charges	138,014	(886,407)
Deposits	(2,005)	995
Prepaid pension cost	(240,136)	(218,097)
Intangible pension asset	867,119	(867,119)
Accounts payable	345,247	2,047,928
Contributions payable	—	(163,356)
Other current liabilities	289,828	200,832
Annuities and unitrusts	828,905	(44,864)
Accrued pension and severance obligation	(1,178,076)	1,369,926
<b>Net Cash Provided by Operating Activities</b>	<b>1,617,912</b>	<b>2,462,849</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales of investments	51,792,244	62,835,348
Purchases of investments	(55,095,743)	(65,840,980)
Proceeds from sale of property and equipment	195	407
Purchases of property and equipment	(432,548)	(681,033)
<b>Net Cash Used in Investing Activities</b>	<b>(3,735,852)</b>	<b>(3,686,258)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(2,117,940)</b>	<b>(1,223,409)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>7,200,698</b>	<b>8,424,107</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 5,082,758</b>	<b>\$ 7,200,698</b>

The accompanying notes are an integral part of these statements.



# The Humane Society of the United States

## Notes to Consolidated Financial Statements

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December 31, 2003 and 2002

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### NOTE A—ORGANIZATION

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

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### NOTE B—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, Earth Voice, World Wide Network, Inc., Association Humantaria 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 accounting principles generally accepted in the United States of America, 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 is presented in Notes C, D and E.

#### *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 that 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.

# The Humane Society of the United States

## Notes to Consolidated Financial Statements—Continued

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December 31, 2003 and 2002

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### NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

#### *Allocation of Joint Costs*

All joint costs of informational materials or activities that include a fundraising appeal are allocated between fundraising 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 percent and in the Board-designated investment fund net assets at the rate of 80 percent in the year of receipt. The 80 percent 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.

#### *Reclassification*

Certain amounts previously reported in the 2002 financial statements have been reclassified to conform to the 2003 presentation.

# The Humane Society of the United States

## Notes to Consolidated Financial Statements—Continued

December 31, 2003 and 2002

### NOTE C—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.

Unrestricted net assets are held by the following funds at December 31:

	2003	2002
Board-designated		
Investment fund	\$ 47,061,010	\$ 41,389,912
Endowment fund	255,416	255,083
Special purpose funds	634,220	487,109
Total Board-designated	47,950,646	42,132,104
Undesignated	24,179,041	19,399,721
	\$ 72,129,687	\$ 61,531,825

### NOTE D—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 at December 31:

	2003	2002
Annuities and unitrusts	\$ 1,943,829	\$ 781,535
Education and training programs	3,517,373	3,360,059
Provide scholarships	65,270	63,309
Support of other humane organizations	744,680	470,889
For the betterment of song birds	793,980	322,657
Wildlife Land Trust	1,339,868	1,032,569
Endangered species	1,536,440	—
	\$ 9,941,440	\$ 6,031,018

# The Humane Society of the United States

## Notes to Consolidated Financial Statements—Continued

December 31, 2003 and 2002

### NOTE E—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) 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, the income from which is to be used for the following purposes at December 31:

	2003	2002
Income-producing assets; income is expendable to support the following:		
To defray building operating expenses	\$ 405,464	\$ 419,565
To award scholarships to Connecticut secondary school students	2,479	2,479
To use for the best interests of the organization	14,042,959	14,042,959
To support other humane organizations	1,509,387	1,509,387
20 percent of income to be used to support the Norma Terris Humane Education and Nature Center and 80 percent 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	127,820
For the betterment of song birds	802,464	802,464
	19,266,212	19,280,313
Non-income-producing assets:		
Land and easements held to preserve natural habitats for wildlife	1,359,244	1,298,017
	\$ 20,625,456	\$ 20,578,330

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.

# The Humane Society of the United States

## Notes to Consolidated Financial Statements—Continued

December 31, 2003 and 2002

### NOTE F—NET ASSETS RELEASED FROM RESTRICTIONS

During 2003 and 2002, assets were released from donor restrictions by the Society incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2003	2002
Purpose for which restrictions were accomplished:		
Donor-specified program expenses of the organization	\$ 5,682,798	\$ 5,180,280
Gifts to other humane organizations	465,074	615,248
Restricted fund investment expenses	95,822	91,389
	<u>\$ 6,243,694</u>	<u>\$ 5,886,917</u>

### NOTE G—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 H—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 2003 and 2002, which are included in the amounts reported in the accompanying financial statements as salaries, totaled \$17,000 for both years.

The annuity contract assets and the related liability at December 31, 2003 and 2002 totaled \$594,471 and \$438,558, respectively.

# The Humane Society of the United States

## Notes to Consolidated Financial Statements—Continued

December 31, 2003 and 2002

### NOTE I—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, 2003 and 2002. Investments which do not have a readily available quoted market price are estimated to have market value that approximates the original cost of the investment.

	December 31, 2003		December 31, 2002	
	Cost or Value at Date of Gift	Market Value	Cost or Value at Date of Gift	Market Value
At quoted market prices:				
U.S. corporate stocks	\$ 43,042,575	\$ 52,669,121	\$ 28,774,598	\$ 27,825,736
Foreign corporate stocks	2,891,520	3,492,000	2,790,153	2,557,852
Government obligations	18,257,574	18,272,667	20,015,019	20,705,382
U.S. corporate bonds	5,308,150	5,643,450	4,450,771	4,665,881
Foreign corporate bonds	114,605	113,590	83,983	96,682
Mutual funds	—	—	12,047	10,803
Money market accounts	12,069,492	12,069,492	20,734,533	20,734,533
Investment in ManyOne	500,000	500,000	—	—
	82,183,916	92,760,320	76,861,104	76,596,869
At estimated market value:				
Real property	163,872	163,872	167,973	167,973
Personal property	13,523	13,523	13,522	13,522
	177,395	177,395	181,495	181,495
	\$ 82,361,311	\$ 92,937,715	\$ 77,042,599	\$ 76,778,364

# The Humane Society of the United States

## Notes to Consolidated Financial Statements—Continued

December 31, 2003 and 2002

### NOTE J—PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	Useful Life	2003	2002
Land	—	\$ 5,139,591	\$ 5,078,363
Buildings and improvements	10 to 40 years	7,701,651	7,562,574
Office furniture and equipment	5 years	4,888,044	4,622,968
Automobiles	3 years	139,422	126,967
		17,868,708	17,390,872
Less: accumulated depreciation		(8,316,213)	(7,572,940)
Net property and equipment		\$ 9,552,495	\$ 9,817,932

### NOTE K—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 3.0 percent to 10.2 percent. A portion of the monies received from these split-interest agreements is required by law to be reserved for making the annuity payments. At December 31, 2003 and 2002, the Society has investments of \$13,485,095 and \$10,833,291, respectively, reserved for paying annuities. The amounts required to be reserved as calculated by the actuary are \$4,500,728 and \$3,907,007, respectively.

# The Humane Society of the United States

## Notes to Consolidated Financial Statements—Continued

December 31, 2003 and 2002

### NOTE M—FUTURE MINIMUM LEASE RECEIPTS

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

Year ended December 31,

2004	\$	295,934
2005		157,001
2006		65,643
2007		67,940
2008		5,678
	\$	<u>592,196</u>

### NOTE N—ALLOCATION OF JOINT COSTS

The Society has allocated the joint costs of providing educational materials and activities that include a fundraising appeal. For the years ended December 31, 2003 and 2002, the allocation of the joint costs is summarized as follows:

	2003	2002
Membership development	\$ 1,075,287	\$ 1,297,728
Programs	12,735,518	12,469,841
Fundraising	14,249,935	13,779,447
Total joint costs	<u>\$ 28,060,740</u>	<u>\$ 27,547,016</u>

### NOTE O—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 Federal Deposit Insurance Corporation (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, 2003 and 2002, the Society's cash balances in excess of the FDIC insurance limits were \$1,130,819 and \$573,000, respectively.



# The Humane Society of the United States

## Notes to Consolidated Financial Statements—Continued

December 31, 2003 and 2002

### NOTE P—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 Q—SEVERANCE PLAN

The Society established the Humane Society of the United States Severance Pay Plan (the 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 15 years of continuous full-time employment, are eligible to become participants. Upon termination of employment, a participant receives a lump sum equal to 2 percent of the average of his or her base annual salary for the three calendar years before cessation of employment, multiplied by the number of years of continuous full-time employment.

The actuarial present values of the projected benefit obligations under the Plan as of December 31, 2003 and 2002, of \$1,090,079 and \$949,830, respectively, are reported as a liability in accrued pension and severance obligation on the consolidated statements of financial position.

### NOTE R—CONTRIBUTION RECEIVABLE

Contributions and bequests receivable are as follows as of December 31:

	2003	2002
Less than one year	\$ 1,203,100	\$ 2,036,572
One to five years	2,344,393	596,000
	3,547,493	2,635,572
Less: allowance for uncollectible amounts	(138,284)	(38,050)
Less: discount to net present value	(59,679)	(36,678)
	\$ 3,349,530	\$ 2,560,844

**Supplemental Information**

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**The Humane Society of the United States Wildlife Land Trust  
(Interrelated Organization Only)**

Schedules of Financial Position

<i>December 31,</i>	2003	2002
<b>Assets</b>		
Cash and cash equivalents	\$ 1,067,780	\$ 2,926,246
Cash restricted to land acquisition	80,468	84,448
Property, easements and equipment	1,311,525	1,247,099
Prepaid expenses	369,853	347,805
Accrued interest receivable	9,042	—
<b>Total Assets</b>	<b>\$ 2,838,668</b>	<b>\$ 4,605,598</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 9,695	\$ 16,209
Advance from The Humane Society of the United States	129,861	2,258,803
<b>Total liabilities</b>	<b>139,556</b>	<b>2,275,012</b>
<b>Net Assets</b>		
Unrestricted	1,318,865	1,014,505
Temporarily restricted	21,003	18,064
Permanently restricted	1,359,244	1,298,017
<b>Total net assets</b>	<b>2,699,112</b>	<b>2,330,586</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,838,668</b>	<b>\$ 4,605,598</b>

The Humane Society of the United States Wildlife Land Trust  
(Interrelated Organization Only)

Schedules of Activities

	Year Ended December 31, 2003				Year Ended December 31, 2002			
	Unrestricted	Temporarily Restricted	Permanent Restricted	Total	Unrestricted	Temporarily Restricted	Permanent Restricted	Total
<b>Revenue</b>								
Contributions:								
Cash	\$ 3,829,042	\$ —	\$ —	\$ 3,829,042	\$ 3,687,424	\$ 18,064	\$ —	\$ 3,705,488
Land and easements	—	2,939	61,227	64,166	—	—	6,522	6,522
Bequests	7,251	—	—	7,251	42,547	—	—	42,547
Other income	196,967	—	—	196,967	155,468	—	—	155,468
Investment income	11,804	—	—	11,804	24,607	—	—	24,607
<b>Total revenue</b>	<b>4,045,064</b>	<b>2,939</b>	<b>61,227</b>	<b>4,109,230</b>	<b>3,910,046</b>	<b>18,064</b>	<b>6,522</b>	<b>3,934,632</b>
<b>Expenses</b>								
Salaries, payroll taxes and benefits	203,512	—	—	203,512	302,319	—	—	302,319
Professional fees	103,605	—	—	103,605	101,140	—	—	101,140
Travel, meals and lodging	71,967	—	—	71,967	75,553	—	—	75,553
Direct mail expense	3,113,316	—	—	3,113,316	2,879,877	—	—	2,879,877
Advertising	24,965	—	—	24,965	5,245	—	—	5,245
Office supplies and other	139,292	—	—	139,292	109,076	—	—	109,076
Management overhead allocation from The Humane Society of the United States	84,047	—	—	84,047	96,220	—	—	96,220
<b>Total expenses</b>	<b>3,740,704</b>	<b>—</b>	<b>—</b>	<b>3,740,704</b>	<b>3,569,430</b>	<b>—</b>	<b>—</b>	<b>3,569,430</b>
<b>Change in Net Assets</b>	<b>304,360</b>	<b>2,939</b>	<b>61,227</b>	<b>368,526</b>	<b>340,616</b>	<b>18,064</b>	<b>6,522</b>	<b>365,202</b>
<b>Net Assets, beginning of year</b>	<b>1,014,505</b>	<b>18,064</b>	<b>1,298,017</b>	<b>2,330,586</b>	<b>673,889</b>	<b>—</b>	<b>1,291,495</b>	<b>1,965,384</b>
<b>Net Assets, end of year</b>	<b>\$ 1,318,865</b>	<b>\$ 21,003</b>	<b>\$ 1,359,244</b>	<b>\$ 2,699,112</b>	<b>\$ 1,014,505</b>	<b>\$ 18,064</b>	<b>\$ 1,298,017</b>	<b>\$ 2,330,586</b>