

Consolidated Financial Statements and Report of
Independent Certified Public Accountants
The Humane Society of the United States and Affiliates
December 31, 2006

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The Humane Society of the United States and Affiliates

Contents

Report of Independent Certified Public Accountants	3
Consolidated Financial Statements	
Consolidated Statement of Financial Position	4
Consolidated Statement of Activities and Changes in Net Assets	5
Consolidated Statement of Functional Expenses	6
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8-21
Supplemental Information	
Consolidating Statement of Financial Position	23
Consolidating Statement of Activities	24

Report of Independent Certified Public Accountants

Board of Directors
The Humane Society of the United States and Affiliates

We have audited the accompanying consolidated statement of financial position of The Humane Society of the United States and Affiliates (the Society) as of December 31, 2006, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. The 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Humane Society of the United States and Affiliates, as of December 31, 2006, 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 consolidated financial statements taken as a whole. The additional information on pages 23 and 24, 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 consolidated financial statements taken as a whole.



McLean, Virginia
April 3, 2007

The Humane Society of the United States and Affiliates

Consolidated Statement of Financial Position

December 31, 2006

Assets

Current Assets

Cash and cash equivalents	\$ 29,359,137
Contributions and bequests receivable, net of allowance of \$551,212	11,635,965
Miscellaneous receivables	4,593,963
Accrued interest receivable	685,525
Prepaid expenses and deferred charges	134,352
Deposits	62,350
Total current assets	46,471,292

Non-current Assets

Contributions and bequests receivable, net of current portion, allowance and discount of \$272,373	3,266,660
Prepaid pension cost	2,090,590
Investments	150,039,531
Investments to fund deferred compensation liability	594,004
Property and equipment, less accumulated depreciation of \$12,464,564	16,397,260
Total non-current assets	172,388,045

Total Assets	\$ 218,859,337
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Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 10,570,285
Other current liabilities	2,228,481
Total current liabilities	12,798,766

Non-current Liabilities

Annuities and unitrusts	5,730,058
Accrued severance obligation	1,250,469
Deferred compensation liability	594,004
Total non-current liabilities	7,574,531

Total Liabilities	20,373,297
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Net Assets

Unrestricted:	
Board-designated	89,630,548
Undesignated	52,375,718
Total unrestricted	142,006,266
Temporarily restricted	28,207,483
Permanently restricted	28,272,291
Total net assets	198,486,040

Total Liabilities and Net Assets	\$ 218,859,337
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The Humane Society of the United States and Affiliates

Consolidated Statement of Activities and Changes in Net Assets

Year ended December 31, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Dues and contributions	\$ 64,963,857	\$ 14,015,927	\$ —	\$ 78,979,784
Grants and trust contributions	1,891,975	1,531,104	5	3,423,084
Bequests	25,720,810	4,683,424	—	30,404,234
Annuities and unitrusts	250,284	—	—	250,284
Change in valuation of annuities and unitrusts	(471,111)	(4,195)	—	(475,306)
Investment income	678,968	(2,831,364)	7,202,960	5,050,564
Rental income	177,689	—	—	177,689
Sales of literature and publications	681,994	1,136	—	683,130
Other income	3,451,640	690,660	—	4,142,300
Net assets released from restrictions	26,283,493	(26,283,493)	—	—
Total revenue	123,629,599	(8,196,801)	7,202,965	122,635,763
Expenses				
Program services	88,690,609	—	—	88,690,609
Management and general	5,700,180	—	—	5,700,180
Fundraising	14,112,951	—	—	14,112,951
Total expenses	108,503,740	—	—	108,503,740
Change in Net Assets from Operations	15,125,859	(8,196,801)	7,202,965	14,132,023
Realized and unrealized gain (loss) on investments	10,241,596	583,896	(1,652)	10,823,840
	10,241,596	583,896	(1,652)	10,823,840
Change in Net Assets	25,367,455	(7,612,905)	7,201,313	24,955,863
Net Assets at January 1, 2006, as previously reported	116,638,811	34,934,689	21,070,978	172,644,478
Adjustments to Reflect Change in Reporting Entity—HSLF and DDAL (Note B)	—	885,699	—	885,699
Net Assets at January 1, 2006, as adjusted	116,638,811	35,820,388	21,070,978	173,530,177
Net Assets, end of year	\$ 142,006,266	\$ 28,207,483	\$ 28,272,291	\$ 198,486,040

The accompanying notes are an integral part of this statement.

The Humane Society of the United States and Affiliates

Consolidated Statement of Functional Expenses

Year ended December 31, 2006

	Research and Education	Field and Disaster Response Programs	Domestic Cruelty Prevention Programs	Wildlife Programs	Animal Care Facilities	International Animal Programs	Campaigns, Litigation & Legislation & Investigations	Strategic Communication	Total Program	Management and General	Fund Raising	Total
Salaries	\$ 1,748,749	\$ 3,103,887	\$ 1,670,374	\$ 1,531,069	\$ 1,349,392	\$ 2,026,717	\$ 3,412,228	\$ 2,213,315	\$ 17,055,732	\$ 650,102	\$ 2,689,634	\$ 20,395,468
Payroll Taxes	108,376	254,843	103,947	113,997	84,778	140,415	247,611	133,012	1,186,979	261,079	179,088	1,627,146
Employee Benefits	450,608	488,371	195,863	304,466	479,224	360,125	479,978	249,194	3,007,849	489,025	370,345	3,867,219
Total compensation	2,307,733	3,847,101	1,970,184	1,949,532	1,913,394	2,527,257	4,139,818	2,595,521	21,250,560	1,400,206	3,239,067	25,889,633
Consultant and contracted services	353,260	1,216,043	639,070	1,064,655	857,203	980,852	1,283,455	1,035,590	7,430,128	208,276	869,746	8,508,150
Professional fees	45,134	200,577	42,487	119,576	35,635	225,485	1,671,674	47,430	2,387,998	93,581	67,483	2,549,062
Office supplies and expenses	95,117	1,212,213	113,333	264,695	622,063	60,495	136,844	117,661	2,622,419	58,354	145,095	2,826,768
Telephone	38,469	239,462	34,972	30,383	47,986	90,004	127,701	50,340	667,317	35,864	73,187	776,368
Postage and shipping	209,564	323,730	81,234	63,047	27,433	25,389	197,781	164,095	1,092,273	27,073	91,437	1,210,783
Occupancy and building expense	83,727	311,550	58,886	75,979	253,875	131,886	244,303	137,090	1,297,294	167,943	73,119	1,538,356
Investment expenses and trustees' fees	—	—	—	—	—	—	—	—	—	1,436,166	1,306,441	2,742,607
Travel, meals and lodging	146,606	893,053	345,525	534,959	151,537	376,004	372,722	323,386	3,137,792	35,032	298,452	3,471,276
Insurance and bonds	50,230	122,559	48,128	59,890	39,439	64,869	107,586	61,585	554,286	120,880	82,918	758,084
Depreciation	25,913	233,221	64,784	25,913	108,437	51,827	64,784	64,784	699,663	552,702	100,163	1,352,528
Contributions and grants	725,601	3,966,087	93,731	604,472	11,259	140,315	2,010,818	27,019	7,578,302	33,405	60,611	7,673,318
Real estate and personal property taxes	9,840	17,296	3,342	46,313	16,489	18,329	59,716	3,991	175,516	33,482	30,777	219,775
Education material, publications and campaigns	568,771	878,160	483,277	2,752,419	34,154	295,115	1,113,321	3,480,475	9,585,692	21,384	564,225	9,971,301
Mailing costs	2,013,915	5,984,899	1,531,996	4,897,424	2,429,445	3,888,143	5,971,415	3,493,138	30,210,369	1,475,832	7,329,330	39,015,531
Total	\$ 6,667,880	\$ 19,445,945	\$ 5,490,949	\$ 12,497,277	\$ 6,608,349	\$ 8,876,168	\$ 17,501,936	\$ 11,602,105	\$ 88,690,509	\$ 5,700,180	\$ 14,112,951	\$ 108,503,740

The accompanying notes are an integral part of this statement.

The Humane Society of the United States and Affiliates

Consolidated Statement of Cash Flows

December 31, 2006

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Change in net assets	\$ 24,955,863
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation and amortization	1,352,527
Loss on disposal of property and equipment	112,884
Net realized and unrealized gains on investment	(10,823,840)
Donated stock	(331,358)
Donated land	(5)
Changes in operating assets and liabilities:	
Contributions and bequests receivable	296,662
Miscellaneous receivables	(690,729)
Accrued interest receivable	(470,616)
Prepaid expenses and deferred charges	72,050
Deposits	(21,275)
Prepaid pension cost	(483,672)
Accounts payable	(3,710,231)
Other current liabilities	641,171
Annuities and unitrusts	(17,530)
Accrued pension and severance obligation	205,065

Net Cash Provided by Operating Activities

11,086,966

Cash Flows from Investing Activities

Proceeds from sales of investments	189,610,974
Purchases of investments	(187,812,140)
Proceeds from sale of property and equipment	2,503
Purchases of property and equipment	(3,281,246)

Net Cash Used in Investing Activities

(1,479,909)

Net Increase in Cash and Cash Equivalents

9,607,057

Cash and Cash Equivalents, beginning of year

19,752,080

Cash and Cash Equivalents, end of year

\$ 29,359,137

The accompanying notes are an integral part of this statement.

The Humane Society of the United States and Affiliates

Notes to Consolidated Financial Statements

December 31, 2006

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.

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 affiliates that are controlled by the management of the Society. The 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; Association Humanitaria De Costa Rica; Humane Society of the United States Wildlife Land Trust; Fund for Animals and the Doris Day Animal League ("DDAL").

Effective August 25, 2006, a corporate combination agreement was executed between the Society and DDAL, under which the Society's designees took control of DDAL's Board, but DDAL continues to operate as a lobbying organization working to improve the humane treatment of animals. Because of the resulting establishment of Board control and economic interest, the accompanying 2006 financial statements reflect the consolidation of the assets, liabilities, net assets and activities of DDAL. Due to the 2006 change in consolidated reporting entity, the Society's opening net assets as of January 1, 2006, have been restated to reflect the net assets of DDAL at that date.

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.

The Humane Society of the United States and Affiliates

Notes to Consolidated Financial Statements—Continued

December 31, 2006

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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.

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.

The Humane Society of the United States and Affiliates

Notes to Consolidated Financial Statements—Continued

December 31, 2006

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, 2006:

Board-designated:	
Investment fund	\$ 81,615,414
Endowment fund	266,257
Special purpose funds	749,523
Black Beauty Ranch	6,999,354
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Total Board-designated	89,630,548
Undesignated	52,375,718
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	\$ 142,006,266

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, 2006:

Annuities and unitrusts	\$ 529,654
Education & training programs and disaster relief	17,083,293
Provide scholarships	66,903
Support of other humane organizations	2,232,718
For the betterment of song birds	18,470
Wildlife Land Trust	1,549,287
Endangered species	1,984,020
Government affairs	1,157,374
Fund for Animals	3,585,764
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	\$ 28,207,483

The Humane Society of the United States and Affiliates

Notes to Consolidated Financial Statements—Continued

December 31, 2006

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, 2006:

Income-producing assets; income is expendable to support the following:

to defray building operating expenses	\$ 584,155
to award scholarships to Connecticut secondary school students	15,842
to use for the best interests of the organization	18,177,990
to support other humane organizations	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	4,962,464
for the State of New Hampshire wildlife	145,305
for the betterment of song birds	1,061,573
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	26,456,716

Non-income-producing assets:

Land and easements held to preserve natural habitats for wildlife	1,815,575
	<hr/>
	\$ 28,272,291

Income earned on investments in the permanently restricted net asset class is 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 and Affiliates

Notes to Consolidated Financial Statements—Continued

December 31, 2006

NOTE F—NET ASSETS RELEASED FROM RESTRICTIONS

During 2006, assets were released from donor restrictions by the Society incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2006
Purpose for which restrictions were accomplished:	
Donor-specified program expenses of the organization	\$ 20,471,573
Gifts to other humane organizations	5,742,612
Restricted fund investment expenses	69,308
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	\$ 26,283,493

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, which are included in the amounts reported in the accompanying financial statements as salaries, totaled \$10,000 for 2006.

The annuity contract assets and the related liability at December 31, 2006, totaled \$594,004.

The Humane Society of the United States and Affiliates

Notes to Consolidated Financial Statements—Continued

December 31, 2006

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, 2006. 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. The Society believes there has been a temporary reduction in the market value as of December 31, 2006, in the ManyOne investment and; therefore, has established a reserve of \$500,000 against the original cost of this investment.

	<u>December 31, 2006</u>	
	<u>Cost</u>	<u>Market</u>
At quoted market prices:		
U.S. corporate stocks	\$ 61,492,085	\$ 73,283,200
Foreign corporate stocks	6,470,679	7,993,434
Government obligations	28,291,489	28,427,087
U.S. corporate bonds	17,013,867	17,307,493
Foreign corporate bonds	1,184,274	1,174,303
Money market accounts	21,661,914	21,661,914
	<u>136,114,308</u>	<u>149,847,431</u>
At estimated market value:		
Real property	147,270	147,270
Personal property	44,830	44,830
ManyOne	500,000	—
	<u>692,100</u>	<u>192,100</u>
Total	<u>\$ 136,806,408</u>	<u>\$ 150,039,531</u>

The Humane Society of the United States and Affiliates

Notes to Consolidated Financial Statements—Continued

December 31, 2006

NOTE J—PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2006:

	Useful Life	
Land	—	\$ 7,524,540
Buildings and improvements	10 to 40 years	13,364,508
Office furniture and equipment	5 years	6,320,597
Automobiles	5 years	1,652,179
		<hr/>
		28,861,824
Less: accumulated depreciation		(12,464,564)
		<hr/>
Net property and equipment		\$ 16,397,260

Commitments and Contingencies

HSUS leases certain office space and equipment under long-term non-cancelable operating leases. The leases provide for payment of increases in operating expenses, sales and use taxes, and insurance. Rental expense for the year ended December 31, 2006, was \$713,675.

As of December 31, 2006, the future minimum lease commitments under non-cancelable operating leases were as follows:

Year ending December 31,

2007	233,030
2008	100,462
2009	33,999
2010	15,172
2011	1,095
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Total minimum lease payments	\$ 383,758

The Humane Society of the United States and Affiliates

Notes to Consolidated Financial Statements—Continued

December 31, 2006

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, 2006, the Society has investments of \$17,300,695 reserved for paying annuities. The amount required to be reserved as calculated by the actuary was \$5,202,555.

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 multiplied by a stated interest rate, or (2) the actual earnings of the trust. The future liability was calculated using assumed interest rates of 8.0 percent to 11.6 percent. At December 31, 2006, the amounts of assets held in charitable remainder unitrusts, which are restricted for the payment of related annuities are \$842,391. The actuarially calculated liabilities at December 31, 2006, are \$527,503. The net assets of the trusts of \$529,655 are included in temporarily restricted net assets in the accompanying consolidated statement of financial position.

NOTE L—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 percent 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 Humane Society of the United States and Affiliates

Notes to Consolidated Financial Statements—Continued

December 31, 2006

NOTE L—PENSION PLAN FOR EMPLOYEES—Continued

The following table summarizes the projected benefit obligations, the fair value of assets and the funded status of the plans at December 31, 2006:

Accumulated Benefit Obligation	\$ 16,655,898
Change in Benefit Obligation	
Benefit obligation at beginning of year:	\$ 16,679,721
Service cost	1,168,579
Interest cost	1,009,430
Participant contributions	277,791
Benefit payments	(435,459)
Administrative expenses	(74,474)
Actuarial loss	1,571,490
Benefit obligation at end of year	\$ 20,197,078
Change in Plan Assets	
Fair value of plan assets at beginning of year:	\$ 13,936,129
Employer contributions	1,924,474
Participant contributions	277,791
Benefit payments	(435,459)
Administrative expenses	(74,474)
Actual return on plan assets	1,787,730
Fair value of plan assets at end of year	\$ 17,416,191
Reconciliation of Funded Status at End of Year	
Funded status	\$ (2,780,887)
Unrecognized prior service cost	385,188
Unrecognized net loss	4,486,289
Net amount recognized	\$ 2,090,590

The Humane Society of the United States and Affiliates

Notes to Consolidated Financial Statements—Continued

December 31, 2006

NOTE L—PENSION PLAN FOR EMPLOYEES—Continued

Amounts Recognized at End of Year

Prepaid benefit cost	\$ 2,090,590
Additional minimum pension liability	—
Intangible asset	—
Minimum pension liability	—
Net amount recognized	\$ 2,090,590

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

a. Weighted-average discount rate	6.00%
b. Weighted-average rate of compensation increase	4.00%
c. Expected long-term rate of return on plan assets	7.75%

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

Employer contributions	\$ 1,924,474
Benefit payments	(435,459)

Expected cash flow information for year after current fiscal year is as follows:

December 31, 2006

Expected employer contributions	\$ 2,000,000
Year 1 expected benefit payments	1,000,112
Year 2 expected benefit payments	1,126,974
Year 3 expected benefit payments	2,484,772
Year 4 expected benefit payments	1,515,540
Year 5 expected benefit payments	3,292,027
Years 6-10 expected benefit payments	13,033,865

The Humane Society of the United States and Affiliates

Notes to Consolidated Financial Statements—Continued

December 31, 2006

NOTE L—PENSION PLAN FOR EMPLOYEES—Continued

Weighted-average asset allocation at end of year:

December 31, 2006

Equity securities	61.1%
Debt securities	32.8%
Real Estate	5.0%
Cash equivalents and other	1.1%
Total	100.0%

Justification of expected long-term rate of return on plan assets are as follows:

December 31, 2006

Year 1 (prior to fiscal year) investment return	12.1%
Year 2 (prior to fiscal year) investment return	6.5%
Year 3 (prior to fiscal year) investment return	6.2%
Year 4 (prior to fiscal year) investment return	20.5%
Year 5 (prior to fiscal year) investment return	(8.5)%
5-year average	6.95%

The basis for the expected long-term rate of return on plan assets for the year is based on a five-year rolling average of actual investment returns realized, further adjusted for anticipated future rates of return.

The FASB recently issued Statement 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*: an amendment of FASB Statements No. 87, 88, 106 and 132(R), which requires employers to recognize the funded status of the plan in the statement of financial position. The change is to take effect for fiscal years ending after June 15, 2007.

The Statement also removes the existing option to use a plan measurement date that is up to 90 days prior to the date of the statement of financial position. Statement 158 offers two alternate transition methods for making the measurement date change:

- remeasurement as of the beginning of the year of adoption or
- measurement at the end of the year of adoption

The effective date for the measurement date provision is for fiscal years ending after December 15, 2008.

The Humane Society of the United States and Affiliates

Notes to Consolidated Financial Statements—Continued

December 31, 2006

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,

2007	\$ 161,741
2008	88,566
2009	65,646
2010	67,615
Total minimum lease payments	<u>\$ 383,568</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, 2006, the allocation of the joint costs is summarized as follows:

Membership development	\$ 1,343,320
Programs	29,192,228
Fundraising	7,971,964
Total joint costs	<u>\$ 38,507,512</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, 2006, the Society's cash balances in excess of the FDIC insurance limits were \$28,293,995. In addition, the Society maintains cash balances with foreign institutions in the amount of \$2,125,980.

The Humane Society of the United States and Affiliates

Notes to Consolidated Financial Statements—Continued

December 31, 2006

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, 2006, of \$1,250,469 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, net of applicable allowance and discounts are as follows as of December 31, 2006:

Less than one year	\$ 11,635,965
One to five years	3,266,660
	<hr/>
	\$ 14,902,625

The Humane Society of the United States and Affiliates

Notes to Consolidated Financial Statements—Continued

December 31, 2006

NOTE S—IN-KIND SERVICES

The Society produces and distributes public service television, radio, and newspaper announcements that focus attention on Companion Animal and Wildlife issues. There were five public service announcements produced and distributed in 2006. These public service announcements are distributed to radio stations and newspapers nationwide and run free of charge. The Society has contracted with an independent outside agency to track the date and time that each public service announcement is run and the value of the announcement is based on the date, time, and market. During 2006, the Society recorded \$2,234,625 of contributed public service announcements.

The Society also receives donations of in-kind services, as well as donations of equipment and supplies, in the daily operations of its programs. In 2006, the Society received \$1,466,567 in donated services, and \$65,394 in donated equipment and supplies.

NOTE T—RELATED PARTY

In July 2004, the Society's Board of Directors approved the establishment of the Humane Society Legislative Fund, HSLF, an affiliated nonprofit organization in accordance with 501(c) (4) of the Internal Revenue Code of 1986. The goal of HSLF is to advance social welfare by helping to pass state and federal laws that protect animals from cruelty, suffering, and unnecessary killing and exploitation.

In August 2006, the HSLF Board of Directors was enlarged from a three member board to seven members that is not controlled by the Society. In September 2006, the HSLF's Board of Directors approved the expansion of its mission to include a program of lawful political activities. HSLF is a self supporting organization receiving donations from the general public. Because board control does not exist, the assets, liabilities, net assets and activities of HSLF are not included in the accompanying consolidated financial statements.

Below is the summary of the HSLF financial activity:

Assets	\$ 775,294
Liabilities	710,718
Net Assets	64,576
Revenue	3,060,559
Expenses	3,325,029

Supplemental Information

The Humane Society of the United States and Affiliates

Consolidating Statement of Financial Position

December 31, 2006

	The Humane Society of the United States	Humane Society of the United States Wildlife Land Trust	National Association for Humane and Environmental Education	Humane Society International, Inc.	Earthvoice International	Center for Respect of Life and Environment	DDAL	HSLF	FFA	Eliminations	Total
Assets											
Current Assets											
Cash and cash equivalents	\$ 22,074,331	\$ 1,752,177	\$ 700	\$ 2,478,564	\$ —	\$ —	\$ 1,270,632	\$ —	\$ 1,782,733	\$ —	\$ 29,359,137
Due from (to) HUS	40,896,459	(33,937)	(8,703,568)	(13,732,029)	(4,736,456)	(4,647,437)	(1,124,654)	—	(768,167)	—	—
Contributions and bequests receivable, net of allowance of \$551,212	10,457,028	10,855	—	—	—	—	499,747	—	688,335	—	11,635,965
Miscellaneous receivables	4,186,021	120,841	—	15,230	20,830	—	14,477	—	236,574	—	4,593,963
Accrued interest receivable	684,110	—	—	—	—	—	1,415	—	—	—	685,525
Prepaid expenses and deferred charges	69,102	638	22,263	150	—	—	39,816	—	2,383	—	134,352
Deposits	57,010	750	—	—	—	—	4,120	—	470	—	62,350
Total current assets	77,618,061	1,547,344	(8,680,595)	(11,278,136)	(10,715,826)	(4,647,437)	705,553	—	1,922,128	—	46,471,292
Non-current Assets											
Contributions and bequests receivable, net of current portion, allowance and discount of \$372,373	3,235,980	—	—	—	—	—	—	—	30,680	—	3,266,660
Prepaid pension cost	2,090,590	—	—	—	—	—	—	—	—	—	2,090,590
Investment	149,592,123	—	—	—	—	—	447,408	—	—	—	150,039,531
Investments to fund deferred compensation liability	594,004	—	—	—	—	—	—	—	—	—	594,004
Property and equipment, less accumulated depreciation of \$12,464,564	12,746,598	1,850,991	—	61,505	—	—	8,064	—	1,731,102	—	16,397,260
Total non-current assets	168,258,295	1,850,991	—	61,505	—	—	455,472	—	1,763,782	—	172,388,045
Total Assets	\$ 245,876,356	\$ 3,398,335	\$ (8,680,595)	\$ (11,216,631)	\$ (10,715,826)	\$ (4,647,437)	\$ 1,161,025	\$ —	\$ 3,684,110	\$ —	\$ 218,859,337
Liabilities and Net Assets											
Current Liabilities											
Accounts payable	\$ 10,552,520	\$ —	\$ —	\$ 14,114	\$ —	\$ —	\$ 3,651	\$ —	\$ —	\$ —	\$ 10,570,285
Other current liabilities	2,013,586	33,474	35,773	36,797	—	10,502	—	—	98,347	—	2,228,483
Total current liabilities	12,566,106	33,474	35,773	50,911	—	10,502	3,651	—	98,347	—	12,798,766
Non-current Liabilities											
Annuities and unitrusts	5,730,058	—	—	—	—	—	—	—	—	—	5,730,058
Accrued severance obligation	1,250,469	—	—	—	—	—	—	—	—	—	1,250,469
Deferred compensation liability	594,004	—	—	—	—	—	—	—	—	—	594,004
Total non-current liabilities	7,574,531	—	—	—	—	—	—	—	—	—	7,574,531
Total Liabilities	20,140,639	33,474	35,773	50,911	—	10,502	3,651	—	98,347	—	20,373,297
Net Assets											
Unrestricted:											
Board-designated	89,497,121	—	—	—	—	133,427	—	—	—	—	89,630,548
Undesignated	81,767,306	1,549,286	(8,716,368)	(11,397,980)	(10,715,826)	(4,853,837)	1,157,374	—	3,585,763	—	52,735,718
Total unrestricted	171,264,427	1,549,286	(8,716,368)	(11,397,980)	(10,715,826)	(4,720,410)	1,157,374	—	3,585,763	—	142,086,266
Temporarily restricted	28,014,574	—	—	130,438	—	62,471	—	—	—	—	28,307,483
Permanently restricted	26,456,716	1,815,575	—	—	—	—	—	—	—	—	28,272,291
Total net assets	225,735,717	3,364,361	(8,716,368)	(11,267,542)	(10,715,826)	(4,657,939)	1,157,374	—	3,585,763	—	198,486,040
Total Liabilities and Net Assets	\$ 245,876,356	\$ 3,398,335	\$ (8,680,595)	\$ (11,216,631)	\$ (10,715,826)	\$ (4,647,437)	\$ 1,161,025	\$ —	\$ 3,684,110	\$ —	\$ 218,859,337

The Humane Society of the United States and Affiliates

Consolidating Statement of Activities

December 31, 2006

	The Humane Society of the United States	Humane Society of the United States Wildlife Land Trust	National Association for Humane and Environmental Education	Humane Society International, Inc.	Earthvoice International	Center for Respect of Life and Environment	HSLF	DDAL	FFA	Eliminations	Total
Revenue											
Dues and contributions	\$ 64,346,518	\$ 5,581,612	\$ 619,050	\$ 2,958,095	\$ —	\$ 2,190	\$ —	\$ 2,483,117	\$ 2,989,202	\$ —	\$ 78,979,784
Grants and trust contributions	2,925,646	27,185	33,252	75,015	—	—	—	—	361,986	—	3,423,084
Bequests	25,794,392	21,923	320	—	—	—	—	1,027,268	3,560,331	—	30,404,234
Annuities and unitrusts	250,284	—	—	—	—	—	—	—	—	—	250,284
Change in valuation of annuities and unitrusts	(475,306)	—	—	—	—	—	—	—	—	—	(475,306)
Investment income	4,945,454	39,177	—	5,134	—	3,886	—	19,945	36,968	—	5,050,564
Rental income	177,689	—	—	—	—	—	—	—	—	—	177,689
Sale of literature and publications	598,661	—	80,881	—	—	3,012	—	—	576	—	683,130
Other income	3,513,736	211,958	3,215	11,294	—	—	—	75,029	327,068	—	4,142,300
Total Income Before Transfers	102,077,074	5,881,855	736,718	3,049,538	—	9,088	—	3,605,359	7,276,131	—	122,635,763
Transfer income	(64,455)	50,940	13,515	—	—	—	—	—	—	—	—
Total Revenue	102,012,619	5,932,795	750,233	3,049,538	—	9,088	—	3,605,359	7,276,131	—	122,635,763
Expenses											
Program services	70,553,431	4,554,144	1,547,582	3,859,817	—	429,209	—	3,037,694	4,708,732	—	88,690,609
Management and general	4,546,844	149,500	167,887	193,021	—	61,639	—	246,387	334,902	—	5,700,180
Fundraising	11,963,405	628,122	213,511	669,829	—	59,215	—	354,905	223,964	—	14,112,951
Total Expenses	87,063,680	5,331,766	1,928,980	4,722,667	—	550,063	—	3,638,986	5,267,598	—	108,503,740
Change in Net Assets from Operations	14,948,939	601,029	(1,178,747)	(1,673,129)	—	(540,975)	—	(33,627)	2,008,533	—	14,132,023
Net appreciation in fair value of investments	10,724,072	—	—	123,512	—	—	—	(23,744)	—	—	10,823,840
Change in Net Assets	25,673,011	601,029	(1,178,747)	(1,549,617)	—	(540,975)	—	(23,744)	2,008,533	—	10,823,840
Net Assets at January 1, 2006, as previously reported	200,062,706	2,763,832	(7,537,621)	(9,717,925)	(10,715,826)	(4,116,964)	329,046	—	1,577,230	—	172,644,478
Adjustments to Reflect Change in Reporting Entity—HSLF and DDAL (Note B)	—	—	—	—	—	—	(329,046)	1,214,745	—	—	885,699
Net Assets at January 1, 2006, as adjusted	200,062,706	2,763,832	(7,537,621)	(9,717,925)	(10,715,826)	(4,116,964)	—	1,214,745	1,577,230	—	173,530,177
Net Assets, end of year	\$ 225,735,717	\$ 3,364,861	\$ (8,716,368)	\$ (11,267,542)	\$ (10,715,826)	\$ (4,657,939)	\$ —	\$ 1,157,374	\$ 3,585,763	\$ —	\$ 198,486,040