

The Humane Society Of The United States And Affiliates

Consolidated Financial Statements
December 31, 2007

HUMANEWATCH.ORG

McGladrey & Pullen
Certified Public Accountants

Contents

Independent Auditor's Report On The Financial Statements	1
Financial Statements	
Consolidated Balance Sheet	2
Consolidated Statement Of Activities And Changes In Net Assets	3
Consolidated Statement Of Functional Expenses	4
Consolidated Statement Of Cash Flows	5
Notes To Consolidated Financial Statements	6 – 17
<hr/>	
Independent Auditor's Report On The Supplementary Information	18
Supplementary Information	
Consolidating Balance Sheet	19
Consolidating Statement Of Activities	20

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
The Humane Society of the United States
Washington, D.C.

We have audited the accompanying consolidated balance sheet of The Humane Society of the United States and Affiliates (the Society) as of December 31, 2007, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 financial position of The Humane Society of the United States and Affiliates as of December 31, 2007, 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.

As discussed in Note 1, on January 1, 2007, the Society adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, and changed its method of recognizing the funded status of its defined benefit pension plan. In addition, the Society changed its definition of cash and cash equivalents during the year ended December 31, 2007.

McGladrey & Pullen, LLP

Vienna, Virginia
April 17, 2008

The Humane Society Of The United States And Affiliates

**Consolidated Balance Sheet
December 31, 2007**

Assets

Cash and cash equivalents	\$ 63,107,007
Investments	137,997,005
Investments to fund deferred compensation liability	614,385
Accrued interest receivable	743,382
Prepaid expenses and other assets	305,019
Contributions, bequests, and other receivables, net	13,982,672
Property and equipment, net	16,316,729
	<u>\$ 233,066,199</u>

Liabilities And Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 14,667,516
Annuities and unitrusts	6,891,569
Accrued severance obligation	1,325,814
Deferred compensation liability	614,385
Accrued postretirement benefit obligation	3,041,648
	<u>26,540,932</u>

Net Assets

Unrestricted:	
Board-designated	89,996,255
Undesignated	57,662,178
	<u>147,658,433</u>
Temporarily restricted	29,511,836
Permanently restricted	29,354,998
	<u>206,525,267</u>
	<u>\$ 233,066,199</u>

See Notes To Consolidated Financial Statements.

The Humane Society Of The United States And Affiliates

Consolidated Statement Of Activities And Changes In Net Assets
Year Ended December 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Contributions	\$ 71,007,077	\$ 13,037,846	\$ -	\$ 84,044,923
Grants and trust contributions	2,824,933	2,006,625	262,977	5,094,535
Bequests	12,306,498	5,826,409	11,085	18,143,992
Annuities and unitrusts	1,131,580	-	-	1,131,580
Interest and dividends	6,155,585	556,454	11,529	6,723,568
Sales of literature and publications	862,713	1,317	-	864,030
Rental income	180,667	-	-	180,667
Other income	3,629,475	740,203	-	4,369,678
Net assets released from restrictions	21,033,877	(21,033,877)	-	-
Total support and revenue	119,132,405	1,134,977	285,591	120,552,973
Expenses				
Program services	95,160,200	-	-	95,160,200
Management and general	4,805,791	-	-	4,805,791
Fundraising	12,861,237	-	-	12,861,237
Total expenses	112,827,228	-	-	112,827,228
Change in net assets from operations	6,305,177	1,134,977	285,591	7,725,745
Realized and unrealized gain on investments, net	4,801,248	169,376	797,116	5,767,740
Change in net assets before postretirement benefit adjustment	11,106,425	1,304,353	1,082,707	13,493,485
Adoption of FAS 158 - postretirement benefits adjustment	(5,454,258)	-	-	(5,454,258)
Change in net assets	5,652,167	1,304,353	1,082,707	8,039,227
Net Assets				
Beginning	142,006,266	28,207,483	28,272,291	198,486,040
Ending	\$ 147,658,433	\$ 29,511,836	\$ 29,354,998	\$ 206,525,267

See Notes To Consolidated Financial Statements.

The Humane Society Of The United States And Affiliates

Consolidated Statement Of Functional Expenses
Year Ended December 31, 2007

	Program Expenses											Total
	Research and Education	Field and Disaster Response Programs	Domestic Cruelty Prevention Programs	Wildlife Program	Animal Care Facilities	International Animal Programs	Campaigns, Litigation and Investigations	Strategic Communications	Total Program	Management and General	Fund Raising	
Salaries	\$ 1,981,071	\$ 3,604,884	\$ 1,983,434	\$ 2,065,350	\$ 1,610,847	\$ 2,046,322	\$ 4,891,881	\$ 2,627,517	\$ 20,811,306	\$ 362,482	\$ 1,029,485	\$ 22,203,273
Employee benefits	471,607	859,533	474,332	492,564	380,954	515,742	1,181,192	658,371	5,034,295	102,655	259,277	5,396,227
Total compensation	2,452,678	4,464,417	2,457,766	2,557,914	1,991,801	2,562,064	6,073,073	3,285,888	25,845,601	465,137	1,288,762	27,599,500
Mailing costs	2,042,422	3,750,501	1,886,723	4,750,415	2,509,915	2,996,279	8,368,224	3,630,044	29,934,523	1,320,506	6,482,381	37,737,410
Consultant and contracted services	627,663	952,529	922,440	1,265,645	564,828	659,082	1,832,303	1,260,635	8,085,355	172,772	2,982,836	11,240,963
Education material, publications and campaigns	543,677	264,798	539,486	462,491	107,305	282,737	3,355,594	3,844,238	9,400,326	28,315	101,409	9,530,050
Contributions and grants	526,621	2,047,718	454,611	87,834	53,854	394,336	3,759,567	15,236	7,341,777	-	142,867	7,484,644
Professional fees	57,558	117,591	56,868	1,453,011	60,908	180,576	2,362,203	56,134	4,344,849	48,887	88,265	4,479,981
Travel, meals and lodging	239,354	729,473	402,711	688,823	162,405	490,333	566,726	421,188	3,701,013	23,820	83,766	3,808,589
Bank and trustees' fees	-	-	-	-	-	-	-	-	-	1,576,621	1,260,670	2,937,291
Supplies and field expenses	118,959	237,135	104,118	159,623	635,475	66,039	213,712	146,794	1,681,855	34,269	64,438	1,780,562
Occupancy and building expense	116,548	268,511	110,290	111,088	286,816	125,952	240,335	200,734	1,460,274	136,884	120,581	1,717,739
Depreciation	25,303	259,421	32,393	42,686	142,640	49,354	37,588	98,013	687,398	774,460	31,420	1,493,278
Postage and shipping	297,253	226,166	92,099	74,573	30,365	30,904	124,536	120,467	996,363	13,168	30,958	1,040,489
Telephone	56,480	211,163	65,428	65,782	67,727	93,411	198,455	73,076	831,532	27,426	49,592	908,550
Insurance and bonds	60,271	106,878	62,260	62,028	43,569	66,999	141,897	69,970	613,872	57,903	103,049	780,824
Real estate and other taxes	15,401	18,669	17,202	44,857	20,310	25,292	76,958	16,773	235,462	27,643	24,253	287,358
Total	\$ 7,182,218	\$ 13,654,970	\$ 7,204,395	\$ 11,826,770	\$ 6,677,918	\$ 8,023,368	\$ 27,351,171	\$ 13,239,390	\$ 95,160,200	\$ 4,905,791	\$ 12,861,237	\$ 112,827,228

See Notes To Consolidated Financial Statements.

The Humane Society Of The United States And Affiliates

**Consolidated Statement Of Cash Flows
Year Ended December 31, 2007**

Cash Flows From Operating Activities	
Change in net assets	\$ 8,039,227
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Contributions and interest received for endowment	(285,591)
Depreciation and amortization	1,493,278
Gain on sale of property and equipment	(503,122)
Net realized and unrealized gains on investment	(5,767,740)
Donated stock	(1,163,518)
Donated land	(271,511)
Change in assets and liabilities:	
(Increase) decrease:	
Accrued interest receivables	(57,857)
Prepaid expenses and other assets	(108,317)
Contributions, bequests, and other receivables, net	5,513,916
Increase:	
Accounts payable and accrued expenses	1,868,750
Annuities and unitrusts	1,161,511
Accrued severance obligation	75,345
Deferred compensation liability	20,381
Accrued postretirement benefit obligation	5,132,238
Net cash provided by operating activities	<u>15,146,990</u>
Cash Flows From Investing Activities	
Proceeds from sale of investments	55,708,375
Purchase of investments	(58,417,174)
Proceeds from sale of property and equipment	971,900
Purchases of property and equipment	(1,609,706)
Net cash (used in) investing activities	<u>(3,346,605)</u>
Cash Flows From Financing Activities	
Contributions and interest received for endowment	285,591
Net cash provided by financing activities	<u>285,591</u>
Net increase in cash and cash equivalents	<u>12,085,976</u>
Cash And Cash Equivalents	
Beginning, as previously reported	29,359,137
Investments reclassified due to change in definition (Note 1)	21,661,894
Beginning, as restated	51,021,031
Ending	<u>\$ 63,107,007</u>
Supplemental Schedule Of Noncash Investing And Financing Activities	
Donated stock	\$ 1,163,518
Donated land	<u>\$ 271,511</u>

See Notes To Consolidated Financial Statements.

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: The Humane Society of the United States and Affiliates (collectively 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. The accompanying consolidated financial statements include the operations of the following entities:

- The Humane Society of the United States (HSUS)
- Humane Society of the United States Wildlife Land Trust (WLT)
- Humane Society International, Inc. (HSI)
- Doris Day Animal League (DDAL)
- Fund for Animals (FFA)

On January 1, 2007, the operations of the National Association for Humane and Environmental Education (NAHEE), and EarthVoice International (EarthVoice) were ceased. Operations under the entity, Center for Respect of Life and the Environment (CRLE), ceased as of September 30, 2007. This entity became a program of The HSUS Animals and Religion Department. The accompanying supplementary information includes activity of CRLE through September 30, 2007. These entities became programs for HSUS.

A summary of the Society's significant accounting policies follows:

Basis of accounting: The accompanying consolidated financial statements are prepared using the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Principles of consolidation: All significant intercompany transactions have been eliminated in the consolidation.

Basis of presentation: The accompanying consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements for Not-for-Profit Organizations*. Under SFAS No. 117, the Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Cash and cash equivalents: Cash and cash equivalents include all short-term, highly liquid instruments purchased with an original maturity of three months or less. At December 31, 2007, cash and cash equivalents consisted of checking accounts and money market accounts. During the year ended December 31, 2007, the Society's management changed its policy on cash and cash equivalents to include instruments with maturity of three months or less. This change was made to provide additional information on the balance sheet regarding liquidity of the Society's assets.

Investments: Investments with readily determinable fair values are reflected at fair market value. To adjust the carrying value of the investment, unrealized gains and losses are reported in the consolidated statement of activities as other changes in net assets.

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

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Financial risk (continued): The Society invests in a professionally managed portfolio that contains equity securities, corporate bonds, government securities, and certificates of deposit. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the consolidated financial statements.

Contributions and bequests receivables: Contributions and bequests receivables are carried at original amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a quarterly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using the historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The provision for doubtful accounts was \$581,179 at December 31, 2007.

Property and equipment: Property and equipment with a cost of \$1,000 or more is capitalized. 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.

Valuation of long-lived assets: The Society accounts for the valuation of long-lived assets under Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. There are no impairments of long-lived assets at December 31, 2007.

Support and revenue: Dues and contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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.

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

In-kind contributions: The Society produces and distributes public service television, radio, and newspaper announcements that focus attention on Companion Animal and Wildlife issues. There were 15 public service announcements produced and distributed in 2007. 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 announcements is based on the date, time, and market. During 2007, the Society recorded \$2,493,354 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 2007, the Society received \$2,840,466 in donated services, and \$327,699 in donated equipment and supplies.

Functional allocation of expenses: Program and supporting services have been presented on a functional basis in the statement of activities and changes in net assets. Certain overhead costs have been allocated among the programs, management and general, and fund-raising.

Accounting changes: On September 29, 2006, the Financial Accounting Standards Board issued SFAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of statements SFAS 87, SFAS 88, and SFAS 132(R). These changes were made to improve the existing reporting for defined benefit pension and other postretirement plans by requiring the recognition of funded status in the statement of financial position. The statement also requires recognition of the gains and losses, prior service costs, and transition asset or obligation as a component of unrestricted net assets. The Society adopted SFAS 158 for the year ended December 31, 2007. The adjustment as a result of the adoption of this standard was an expense of \$5,454,258.

Recent and upcoming accounting pronouncements: In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 prescribes a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken by a filer in the filer's tax return. FIN 48 will become effective for the fiscal years beginning after December 15, 2007. The Society has not yet determined the impact of the adoption of FIN 48 on its financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157"). This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. FAS 157 also emphasizes that fair value is a market based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under FAS 157, fair value measurements are disclosed by level within that hierarchy. FAS 157 is effective for fiscal years beginning after November 15, 2007, except for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted until fiscal years beginning after November 15, 2008. The Society has not yet completed its analysis of the effects of these interpretations and has not determined if the adoption of FAS 157 will have a material impact on its financial statements.

Estimates: In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

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. The Society had no net unrelated business income for the year ended December 31, 2007.

Note 2. 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, 2007. 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.

	Cost	Market
As quoted market prices:		
U.S. corporate stocks	\$ 53,396,694	\$ 62,441,398
Foreign corporate stocks	18,458,947	21,533,745
Government obligations	26,749,153	28,005,648
U.S. corporate bonds	18,840,121	19,323,967
Foreign corporate bonds	2,686,310	2,719,578
Alternative investments	3,375,000	3,327,109
Mortgage-backed securities	451,357	453,461
	123,957,582	137,804,906
At estimated market value:		
Real property	147,269	147,269
Personal property	44,830	44,830
ManyOne	500,000	-
	\$ 124,649,681	\$ 137,997,005

Note 3. Contributions, Bequests, And Other Receivables

Contributions, bequests, and other receivables consist of the following at December 31, 2007:

Bequests	\$ 8,216,430
Capital campaign	3,200,000
Contributions and other receivables	3,444,749
Contributions, bequests and other receivables before allowance for uncollectible accounts and discount	14,861,179
Less: allowance for uncollectible contributions and bequests (5%)	(581,179)
Less: discount on multiyear contributions and bequests (2.75%)	(297,328)
	\$ 13,982,672

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 3. Contributions, Bequests, And Other Receivables (Continued)

Contributions, bequests, and other receivables are expected to be collected in:

Less than one year	\$ 9,653,663
One to five years	4,329,009
	<u>\$ 13,982,672</u>

Note 4. Property And Equipment

Property and equipment consist of the following at December 31, 2007:

	Useful Life	Cost	Accumulated Depreciation	Net	Depreciation
Land	-	\$ 7,558,301	\$ -	\$ 7,558,301	\$ -
Buildings and improvements	10 to 40 years	13,444,483	7,105,072	6,339,411	498,900
Office furniture and equipment	5 years	7,273,880	5,543,713	1,730,167	744,208
Automobiles	5 years	1,801,055	1,112,205	688,850	250,170
		<u>\$ 30,077,719</u>	<u>\$ 13,760,990</u>	<u>\$ 16,316,729</u>	<u>\$ 1,493,278</u>

Note 5. Accounts Payable And Accrued Expenses

Accounts payable and accrued expenses consist of the following at December 31, 2007:

Accounts payable	\$ 12,349,640
Accrued vacation	1,160,279
Accrued wages	749,468
Other accrued expenses	408,129
	<u>\$ 14,667,516</u>

Note 6. Annuities And Unitrusts

The annuities and unitrusts liability represents the actuarially determined liability for future annuity payments dues 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. Contributions 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% to 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. At December 31, 2007, the Society has investments of \$19,403,076 reserved for paying annuities. The amount required to be reserved as calculated by the actuary was \$6,395,358.

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 6. Annuities And Unitrusts (Continued)

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% to 11.6%. At December 31, 2007, the amounts of assets held in charitable unitrusts, which are restricted for the payment of related annuities are \$496,211. The net assets of the trusts of \$518,339 are included in temporarily restricted net assets in the accompanying consolidated statement of financial position.

Note 7. 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% of the average of his or her annual salary for the three calendar years before cessation of employment, multiplied by the number of years of continuous full-time employment. The benefit obligation as of December 31, 2007, was calculated by an actuary, based on census provided by the Society, using an assumed discount rate of 6.25% and an assumed compensation increase of 4%. The amount of the liability for future severance is \$1,325,814.

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, which are included in the amounts reported in the accompanying financial statements as salaries, totaled \$15,000 for 2007.

The annuity contract assets and the related liability totaled \$614,385 at December 31, 2007.

Note 9. Postretirement Benefits

The Humane Society of the United States Pension Plan (the 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 received substantially reduced benefits.

Effective December 31, 2007, any employees hired on or after January 1, 2008, are not eligible to participate in the Plan.

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 9. Postretirement Benefits (Continued)

The following table summarizes the accumulated postretirement benefit obligations, the fair value of plan assets and the funded status of the Plan at December 31, 2007:

Accumulated Benefit Obligation	<u>\$ 17,912,499</u>
Change in Benefit Obligation	
Accumulated Postretirement Benefit Obligation, Beginning of Fiscal Year	\$ 20,197,078
Service cost	1,378,995
Interest cost	1,124,202
Participant contributions	306,362
Benefit payments	(1,811,440)
Administrative expenses	(76,162)
Actuarial loss	270,308
Plan amendments	(112,619)
Accumulated Postretirement Benefit Obligation, End of Fiscal Year	<u>\$ 21,276,724</u>
Change in Plan Assets	
Fair value of plan assets, beginning of fiscal year	\$ 17,416,191
Employer contributions	1,876,162
Participant contributions	306,362
Benefit payments	(1,811,440)
Administrative expenses	(76,162)
Actual return on plan assets	523,963
Fair value of plan assets, end of fiscal year	<u>\$ 18,235,076</u>
Funded status at end of fiscal year	<u>\$ (3,041,648)</u>

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

a. Weighted-average discount rate	6.25%
b. Weighted-average rate of compensation increase	4.00%
c. Expected long-term rate of return on plan assets	7.75%

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 9. Postretirement Benefits (Continued)

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

Expected employer contributions	\$ 2,000,000
Year 1 expected benefit payments	1,401,653
Year 2 expected benefit payments	2,138,394
Year 3 expected benefit payments	1,740,263
Year 4 expected benefit payments	2,220,533
Year 5 expected benefit payments	2,839,178
Years 6-10 expected benefit payments	14,926,353

Weighted-average asset allocation at end of year:

Equity securities	61.8%
Debt securities	33.5%
Real estate	1.9%
Cash equivalents and other	2.8%
	<u>100.0%</u>

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. This change is to take effect for fiscal years ending after June 15, 2007, and is reflected in the consolidated financial statements.

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 balance sheet. Statement 158 offers two alternative transition methods for making the measurement date change:

- Measurement as of the beginning of the year of adoption or,
- Measurement at the end of the year adoption

The effective date for the measurement date provision is for fiscal years ending after December 15, 2008. The measurement date provision will have no effect on the Society's consolidated financial statements as the current plan measurement date coincides with the date of the balance sheet.

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 10. 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, 2007:

Board-designated:	
Investment fund	\$ 81,582,366
Endowment fund	275,330
Special purpose funds	736,887
Black Beauty Ranch	7,401,672
Total board-designated	89,996,255
Undesignated	57,662,178
	\$ 147,658,433

Note 11. 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, 2007:

	Balance December 31, 2006	Additions	Releases from Restriction	Balance December 31, 2007
Unitrusts	\$ 529,654	\$ -	\$ 11,315	\$ 518,339
Education and training programs and disaster relief	17,083,293	5,722,962	7,133,262	15,672,993
Provide scholarships	66,903	6,999	4,695	69,207
Support of other humane organizations	2,232,718	222,977	1,514,601	941,094
For the betterment of song birds	18,470	34,673	9,057	44,086
Wildlife Land Trust	1,549,287	3,996,804	3,764,236	1,781,855
Endangered species	1,984,020	130,682	16,639	2,098,063
Doris Day Animal League	1,157,374	3,424,675	3,019,612	1,562,437
Fund for Animals	3,585,764	8,798,458	5,560,460	6,823,762
	\$ 28,207,483	\$ 22,338,230	\$ 21,033,877	\$ 29,511,836

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 11. Temporarily Restricted Net Assets (Continued)

During 2007, assets were released from donor restrictions by the Society incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Purpose for which restrictions were accomplished:

Donor-specified program expenses of the organization	\$ 15,474,031
Gifts to other humane organizations	4,095,011
Expiration of time restriction	1,377,905
Restricted fund investment expenses	86,930
	<u>\$ 21,033,877</u>

Note 12. 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 results 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, 2007:

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

To defray building operating expenses	\$ 611,883
To award scholarships to Connecticut secondary school students	16,293
To use for the best interests of the organization	18,809,019
To support other humane organizations	1,509,387
20% of income to be used to support the Norma Terris Human Education and Nature Center, and 80% of income to be used for general purposes of the organization	5,073,382
For the State of New Hampshire wildlife	149,911
For the betterment of song birds	1,098,037
	<u>27,267,912</u>

Non-income producing assets:

Land and easements held to preserve natural habitats for wildlife	2,087,086
	<u>\$ 29,354,998</u>

Income earned on investments in the permanently restricted net assets 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 assets 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

Note 13. Commitments

The Society 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, 2007, was \$597,245.

As of December 31, 2007, the future minimum lease commitments under non-cancelable operating leases were as follows:

Years Ending December 31,	
2008	\$ 237,334
2009	168,903
2010	158,859
2011	139,706
2012	143,726
	<u>\$ 848,528</u>

Note 14. 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:

Years Ending December 31,	
2008	\$ 69,412
2009	65,646
2010	67,615
	<u>\$ 202,673</u>

Note 15. 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, 2007, the allocation of the joint costs is summarized as follows:

Programs	\$ 31,714,565
Fundraising	7,098,706
Membership development	1,200,410
Total joint costs	<u>\$ 40,013,681</u>

Note 16. 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.

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 17. Subsequent Event

The Society adopted The Humane Society of the United States 401(k) Savings Plan (the 401(k) Plan) a defined contribution retirement plan qualified under section 401(k) and 401(a) of the Internal Revenue Code, as amended, effective January 1, 2008. Employees hired on or after January 1, 2008 are eligible to participate in this plan on an automatic enrollment basis. Employees hired prior to January 1, 2008 who have not attained age 50 by December 31, 2007 can elect to waive coverage in the Humane Society of the United States Pension Plan on an irrevocable basis and will then be eligible to participate in the 401(k) plan .

Eligible participants are automatically enrolled to contribute 3% of pay their first year, increasing 1% per year until 6% salary deferrals after 4 years. Participants may elect to contribute higher amounts up to 80% of pay, subject to annual dollar limitations.

The Society will make a matching contribution on a quarterly basis equal to 100% of the first 1% of a participant's salary deferral contribution, and 50% of the next 5% of salary deferral contributions. A participant must be employed on the last day of each quarter to receive the matching contribution.

The Society will make an annual fixed contribution for all eligible participants employed on the last day of the 401(k) Plan year based on years of service up to 6% of compensation.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report On The Supplementary Information

To the Board of Directors
The Humane Society of the United States
Washington, D.C.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information which follows is presented for the purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of activities of the individual entities. The consolidating information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

McGladrey & Pullen, LLP

Vienna, Virginia
April 17, 2008

The Humane Society Of The United States And Affiliates
 Consolidating Balance Sheet
 December 31, 2007

Assets	HSUS	WLT	FFA	DDAL	HSI	NAHEE	EarthVoice	CRLE	Eliminations	Consolidated
Cash and cash equivalents	\$ 50,483,861	\$ 2,065,888	\$ 5,329,751	\$ 2,007,718	\$ 3,219,788	\$ -	\$ -	\$ -	\$ -	\$ 63,107,007
Investments	137,580,753	-	-	416,252	-	-	-	-	-	137,997,005
Investments to fund deferred compensation liability	614,385	-	-	-	-	-	-	-	-	614,385
Due from (due to) HSUS	15,816,656	(353,808)	(658,385)	(1,001,927)	(13,802,526)	-	-	-	-	-
Accrued interest receivable	743,382	-	-	-	-	-	-	-	-	743,382
Prepaid expenses and other assets	300,668	750	3,407	-	194	-	-	-	-	305,019
Contributions, bequests and other receivables, net	13,333,061	80,656	434,748	144,652	9,555	-	-	-	-	13,982,672
Property and equipment	12,333,315	2,126,875	1,855,691	948	-	-	-	-	-	16,316,729
Total assets	\$ 231,206,081	\$ 3,900,361	\$ 6,965,102	\$ 1,567,643	\$ (10,572,988)	\$ -	\$ -	\$ -	\$ -	\$ 233,066,199
Liabilities And Net Assets										
Accounts payable and accrued expenses	\$ 14,463,901	\$ 31,420	\$ 141,340	\$ 5,205	\$ 25,650	\$ -	\$ -	\$ -	\$ -	\$ 14,667,516
Annuities and unitrusts	6,891,569	-	-	-	-	-	-	-	-	6,891,569
Accrued severance obligation	1,325,814	-	-	-	-	-	-	-	-	1,325,814
Deferred compensation liability	614,385	-	-	-	-	-	-	-	-	614,385
Accrued postretirement benefit obligation	3,041,648	-	-	-	-	-	-	-	-	3,041,648
Total liabilities	26,337,317	31,420	141,340	5,205	25,650	-	-	-	-	26,540,932
Net Assets										
Unrestricted										
Board-designated	89,996,255	-	-	-	-	-	-	-	-	89,996,255
Undesignated	58,248,732	1,781,855	6,823,762	1,562,438	(10,754,609)	-	-	-	-	57,662,178
Total unrestricted	148,244,987	1,781,855	6,823,762	1,562,438	(10,754,609)	-	-	-	-	147,658,433
Temporarily restricted	29,355,865	-	-	-	155,971	-	-	-	-	29,511,836
Permanently restricted	27,267,912	2,087,086	-	-	-	-	-	-	-	29,354,998
Total net assets	204,868,764	3,868,941	6,823,762	1,562,438	(10,598,638)	-	-	-	-	206,525,267
Total liabilities and net assets	\$ 231,206,081	\$ 3,900,361	\$ 6,965,102	\$ 1,567,643	\$ (10,572,988)	\$ -	\$ -	\$ -	\$ -	\$ 233,066,199

The Humane Society Of The United States And Affiliates

Consolidating Statement Of Activities
Year Ended December 31, 2007

	HSUS	WLT	FFA	DDAL	HSI	NAHEE	EarthVoice	CRLE	Eliminations	Consolidated
Revenue										
Contributions	\$ 72,886,600	\$ 3,199,038	\$ 3,211,739	\$ 2,625,499	\$ 2,209,811	\$ -	\$ -	\$ 12,236	\$ -	\$ 84,044,923
Grants and trust contributions	4,302,639	816,820	(65,399)	-	40,375	-	-	-	-	5,094,535
Bequests	12,258,297	30,000	5,059,279	726,374	71,042	-	-	-	-	18,143,992
Annuities and unitrusts	1,131,580	-	-	-	-	-	-	-	-	1,131,580
Investment income	6,428,754	79,553	120,413	49,673	45,175	-	-	-	-	6,723,568
Sales of literature and publications	862,853	-	1,107	70	-	-	-	-	-	864,030
Rental income	180,667	-	-	-	-	-	-	-	-	180,667
Other income	3,494,547	134,417	471,319	107,718	161,677	-	-	-	-	4,369,678
Total income before transfers	101,545,837	4,269,828	8,798,458	3,408,334	2,528,080	-	-	12,236	-	120,552,973
Transfer income	174,314	8,388	-	200	-	-	-	(182,902)	-	-
Total revenue	101,720,251	4,268,316	8,798,458	3,408,534	2,528,080	-	-	(170,666)	-	120,552,973
Expenses										
Program services	81,273,954	3,185,064	5,024,249	2,734,215	2,663,973	-	-	278,745	-	96,160,200
Management and general	4,116,138	147,415	317,139	68,100	120,109	-	-	36,890	-	4,805,791
Fundraising	11,656,562	431,757	218,071	217,287	299,923	-	-	36,627	-	12,861,237
Total expenses	97,046,654	3,764,236	5,560,459	3,019,612	3,084,005	-	-	352,262	-	112,627,228
Change in net assets from operations	4,673,597	504,080	3,237,999	388,922	(555,925)	-	-	(522,928)	-	7,725,745
Realized and unrealized gain on investments, net	5,751,698	-	-	16,142	-	-	-	-	-	5,767,740
Change in net assets before postretirement benefits adjustment	10,425,195	504,080	3,237,999	405,064	(555,925)	-	-	(522,928)	-	13,493,485
Adoption of FAS 158 - postretirement benefits adjustment	(5,454,258)	-	-	-	-	-	-	-	-	(5,454,258)
Change in net assets	4,970,937	504,080	3,237,999	405,064	(555,925)	-	-	(522,928)	-	8,039,227
Net Assets										
Net assets at January 1, 2007, as previously reported	225,735,717	3,364,861	3,585,763	1,157,374	(11,267,542)	(8,716,368)	(10,715,826)	(4,657,939)	-	198,486,040
Adjustments to reflect changes in reporting entity and transfers - NAHEE, EarthVoice, CRLE and HSI Canada	(25,637,890)	-	-	-	1,224,829	8,716,368	10,715,826	5,180,867	-	-
Net assets at January 1, 2007, as adjusted	199,897,827	3,364,861	3,585,763	1,157,374	(10,042,713)	-	-	522,928	-	198,486,040
Ending	\$ 204,668,764	\$ 3,868,941	\$ 6,823,762	\$ 1,562,438	\$ (10,598,638)	\$ -	\$ -	\$ -	\$ -	\$ 206,526,267

UC