

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA**

| | | |
|---|---|---|
| ANIMAL WELFARE INSTITUTE, <u>et al.</u>, |) | |
| |) | |
| Plaintiffs, |) | |
| |) | |
| v. |) | Civil Action No. 03-2006 (EGS/JMF) |
| |) | |
| FELD ENTERTAINMENT, INC., |) | |
| |) | |
| Defendant. |) | |

**MEMORANDUM IN SUPPORT OF DEFENDANT FELD ENTERTAINMENT, INC.'S
MOTION TO JOIN THE HUMANE SOCIETY OF THE UNITED STATES
AS A PARTY PLAINTIFF AND NOTICE OF HEARING**

EX. 29

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

The Humane Society of the United States

December 31, 2005

The Humane Society of the United States

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Grant Thornton

Accountants and Business Advisors

Report of Independent Certified Public Accountants

Board of Directors
The Humane Society of the United States

We have audited the accompanying consolidated statement of financial position of The Humane Society of the United States (the Society) and its interrelated organizations as of December 31, 2005, 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 Auditing Standards Board of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits 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, as of December 31, 2005, 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 22 and 23, 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.



Vienna, Virginia
March 10, 2006

The Humane Society of the United States

Consolidated Statement of Financial Position

December 31, 2005

Assets**Current Assets**

| | |
|--|-------------------|
| Cash and cash equivalents | \$ 19,769,233 |
| Contributions and bequests receivable, net of allowance of \$356,449 | 6,805,975 |
| Miscellaneous receivables | 3,501,593 |
| Accrued interest receivable | 214,909 |
| Prepaid expenses and deferred charges | 166,587 |
| Deposits | 36,176 |
| Total current assets | 30,494,473 |

Non-current Assets

| | |
|--|--------------------|
| Contributions and bequests receivable, net of current portion, allowance and discount of \$442,120 | 8,393,311 |
| Prepaid pension cost | 1,606,918 |
| Investments | 140,117,158 |
| Investments to fund deferred compensation liability | 598,445 |
| Property and equipment, less accumulated depreciation of \$11,132,604 | 14,575,860 |
| Total non-current assets | 165,291,692 |

| | |
|---------------------|-----------------------|
| Total Assets | \$ 195,786,165 |
|---------------------|-----------------------|

Liabilities and Net Assets**Current Liabilities**

| | |
|----------------------------------|-------------------|
| Accounts payable | \$ 14,188,280 |
| Other current liabilities | 1,561,970 |
| Total current liabilities | 15,750,250 |

Non-current Liabilities

| | |
|--------------------------------------|------------------|
| Annuities and unitrusts | 5,747,588 |
| Accrued severance obligation | 1,045,404 |
| Deferred compensation liability | 598,445 |
| Total non-current liabilities | 7,391,437 |

| | |
|--------------------------|-------------------|
| Total Liabilities | 23,141,687 |
|--------------------------|-------------------|

Net Assets

| | |
|---------------------------|--------------------|
| Unrestricted: | |
| Board-designated | 72,962,503 |
| Undesignated | 43,676,308 |
| Total unrestricted | 116,638,811 |
| Temporarily restricted | 34,934,689 |
| Permanently restricted | 21,070,978 |
| Total net assets | 172,644,478 |

| | |
|---|-----------------------|
| Total Liabilities and Net Assets | \$ 195,786,165 |
|---|-----------------------|

The accompanying notes are an integral part of this statement.

The Humane Society of the United States

Consolidated Statement of Activities and Changes in Net Assets

Year ended December 31, 2005

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|-----------------------|---------------------------|---------------------------|-----------------------|
| Revenue | | | | |
| Dues and contributions | \$ 60,807,479 | \$ 43,116,858 | \$ — | \$ 103,924,337 |
| Grants and trust contributions | 3,070,995 | 1,395,111 | 285,703 | 4,751,809 |
| Bequests | 18,869,956 | 4,544,618 | — | 23,414,574 |
| Annuities and unitrusts | 534,583 | — | — | 534,583 |
| Change in valuation of annuities and unitrusts | (566,526) | 1,730 | — | (564,796) |
| Investment income | 3,534,020 | 196,813 | — | 3,730,833 |
| Rental income | 195,579 | — | — | 195,579 |
| Sales of literature and publications | 653,823 | 241,003 | — | 894,826 |
| Other income | 3,543,294 | 487,046 | — | 4,030,340 |
| Net assets released from restrictions | 28,099,118 | (28,099,118) | — | — |
| Total revenue | 118,742,321 | 21,884,061 | 285,703 | 140,912,085 |
| Expenses | | | | |
| Program services | 84,780,103 | — | — | 84,780,103 |
| Management and general | 7,149,625 | — | — | 7,149,625 |
| Fundraising | 14,691,139 | — | — | 14,691,139 |
| Total expenses | 106,620,867 | — | — | 106,620,867 |
| Change in Net Assets from Operations | 12,121,454 | 21,884,061 | 285,703 | 34,291,218 |
| Minimum pension liability adjustment | 841,786 | — | — | 841,786 |
| Realized and unrealized gain on investments | 5,566,324 | 32,653 | 456 | 5,599,433 |
| | 6,408,110 | 32,653 | 456 | 6,441,219 |
| Change in Net Assets | 18,529,564 | 21,916,714 | 286,159 | 40,732,437 |
| Net Assets at January 1, 2005, as previously reported | 79,690,584 | 11,010,811 | 20,784,819 | 111,486,214 |
| Adjustments to Reflect Change in Reporting Entity—Fund for Animals (Note B) | 18,418,663 | 2,007,164 | — | 20,425,827 |
| Net Assets at January 1, 2005, as adjusted | 98,109,247 | 13,017,975 | 20,784,819 | 131,912,041 |
| Net Assets, end of year | \$ 116,638,811 | \$ 34,934,689 | \$ 21,070,978 | \$ 172,644,478 |

The accompanying notes are an integral part of this statement.

The Humane Society of the United States
 Consolidated Statement of Functional Expenses

Year ended December 31, 2005

| | Research and Education | Regional and Local Programs | Domestic Animal Programs | Wildlife Programs | The Fund for Animals | Campaigns, Legislation & Litigation | International External Affairs | Communications | Total Program | Management and General | Fund Raising | Total |
|--|------------------------|-----------------------------|--------------------------|---------------------|----------------------|-------------------------------------|--------------------------------|----------------------|----------------------|------------------------|----------------------|-----------------------|
| Salaries | \$ 2,036,625 | \$ 3,235,516 | \$ 1,817,108 | \$ 1,431,643 | \$ 825,642 | \$ 2,529,049 | \$ 1,244,980 | \$ 1,884,801 | \$ 15,005,364 | \$ 837,036 | \$ 2,324,005 | \$ 18,167,005 |
| Payroll Taxes | 48,078 | 328,026 | 110,728 | 74,610 | 1,902 | 155,767 | 58,126 | 114,892 | 892,129 | 318,072 | 162,725 | 1,373,526 |
| Employee Benefits | 501,707 | 673,187 | 235,759 | 252,516 | 266,613 | 334,449 | 211,557 | 242,883 | 2,718,471 | 662,555 | 376,930 | 3,757,956 |
| Total compensation | 2,586,410 | 4,236,729 | 2,163,595 | 1,758,769 | 1,094,157 | 3,019,265 | 1,514,463 | 2,242,576 | 18,615,964 | 1,818,263 | 2,864,260 | 23,298,487 |
| Consultant and contracted services | 971,763 | 2,851,730 | 377,195 | 728,339 | 581,033 | 981,994 | 321,982 | 860,712 | 7,674,748 | 49,446 | 1,997,216 | 9,721,410 |
| Professional fees | 78,071 | 102,963 | 39,420 | 424,313 | 126,508 | 1,150,220 | 37,513 | 32,710 | 1,991,809 | 90,727 | 46,328 | 2,128,855 |
| Office supplies and expenses | 138,467 | 2,251,683 | 63,322 | 101,027 | 743,362 | 163,027 | 83,703 | 75,281 | 3,620,772 | 17,368 | 109,509 | 3,747,649 |
| Telephone | 102,652 | 297,891 | 43,859 | 36,948 | 31,334 | 94,676 | 49,142 | 34,706 | 691,208 | 52,690 | 71,229 | 815,127 |
| Postage and shipping | 423,783 | 331,765 | 66,287 | 69,127 | 25,044 | 107,600 | 16,571 | 163,908 | 1,204,085 | 37,159 | 107,014 | 1,348,258 |
| Occupancy and building expense | 123,844 | 575,170 | 70,945 | 52,189 | 251,726 | 144,295 | 60,908 | 112,340 | 1,391,417 | 189,360 | 60,862 | 1,641,639 |
| Investment expenses and trustees' fees | — | — | — | — | — | — | — | — | — | 2,916,285 | — | 2,916,285 |
| Travel, meals and lodging | 417,472 | 1,566,486 | 396,647 | 457,334 | 149,706 | 324,349 | 291,244 | 173,070 | 3,776,308 | 48,519 | 247,641 | 4,072,468 |
| Insurance and bonds | 25,731 | 139,949 | 44,595 | 32,414 | (1,871) | 62,735 | 23,271 | 40,879 | 376,703 | 128,345 | 65,537 | 570,585 |
| Depreciation | 35,335 | 150,061 | 33,866 | 23,179 | 183,152 | 56,509 | 31,216 | 58,767 | 572,085 | 576,631 | 24,295 | 1,173,011 |
| Contributions and grants | 471,631 | 5,757,888 | 620,092 | 663,937 | 39,086 | 673,465 | 363,766 | 27,544 | 8,617,609 | 5,418 | 92,018 | 8,714,845 |
| Real estate and personal property taxes | 9,249 | 36,187 | 3,212 | 34,684 | 8,717 | 65,965 | 16,851 | 3,957 | 172,822 | 45,747 | 14,984 | 233,553 |
| Education material, publications and campaigns | 584,080 | 443,546 | 440,522 | 530,662 | 38,850 | 898,296 | 119,517 | 4,329,720 | 7,385,193 | 36,562 | 587,683 | 8,209,138 |
| Mailing costs | 3,338,707 | 9,023,871 | 1,892,127 | 4,604,500 | 631,846 | 3,657,269 | 1,284,542 | 4,056,727 | 28,489,589 | 1,137,105 | 8,402,583 | 38,029,257 |
| Total | \$ 9,307,195 | \$ 27,759,919 | \$ 6,255,684 | \$ 9,517,422 | \$ 3,802,732 | \$ 11,400,565 | \$ 4,314,689 | \$ 12,421,897 | \$ 84,780,103 | \$ 7,149,625 | \$ 14,691,139 | \$ 106,620,867 |

The Humane Society of the United States

Consolidated Statement of Cash Flows

December 31, 2005

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

| | |
|--|---------------|
| Change in net assets | \$ 40,732,437 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | |
| Depreciation and amortization | 1,173,011 |
| Loss on disposal of property and equipment | 86,671 |
| Net realized and unrealized gains on investment | (5,599,433) |
| Donated stock | (1,368,833) |
| Donated equipment | (132,180) |
| Donated land | (289,119) |
| Changes in operating assets and liabilities: | |
| Contributions and bequests receivable | (11,017,574) |
| Miscellaneous receivables | (1,239,421) |
| Accrued interest receivable | 246,694 |
| Prepaid expenses and deferred charges | 113,485 |
| Deposits | 99 |
| Prepaid pension cost | (393,595) |
| Accounts payable | 8,222,736 |
| Other current liabilities | (1,332,098) |
| Annuities and unitrusts | 487,002 |
| Accrued pension and severance obligation | (888,587) |

Net Cash Provided by Operating Activities

28,801,295

Cash Flows from Investing Activities

| | |
|--|---------------|
| Proceeds from sales of investments | 114,817,031 |
| Purchases of investments | (134,945,164) |
| Proceeds from sale of property and equipment | 172 |
| Purchases of property and equipment | (1,285,283) |

Net Cash Used in Investing Activities

(21,413,244)

Net Increase in Cash and Cash Equivalents

7,388,051

Cash and Cash Equivalents, beginning of year

12,381,182

Cash and Cash Equivalents, end of year

\$ 19,769,233

The accompanying notes are an integral part of this statement.

The Humane Society of the United States

Notes to Consolidated Financial Statements

December 31, 2005

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 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; Association Humanitaria De Costa Rica; National Humane Education Center; Meadow Creek, Inc.; Humane Society of the United States Wildlife Land Trust; Humane Society Legislative Fund; and the Fund for Animals.

Effective January 1, 2005, an asset acquisition agreement was executed between the Society and the Fund for Animals, Inc. (the Fund), whereby the Fund transferred assets totaling approximately \$18.4 million to the Society, including, but not limited to, all of the Fund's real and personal property, tangible and intangible, of any type or kind and wherever situated, but excluding cash in the amount of \$250,000 and title to and other real property interests in the Fund's unimproved property in Colebrook, Connecticut and in the Fund's facilities in Murchison, Texas (the Black Beauty Ranch) and Ramona, California (the Wildlife Rehabilitation Center).

In addition, the Fund's Board members were assumed into the Society's Board of Director's, and the Society took control of the Fund's Board and voting membership. The Fund continues to operate as an animal welfare organization, coordinating its animal care facilities with the Society's animal care programs. Because of the resulting establishment of common Board control and economic interest, the accompanying 2005 financial statements reflect the consolidation of the assets, liabilities, net assets and activities of the Fund. Due to the 2005 change in consolidated reporting entity, the Society's opening net assets as of January 1, 2005, have been restated to reflect the net assets of the Fund 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

Notes to Consolidated Financial Statements—Continued

December 31, 2005

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

Notes to Consolidated Financial Statements—Continued

December 31, 2005

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, 2005:

| | |
|------------------------|----------------|
| Board-designated: | |
| Investment fund | \$ 65,551,270 |
| Endowment fund | 250,000 |
| Special purpose funds | 653,265 |
| Black Beauty Ranch | 6,507,968 |
| | <hr/> |
| Total Board-designated | 72,962,503 |
| Undesignated | 43,676,308 |
| | <hr/> |
| | \$ 116,638,811 |
| | <hr/> |

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, 2005:

| | |
|---|---------------|
| Annuities and unitrusts | \$ 533,187 |
| Education & training programs and disaster relief | 24,694,051 |
| Provide scholarships | 74,135 |
| Support of other humane organizations | 2,069,912 |
| For the betterment of song birds | 112,039 |
| Wildlife Land Trust | 948,262 |
| Endangered species | 1,758,033 |
| Government affairs | 329,046 |
| Fund for Animals | 4,416,024 |
| | <hr/> |
| | \$ 34,934,689 |
| | <hr/> |

The Humane Society of the United States

Notes to Consolidated Financial Statements—Continued

December 31, 2005

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, 2005:

| | |
|--|---------------|
| Income-producing assets; income is expendable to support the following: | |
| to defray building operating expenses | \$ 394,660 |
| to award scholarships to Connecticut secondary school students | 2,479 |
| to use for the best interests of the organization | 14,042,959 |
| 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 | 2,375,639 |
| for the State of New Hampshire wildlife | 127,820 |
| for the betterment of song birds | 802,464 |
| | <hr/> |
| | 19,255,408 |
| Non-income-producing assets: | |
| Land and easements held to preserve natural habitats for wildlife | 1,815,570 |
| | <hr/> |
| | \$ 21,070,978 |

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

Notes to Consolidated Financial Statements—Continued

December 31, 2005

NOTE F—NET ASSETS RELEASED FROM RESTRICTIONS

During 2005, assets were released from donor restrictions by the Society incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

| | 2005 |
|--|---------------|
| Purpose for which restrictions were accomplished: | |
| Donor-specified program expenses of the organization | \$ 21,178,928 |
| Gifts to other humane organizations | 6,831,034 |
| Restricted fund investment expenses | 89,156 |
| | \$ 28,099,118 |

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 2005.

The annuity contract assets and the related liability at December 31, 2005, totaled \$598,445.

The Humane Society of the United States

Notes to Consolidated Financial Statements—Continued

December 31, 2005

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, 2005. 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, 2005, in the ManyOne investment and; therefore, has established a reserve of \$500,000 against the original cost of this investment.

| | <u>December 31, 2005</u> | |
|-----------------------------------|--------------------------|-----------------------|
| | Cost | Market |
| At quoted market prices: | | |
| U.S. corporate stocks | \$ 56,196,208 | \$ 68,431,641 |
| Foreign corporate stocks | 4,352,975 | 5,628,132 |
| Government obligations | 39,087,971 | 38,886,787 |
| U.S. corporate bonds | 2,988,517 | 2,946,237 |
| Foreign corporate bonds | 420,815 | 411,836 |
| Money market accounts | 23,615,693 | 23,615,693 |
| | <u>126,662,179</u> | <u>139,920,326</u> |
| At estimated market value: | | |
| Real property | 149,373 | 149,373 |
| Personal property | 47,459 | 47,459 |
| ManyOne | 500,000 | — |
| | <u>696,832</u> | <u>196,832</u> |
| Total | <u>\$ 127,359,011</u> | <u>\$ 140,117,158</u> |

The Humane Society of the United States

Notes to Consolidated Financial Statements—Continued

December 31, 2005**NOTE J—PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31, 2005:

| | Useful Life | |
|--------------------------------|----------------|----------------------|
| Land | — | \$ 7,522,190 |
| Buildings and improvements | 10 to 40 years | 11,212,764 |
| Office furniture and equipment | 5 years | 5,661,520 |
| Automobiles | 5 years | 1,311,990 |
| | | <u>25,708,464</u> |
| Less: accumulated depreciation | | <u>(11,132,604)</u> |
| Net property and equipment | | <u>\$ 14,575,860</u> |

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, 2005, was \$207,130.

As of December 31, 2005, the future minimum lease commitments under non-cancelable operating leases were as follows:

| <u>Year ending December 31,</u> | |
|---------------------------------|-------------------|
| 2006 | 143,333 |
| 2007 | 109,811 |
| 2008 | 70,531 |
| 2009 | 11,750 |
| 2010 | 5,000 |
| | <u>340,425</u> |
| Total minimum lease payments | <u>\$ 340,425</u> |

The Humane Society of the United States

Notes to Consolidated Financial Statements—Continued

December 31, 2005

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, 2005, the Society has investments of \$17,030,479 reserved for paying annuities. The amount required to be reserved as calculated by the actuary was \$5,219,610.

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, 2005, the amounts of assets held in charitable remainder unitrusts, which are restricted for the payment of related annuities are \$848,831. The actuarially calculated liabilities at December 31, 2005, are \$527,978. The net assets of the trusts of \$533,187 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

Notes to Consolidated Financial Statements—Continued

December 31, 2005

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, 2005:

| | |
|---|----------------------|
| Accumulated Benefit Obligation | \$ 13,673,213 |
| Change in Benefit Obligation | |
| Benefit obligation at beginning of year: | \$ 15,015,564 |
| Service cost | 1,007,296 |
| Interest cost | 889,382 |
| Participant contributions | 277,352 |
| Benefit payments | (114,913) |
| Administrative expenses | (98,963) |
| Actuarial loss | 216,068 |
| Plan amendments | — |
| Settlements | (512,065) |
| Benefit obligation at end of year | <u>\$ 16,679,721</u> |
| Change in Plan Assets | |
| Fair value of plan assets at beginning of year: | \$ 11,825,207 |
| Employer contributions | 1,748,963 |
| Participant contributions | 277,352 |
| Benefit payments | (114,913) |
| Administrative expenses | (98,963) |
| Actual return on plan assets | 810,548 |
| Settlements | (512,065) |
| Fair value of plan assets at end of year | <u>\$ 13,936,129</u> |
| Reconciliation of Funded Status at End of Year | |
| Funded status | \$ (2,743,592) |
| Unrecognized net transition or obligation | — |
| Unrecognized prior service cost | 494,168 |
| Unrecognized net loss | 3,856,342 |
| Net amount recognized | <u>\$ 1,606,918</u> |

The Humane Society of the United States

Notes to Consolidated Financial Statements—Continued

December 31, 2005

NOTE L—PENSION PLAN FOR EMPLOYEES—Continued

| | |
|--------------------------------------|---------------------|
| Amounts Recognized at End of Year | |
| Prepaid benefit cost | \$ 1,606,918 |
| Additional minimum pension liability | — |
| Intangible asset | — |
| Minimum pension liability | — |
| Net amount recognized | <u>\$ 1,606,918</u> |

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 | \$ 1,748,963 |
| Benefit payments | 114,913 |

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

December 31, 2005

| | |
|--------------------------------------|--------------|
| Expected employer contributions | \$ 1,850,000 |
| Year 1 expected benefit payments | 493,622 |
| Year 2 expected benefit payments | 925,294 |
| Year 3 expected benefit payments | 1,024,729 |
| Year 4 expected benefit payments | 2,244,858 |
| Year 5 expected benefit payments | 1,321,225 |
| Years 6-10 expected benefit payments | 12,738,140 |

The Humane Society of the United States

Notes to Consolidated Financial Statements—Continued

December 31, 2005

NOTE L—PENSION PLAN FOR EMPLOYEES—Continued

Weighted-average asset allocation at end of year:

December 31, 2005

| | |
|----------------------------|--------|
| Equity securities | 65.6% |
| Debt securities | 27.1% |
| Cash equivalents and other | 7.3% |
| | <hr/> |
| Total | 100.0% |
| | <hr/> |

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

December 31, 2005

| | |
|---|--------|
| Year 1 (prior to fiscal year) investment return | 6.5% |
| Year 2 (prior to fiscal year) investment return | 6.2% |
| Year 3 (prior to fiscal year) investment return | 20.5% |
| Year 4 (prior to fiscal year) investment return | (8.5)% |
| Year 5 (prior to fiscal year) investment return | 8.1% |
| 5-year average | 6.18% |

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

NOTE M—FUTURE MINIMUM LEASE RECEIPTS

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

Year ended December 31,

| | | |
|------------------------------|----|---------|
| 2006 | \$ | 189,102 |
| 2007 | | 195,999 |
| 2008 | | 104,945 |
| | | <hr/> |
| Total minimum lease payments | \$ | 490,046 |
| | | <hr/> |

The Humane Society of the United States

Notes to Consolidated Financial Statements—Continued

December 31, 2005

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, 2005, the allocation of the joint costs is summarized as follows:

| | |
|------------------------|---------------|
| Membership development | \$ 1,133,034 |
| Programs | 28,441,344 |
| Fundraising | 8,193,434 |
| | <hr/> |
| Total joint costs | \$ 37,767,812 |

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, 2005, the Society's cash balances in excess of the FDIC insurance limits were \$9,226,679.

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.

The Humane Society of the United States

Notes to Consolidated Financial Statements—Continued

December 31, 2005

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, 2005, of \$1,045,404 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, 2005:

| | |
|--------------------|-------------------|
| Less than one year | \$ 6,805,975 |
| One to five years | 8,393,311 |
| | <u>15,199,286</u> |
| | \$ 15,199,286 |

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 2005. 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 2005, the Society recorded \$1,519,883 of contributed public service announcements.

The Society receives donations of in-kind services, as well as donations of equipment and supplies, in its daily operations of its programs. In 2005, the Society received \$1,065,422 in donated services, and \$178,071 in donated equipment and supplies.

The Humane Society of the United States
Consolidating Statement of Financial Position

December 31, 2003

| | 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 Environment and Inc. | Meadowcreek, Inc. | HSLP | FFA | Eliminations | Total |
|--|---|---|---|------------------------------------|--------------------------|--|-------------------|-------------------|---------------------|--------------|-----------------------|
| Assets | | | | | | | | | | | |
| Current Assets | | | | | | | | | | | |
| Cash and cash equivalents | \$ 15,508,586 | \$ 1,275,850 | \$ 700 | \$ 844,306 | \$ — | \$ — | \$ — | \$ 730,687 | \$ 1,409,104 | \$ — | \$ 19,768,233 |
| Due from (due to) HSEUS | 35,812,716 | (439,429) | (7,554,139) | (10,611,611) | (10,714,477) | (4,102,357) | — | (413,733) | (1,978,960) | — | — |
| Contributions and bequests receivable, net of allowance of \$136,449 | 6,352,797 | 93,182 | 26,460 | — | — | — | — | — | 430,718 | — | 6,803,975 |
| Miscellaneous receivables | 3,262,577 | — | 25,637 | 721 | 20,830 | 852 | — | 12,092 | 85,402 | — | 3,501,593 |
| Accrued interest receivable | 214,909 | — | — | — | — | — | — | — | — | — | 214,909 |
| Prepaid expenses and deferred charges | 149,844 | 528 | 2,280 | 10,842 | 750 | — | — | — | 2,343 | — | 166,587 |
| Deposits | 34,956 | 750 | — | — | — | — | — | — | 470 | — | 36,176 |
| Total current assets | 61,336,385 | 941,185 | (7,503,062) | (9,755,742) | (10,696,891) | (4,101,509) | — | 329,046 | (54,943) | — | 30,494,473 |
| Non-current Assets | | | | | | | | | | | |
| Contributions and bequests receivable, net of current portion, allowance and discount of \$442,120 | 8,393,311 | — | — | — | — | — | — | — | — | — | 8,393,311 |
| Prepaid pension cost | 1,606,918 | — | — | — | — | — | — | — | — | — | 1,606,918 |
| Investments | 140,114,528 | — | — | — | — | — | — | — | 2,630 | — | 140,117,158 |
| Investments to fund deferred compensation liability | 598,445 | — | — | — | — | — | — | — | — | — | 598,445 |
| Property and equipment, less accumulated depreciation of \$11,132,604 | 10,963,730 | 1,848,298 | — | 78,180 | — | — | — | — | 1,685,652 | — | 14,575,860 |
| Total non-current assets | 161,676,032 | 1,848,298 | — | 78,180 | — | — | — | — | 1,688,282 | — | 165,291,692 |
| Total Assets | \$ 223,012,417 | \$ 2,789,483 | \$ (7,503,062) | \$ (8,677,562) | \$ (10,696,891) | \$ (4,101,509) | \$ — | \$ 329,046 | \$ 1,633,339 | \$ — | \$ 195,786,165 |
| Liabilities and Net Assets | | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | | |
| Accounts payable | \$ 14,174,843 | \$ — | \$ — | \$ 13,437 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 14,188,280 |
| Other current liabilities | 1,384,332 | 25,650 | 34,559 | 26,926 | 18,935 | 15,459 | — | — | 56,109 | — | 1,561,070 |
| Total current liabilities | 15,559,175 | 25,650 | 34,559 | 40,363 | 18,935 | 15,459 | — | — | 56,109 | — | 15,750,250 |
| Non-current Liabilities | | | | | | | | | | | |
| Annuities and unitrusts | 5,747,588 | — | — | — | — | — | — | — | — | — | 5,747,588 |
| Accrued severance obligation | 1,045,404 | — | — | — | — | — | — | — | — | — | 1,045,404 |
| Deferred compensation liability | 598,445 | — | — | — | — | — | — | — | — | — | 598,445 |
| Total non-current liabilities | 7,391,437 | — | — | — | — | — | — | — | — | — | 7,391,437 |
| Total Liabilities | 22,950,612 | 25,650 | 34,559 | 40,363 | 18,935 | 15,459 | — | — | 56,109 | — | 23,141,687 |
| Net Assets | | | | | | | | | | | |
| Unrestricted: | | | | | | | | | | | |
| Bond-designated | 72,812,963 | — | — | — | — | 129,540 | — | — | — | — | 72,942,503 |
| Undesignated | 73,214,191 | 948,263 | (7,537,621) | (8,612,671) | (10,715,820) | (4,336,303) | — | 329,046 | 1,577,230 | — | 43,676,208 |
| Total unrestricted | 146,027,154 | 948,263 | (7,537,621) | (8,612,671) | (10,715,820) | (4,196,763) | — | 329,046 | 1,577,230 | — | 116,638,811 |
| Temporarily restricted | 34,760,144 | — | — | 94,746 | — | 79,799 | — | — | — | — | 34,934,689 |
| Permanently restricted | 19,255,407 | 1,815,571 | — | — | — | — | — | — | — | — | 21,070,978 |
| Total net assets | 200,062,705 | 2,763,833 | (7,537,621) | (7,717,925) | (10,715,820) | (4,116,964) | — | 329,046 | 1,577,230 | — | 172,644,478 |
| | \$ 223,012,417 | \$ 2,789,483 | \$ (7,503,062) | \$ (8,677,562) | \$ (10,696,891) | \$ (4,101,509) | \$ — | \$ 329,046 | \$ 1,633,339 | \$ — | \$ 195,786,165 |

The Humane Society of the United States
 Consolidating Statement of Activities

December 31, 2005

| | 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 | Meadowcreek, Inc. | HSLF | FFA | Eliminations | Total |
|--|---|---|---|------------------------------------|--------------------------|--|-------------------|------------|--------------|--------------|----------------|
| Revenue | | | | | | | | | | | |
| Dues and contributions | \$ 92,983,753 | \$ 4,509,535 | \$ 653,052 | \$ 2,288,323 | \$ — | \$ 68,581 | \$ — | \$ 895,135 | \$ 2,525,958 | \$ — | \$ 103,924,337 |
| Grants and trust contributions | 4,121,239 | 292,886 | 2,796 | 21,700 | — | — | — | 4,050 | 309,138 | — | 4,751,809 |
| Bequests | 19,720,616 | 50,330 | 81,460 | — | — | — | — | — | 3,562,168 | — | 23,414,574 |
| Annuities and unitrusts | 534,583 | — | — | — | — | — | — | — | — | — | 534,583 |
| Change in valuation of annuities and unitrusts | (564,796) | — | — | — | — | — | — | — | — | — | (564,796) |
| Investment income | 3,680,297 | 41,916 | — | 4,507 | — | 3,775 | — | — | 340 | — | 3,730,833 |
| Rental income | 195,579 | — | — | — | — | — | — | — | — | — | 195,579 |
| Sale of literature and publications | 797,422 | 18 | 56,293 | (103) | — | 2,731 | — | 346 | 38,119 | — | 894,826 |
| Other income | 3,260,820 | 149,231 | 4,523 | — | — | 721 | 304,853 | — | 310,192 | — | 4,030,340 |
| Total Income before transfers | 124,729,513 | 5,043,916 | 798,124 | 2,314,427 | — | 75,806 | 304,853 | 899,531 | 6,745,915 | — | 140,912,085 |
| Transfer income | 2,758,928 | 50,940 | 28,926 | — | — | — | — | — | (2,838,794) | — | — |
| Total Revenue | 127,488,441 | 5,094,856 | 827,050 | 2,314,427 | — | 75,806 | 304,853 | 899,531 | 3,907,121 | — | 140,912,085 |
| Expenses | | | | | | | | | | | |
| Program services | 70,024,698 | 3,838,478 | 1,695,383 | 3,634,665 | 560,414 | 567,849 | 42,475 | 513,409 | 3,902,732 | — | 84,780,103 |
| Management and general | 6,323,936 | 69,098 | 158,331 | 103,287 | 129,769 | 119,604 | 6,414 | 15,858 | 223,328 | — | 7,149,625 |
| Fundraising | 12,258,977 | 980,666 | 389,139 | 550,835 | 121,440 | 172,956 | 10,409 | 45,722 | 210,995 | — | 14,691,139 |
| Total Expenses | 88,607,611 | 4,888,242 | 2,242,853 | 4,288,787 | 811,623 | 810,409 | 59,298 | 574,989 | 4,337,055 | — | 106,620,867 |
| Change in Net Assets from Operations | 38,880,830 | 206,614 | (1,415,803) | (1,974,360) | (811,623) | (734,603) | 245,555 | 324,542 | (429,934) | — | 34,291,218 |
| Minimum pension liability adjustment | 841,786 | — | — | — | — | — | — | — | — | — | 841,786 |
| Net assets acquired in January 2005 from the Fund for Animals (Note B) | 18,418,663 | — | — | — | — | — | — | — | — | (18,418,663) | — |
| Net appreciation in fair value of investments | 5,602,423 | — | — | (2,990) | — | — | — | — | — | (18,418,663) | 5,599,433 |
| | 24,862,872 | — | — | (2,990) | — | — | — | — | — | (18,418,663) | 6,441,219 |
| Change in Net Assets | 63,743,702 | 206,614 | (1,415,803) | (1,977,350) | (811,623) | (734,603) | 245,555 | 324,542 | (429,934) | (18,418,663) | 40,732,437 |
| Net Assets at January 1, 2005, as previously reported | 136,319,003 | 2,557,219 | (6,121,818) | (7,740,575) | (9,904,203) | (3,382,361) | (245,555) | 4,504 | — | — | 111,486,214 |
| Adjustments to Reflect Change in Reporting Entity—Fund for Animals (Note B) | — | — | — | — | — | — | — | — | 2,007,164 | 18,418,663 | 20,425,827 |
| Net Assets at January 1, 2005, as adjusted | 136,319,003 | 2,557,219 | (6,121,818) | (7,740,575) | (9,904,203) | (3,382,361) | (245,555) | 4,504 | 2,007,164 | 18,418,663 | 131,912,041 |
| Net Assets, end of year | \$ 200,062,705 | \$ 2,763,833 | \$ (7,537,621) | \$ (9,717,925) | \$ (10,715,820) | \$ (4,116,964) | \$ — | \$ 329,046 | \$ 1,577,230 | \$ — | \$ 172,644,478 |