

The Humane Society Of The United States And Affiliates

Consolidated Financial Statements
December 31, 2008

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McGladrey & Pullen
Certified Public Accountants

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Certified Public Accountants

Independent Auditor's Report On The Financial Statements

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, 2008, and the related consolidated statements of activities and changes in net assets, functional expenses, 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. The prior year summarized comparative information has been derived from the Society's 2007 consolidated financial statements and in our report, dated April 17, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2008, 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.

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.

McGladrey & Pullen, LLP

Gaithersburg, Maryland
August 12, 2009

The Humane Society Of The United States And Affiliates

Consolidated Balance Sheet

December 31, 2008

(With Comparative Totals For 2007)

Assets	2008	2007
Cash And Cash Equivalents	\$ 50,735,952	\$ 63,107,007
Investments	101,876,181	137,997,005
Investments To Fund Deferred Compensation Liability	316,336	614,385
Accrued Interest Receivable	455,721	743,382
Prepaid Expenses And Other Assets	1,066,808	305,019
Contributions, Bequests, And Other Receivables, net	22,785,983	13,982,672
Property And Equipment, net	19,021,129	16,316,729
Total assets	\$ 196,258,110	\$ 233,066,199
Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 8,032,383	\$ 14,667,516
Annuities and unitrusts	7,361,062	6,891,569
Accrued severance obligation	1,448,305	1,325,814
Deferred compensation liability	316,336	614,385
Accrued postretirement benefit obligation	8,600,047	3,041,648
Total liabilities	25,758,133	26,540,932
Commitments And Contingencies (Notes 13 And 17)		
Net Assets		
Unrestricted		
Board designated	66,276,037	89,996,255
Undesignated	37,746,182	57,662,178
	104,022,219	147,658,433
Temporarily restricted	35,776,393	29,511,836
Permanently restricted	30,701,365	29,354,998
Total net assets	170,499,977	206,525,267
Total liabilities and net assets	\$ 196,258,110	\$ 233,066,199

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, 2008
 (With Comparative Totals For 2007)

	2008			Total	2007
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenue:					
Contributions	\$ 77,406,308	\$ 18,087,293	\$ 25,000	\$ 95,518,601	\$ 84,044,923
Bequests	11,718,563	9,532,561	-	21,251,124	18,143,992
Interest and dividends	3,640,524	545,172	896,146	5,081,842	6,723,568
Grants and trust contributions	1,388,317	1,057,195	504,068	2,949,580	5,094,535
Royalty income	3,039,208	320,569	-	3,359,777	1,836,977
Event income	1,544,439	6,160	-	1,550,599	1,234,101
Sales of literature and publications	943,501	9,694	-	953,195	864,030
Rental income	210,795	-	-	210,795	180,667
Annuities and unitrusts	38,005	-	-	38,005	1,131,580
Other income	96,201	271,449	-	367,650	1,298,600
Net assets released from restrictions	22,865,995	(22,865,995)	-	-	-
Total support and revenue	122,891,856	6,964,098	1,425,214	131,281,168	120,552,973
Expenses:					
Program services	92,723,352	-	-	92,723,352	95,160,200
Management and general	4,860,896	-	-	4,860,896	4,805,791
Fundraising	27,533,910	-	-	27,533,910	12,861,237
Total expenses	125,118,158	-	-	125,118,158	112,827,228
Change in net assets from operations	(2,226,302)	6,964,098	1,425,214	6,163,010	7,725,745
Realized and unrealized (loss) gain on investments, net	(36,157,922)	(699,541)	(78,847)	(36,936,310)	5,767,740
Change in net assets before postretirement benefits adjustment	(38,384,224)	6,264,557	1,346,367	(30,773,300)	13,493,485
Postretirement benefits adjustment	(5,558,399)	-	-	(5,558,399)	(5,454,258)
Change in net assets	(43,942,623)	6,264,557	1,346,367	(36,331,699)	8,039,227
Net assets:					
Beginning	147,658,433	29,511,836	29,354,998	206,525,267	198,486,040
Net assets assumed in merger - AVAR	306,409	-	-	306,409	-
Ending	\$ 104,022,219	\$ 35,776,393	\$ 30,701,365	\$ 170,499,977	\$ 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, 2008

(With Comparative Totals For 2007)

	2008											Total	
	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 Expenses	Management And General			Fundraising
Salaries	\$ 1,979,526	\$ 3,868,113	\$ 2,630,465	\$ 2,002,923	\$ 1,717,829	\$ 4,784,224	\$ 5,374,893	\$ 2,883,441	\$ 22,241,414	\$ 448,033	\$ 2,257,755	\$ 24,947,202	\$ 22,203,273
Employee benefits	497,469	997,463	671,013	508,901	444,305	494,015	1,390,629	716,186	5,719,981	121,108	614,454	6,455,543	5,396,227
Total compensation	2,476,995	4,865,576	3,301,478	2,511,824	2,162,134	2,278,239	6,765,522	3,599,627	27,961,395	569,141	2,872,209	31,402,745	27,599,500
Mailing costs	1,637,663	3,271,378	1,973,111	1,547,083	1,377,800	1,348,279	3,899,521	2,412,862	17,467,697	1,109,981	19,086,127	37,663,805	37,737,410
Consultant and contracted services	750,048	1,687,052	1,019,241	1,268,599	1,199,755	1,418,256	3,103,089	1,356,015	11,802,055	188,801	3,082,079	15,072,935	11,240,963
Education material, publications, and campaigns	490,019	343,277	628,127	3,661,646	85,394	232,571	2,994,087	3,103,802	11,538,923	16,497	187,220	11,722,640	9,530,050
Contributions and grants	400,919	310,163	291,937	155,413	161,463	673,955	4,163,219	-	6,157,069	-	-	6,157,069	7,484,644
Professional fees	43,582	90,843	74,312	296,860	63,724	80,726	5,183,760	60,141	5,893,948	64,901	92,881	6,051,730	4,479,981
Travel, meals and lodging	224,870	973,437	482,763	705,553	231,637	480,118	794,904	475,060	4,368,342	16,683	181,242	4,566,267	3,808,589
Bank and trustees' fees	-	-	-	-	-	-	-	-	-	1,770,744	1,319,470	3,090,214	2,937,291
Supplies and field expenses	229,075	390,778	207,304	133,967	740,113	112,655	357,665	382,196	2,553,753	60,094	338,764	2,952,611	1,780,562
Occupancy and building expense	96,278	326,182	145,953	120,361	439,097	91,866	301,076	206,779	1,727,592	146,578	139,925	2,014,095	1,717,739
Depreciation	24,574	270,468	33,731	42,498	180,961	45,605	71,797	42,655	712,289	802,891	31,909	1,547,089	1,493,278
Postage and shipping	282,704	338,758	119,736	48,373	26,849	24,420	165,926	107,778	1,114,544	10,219	45,731	1,170,494	1,040,489
Telephone	49,120	220,396	64,864	66,256	69,971	66,761	193,894	73,824	807,086	26,797	66,951	900,834	908,550
Insurance and bonds	37,409	77,861	54,693	44,999	25,385	36,598	129,828	54,859	461,632	55,710	79,727	597,069	780,824
Real estate and other taxes	2,858	7,501	20,632	27,818	9,985	13,250	71,912	3,071	157,027	21,859	29,675	208,561	287,358
Total	\$ 6,746,114	\$ 13,173,670	\$ 8,417,882	\$ 10,633,250	\$ 6,774,268	\$ 6,903,299	\$ 28,196,200	\$ 11,878,669	\$ 92,723,352	\$ 4,860,896	\$ 27,533,910	\$ 125,118,158	\$ 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, 2008
(With Comparative Totals For 2007)

	2008	2007
Cash Flows From Operating Activities		
Change in net assets	\$ (36,331,699)	\$ 8,039,227
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Contributions and interest received for endowment	(1,425,214)	(285,591)
Depreciation and amortization	1,547,089	1,493,278
Gain on sale of property and equipment	(24,178)	(503,122)
Net realized and unrealized losses (gains) on investment	36,936,310	(5,767,740)
Donated stock	(449,156)	(1,163,518)
Donated land	(504,068)	(271,511)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accrued interest receivable	287,661	(57,857)
Prepaid expenses and other assets	(761,789)	(108,317)
Contributions, bequests, and other receivables, net	(8,803,311)	5,513,916
Increase (decrease) in:		
Accounts payable and accrued expenses	(6,635,133)	1,868,750
Annuities and unitrusts	469,493	1,161,511
Accrued severance obligation	122,491	75,345
Deferred compensation liability	(298,049)	20,381
Accrued postretirement benefit obligation	5,558,399	5,132,238
Net cash (used in) provided by operating activities	(10,311,154)	15,146,990
Cash Flows From Investing Activities		
Proceeds from sale of investments	106,604,404	55,708,375
Purchase of investments	(106,370,180)	(58,417,174)
Proceeds from sale of property and equipment	45,000	971,900
Purchases of property and equipment	(3,764,339)	(1,609,706)
Net cash used in investing activities	(3,485,115)	(3,346,605)
Cash Flows From Financing Activities		
Contributions and interest received for endowment	1,425,214	285,591
Net (decrease) increase in cash and cash equivalents	(12,371,055)	12,085,976
Cash And Cash Equivalents		
Beginning	63,107,007	51,021,031
Ending	\$ 50,735,952	\$ 63,107,007
Supplemental Schedule Of Noncash Investing And Financing Activities		
Donated stock	\$ 449,156	\$ 1,163,518
Donated land	\$ 504,068	\$ 271,511

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)

Effective May 31, 2008, a corporate combination agreement was executed between the Society and The Association of Veterinarians for Animal Rights, Inc. (AVAR), under which the Society's designees took control of AVAR's Board and AVAR ceased to exist. A new veterinary advocacy program of HSUS, the Humane Society Veterinary Medical Association (HSVMA), was launched. The assets, liabilities and net assets of AVAR were assumed by the Society and were not significant to the Society's consolidated financial statements.

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 (FASB) 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, 2008, cash and cash equivalents consisted of checking accounts and money market accounts.

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 and changes in net assets 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, hedge funds and private equity funds. 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 \$942,390 at December 31, 2008.

Property and equipment: Property and equipment with a cost of \$5,000 or more are 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 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 were no impairments of long-lived assets at December 31, 2008.

Support and revenue: 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 consolidated statement of activities and changes in net assets 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 27 public service announcements produced and distributed in 2008. 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. For the year ended December 31, 2008, the Society recorded \$5,594,566 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. For the year ended December 31, 2008, the Society received \$5,439,605 in donated services and \$259,645 in donated equipment and supplies.

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

Recent and upcoming accounting pronouncements: In June 2006, FASB issued Interpretation No.48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an interpretation of SFAS No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return, including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. If there are changes in net assets as a result of the application of FIN 48, these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will also be required. The Society presently recognizes income tax positions based on management's estimate of whether it is probable and reasonably possible that a liability has been incurred for unrecognized income tax benefits by applying SFAS No. 5, *Accounting for Contingencies*. The Society has elected to defer the application of FIN 48 in accordance with FASB Staff Position (FSP) 48-3. This FSP defers the effective date of FIN 48 for nonpublic enterprises included within its scope in the annual financial statements for fiscal years beginning after December 15, 2008. The Society will be required to adopt FIN 48 in its 2009 annual financial statements. The Society is in the process of working with its tax specialists to determine the impact of the adoption of FIN 48 on its consolidated financial statements.

Use of 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Tax status: The Society qualifies under Section 501(c)(3) of the Internal Revenue Code (IRC) 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, 2008.

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

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

Fair value of financial instruments: The carrying amounts including cash and cash equivalents, contributions, bequests and other receivables, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments. Investments are stated at fair value.

Recently adopted accounting pronouncements: Effective January 1, 2008, the Society adopted SFAS No. 157, *Fair Value Measurements*, issued by FASB. SFAS No. 157 defines fair value of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under SFAS No. 157 as assumptions market participants would use in pricing as asset or liability. The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments that are included in Level 1 include listed equities.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include U.S. Government securities, foreign government securities, and corporate bonds. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are generally included in this category include equity positions in private equity funds and hedge funds, as well as a structured note tied to the DJ Wilshire 5000 Index.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, investment levels within the fair value hierarchy are based on the lowest level of input that is significant to the fair value measurement. The Society's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The following section describes the valuation techniques used by the Society to measure different financial instruments at fair value and includes the level within the fair value hierarchy in which the financial instrument is categorized.

Investments in securities traded on a national securities exchange are stated at the last reported sales price on the day of valuation. These financial instruments are classified as Level 1 in the fair value hierarchy.

The types of investments valued based on quoted prices that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency, include investment-grade and high yield corporate bonds, U.S. Government bonds, and foreign government securities. These financial instruments are classified as Level 2 in the fair value hierarchy.

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

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

Recently adopted accounting pronouncements (continued): Investments in hedge funds and private equity funds are valued at fair value, based on the applicable percentage of ownership of the funds' net assets as of the measurement date, as determined by management. Investments in structured notes are valued at fair value, based on the Society's number of shares in relation to the index-driven market price of the note. In determining fair value, management utilizes valuations provided by the fund managers. The funds value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the funds, which may include private placements and other securities for which prices are not readily available, are determined by the management of the respective fund and may not reflect amounts that could be realized upon immediate sale, nor amounts that may be ultimately realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the Society's investments in hedge funds, structured notes and private equity funds generally represents the amounts the Society would expect to receive if it were to liquidate its investments in the funds and notes, excluding any redemption charges that may apply. These financial instruments are classified as Level 3 in the fair value hierarchy.

In August 2008, FASB issued FASB Staff Position (FSP) No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. FSP No. FAS 117-1 addresses accounting issues related to guidelines in the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was adopted by the National Conferences of Commissioners on Uniform State Laws in July 2006.

The Society has adopted FSP No. FAS 117-1 for the year ended December 31, 2008. Management has interpreted UPMIFA as requiring the preservation of the fair value of original donor-restricted contributions as of the date of the gift, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of permanently restricted cash contributions and (b) the discounted value of future permanently restricted cash contributions, net of allowance for uncollectible pledges. The remaining portion of donor-restricted cash contributions is classified as temporarily restricted net assets, until that amount is appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted cash contributions:

- The purposes of the Society and donor-restricted endowment fund
- The duration and preservation of the fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other available financial resources
- Investment policies

The Society has adopted investment and spending policies for permanently restricted cash contributions that attempt to provide a predictable stream of funding to programs, while maintaining purchasing power. All earnings from these funds are reflected as temporarily restricted net assets, until appropriated for program expenditures.

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

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

The Society's endowment funds consist of the following at December 31, 2008:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 30,701,365	\$ 30,701,365
Board designated endowment funds	66,276,037	-	66,276,037
	<u>\$ 66,276,037</u>	<u>\$ 30,701,365</u>	<u>\$ 96,977,402</u>

Endowment fund activity for the year ended December 31, 2008, consists of the following:

	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 89,996,255	\$ 29,354,998	\$ 119,351,253
Investment return:			
Interest and dividends	2,069,292	896,146	2,965,438
Realized and unrealized loss on investments	(19,810,424)	-	(19,810,424)
Amounts appropriated for expenditure	(14,178,002)	-	(14,178,002)
Contributions	8,091,421	529,068	8,620,489
Endowment net assets, end of year	<u>\$ 66,168,542</u>	<u>\$ 30,780,212</u>	<u>\$ 96,948,754</u>

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 2. Investments

The following table represents the Society's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis at December 31, 2008:

	Total	Quoted Prices In Active Markets For Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Hedge funds	\$ 47,813,968	\$ -	\$ -	\$ 47,813,968
Government obligations	17,643,184	-	17,643,184	-
U.S. corporate stocks	7,810,947	7,810,947	-	-
Structured note	8,339,544	-	-	8,339,544
Foreign corporate bonds	6,891,212	-	6,891,212	-
U.S. corporate bonds	6,771,486	-	6,771,486	-
Private equity funds	3,729,361	-	-	3,729,361
Foreign government bonds	2,564,850	-	2,564,850	-
Foreign corporate stocks	326,774	326,774	-	-
Asset-backed securities	224,694	-	-	224,694
Real property	147,270	-	-	147,270
Personal property	13,521	-	-	13,521
	<u>\$ 102,276,811</u>	<u>\$ 8,137,721</u>	<u>\$ 33,870,732</u>	<u>\$ 60,268,358</u>

Financial instruments classified as Level 3 in the fair value hierarchy represent the Society's investments in financial instruments, in which the management has used at least one significant unobservable input in the valuation model. The following table presents a reconciliation of activity for the Level 3 financial instruments:

Balance, January 1, 2008	\$ 3,760,485
Purchases	67,700,000
Realized and unrealized losses	(11,192,127)
Balance, December 31, 2008	<u><u>\$ 60,268,358</u></u>

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 3. Contributions, Bequests, And Other Receivables

Contributions, bequests, and other receivables consist of the following at December 31, 2008:

Bequests	\$ 14,132,953
Capital campaign	3,419,731
Contributions and other receivables	<u>6,340,169</u>
Contributions, bequests and other receivables before allowance for uncollectible accounts and discount	23,892,853
Less allowance for uncollectible contributions and bequests (5%)	(942,390)
Less discount on multi-year contributions and bequests (2.75%)	<u>(164,480)</u>
	<u><u>\$ 22,785,983</u></u>

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

Less than one year	\$ 20,085,042
One to five years	<u>2,700,941</u>
	<u><u>\$ 22,785,983</u></u>

Note 4. Property And Equipment

Property and equipment consist of the following at December 31, 2008:

	Useful Life	Cost	Accumulated Depreciation	Net	Depreciation
Land	-	\$ 9,770,090	\$ -	\$ 9,770,090	\$ -
Buildings and improvements	10 to 40 years	15,155,815	7,663,752	7,492,063	562,197
Office furniture and equipment	5 years	7,147,194	5,900,214	1,246,980	743,268
Automobiles	5 years	1,331,584	819,588	511,996	241,624
		<u>\$ 33,404,683</u>	<u>\$ 14,383,554</u>	<u>\$ 19,021,129</u>	<u>\$ 1,547,089</u>

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 5. Accounts Payable And Accrued Expenses

Accounts payable and accrued expenses consist of the following at December 31, 2008:

Accounts payable	\$ 5,274,483
Accrued vacation	1,308,834
Accrued wages	1,205,032
Other accrued expenses	244,034
	<u>\$ 8,032,383</u>

Note 6. 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. 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, 2008, the Society had investments of \$18,276,281 reserved for paying annuities. The amount required to be reserved as calculated by the actuary was \$6,896,484.

Under the charitable remainder unitrusts, donors make contributions to the Society that 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 (a) the trust principal multiplied by a stated interest rate, or (b) the actual earnings of the trust. The future liability was calculated using assumed interest rates of 8.0% to 11.6%. At December 31, 2008, the amounts of assets held in charitable unitrusts, which are restricted for the payment of related annuities, were \$464,578. The net assets of the trusts of \$817,759 were included in temporarily restricted net assets in the accompanying consolidated balance sheet.

Note 7. Severance Plan

The Society established the Humane Society of the United States Severance Pay Plan on September 13, 1997, to provide severance pay to eligible employees. These benefits and related expenses 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, 2008, was calculated by an actuary, based on a census provided by the Society, using an assumed discount rate of 6.35% and an assumed compensation increase of 4%. The amount of the liability for future severance was \$1,448,305.

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 8. Deferred Compensation Plan

In 1983, the Society established the Humane Society of the United States 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 were included in the amounts reported in the accompanying consolidated financial statements as salaries, totaled \$10,000 for 2008.

The annuity contract assets and the related liability totaled \$316,336 at December 31, 2008.

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 following table summarizes the accumulated postretirement benefit obligations, the fair value of Plan assets, and the funded status of the Plan at December 31, 2008:

Accumulated benefit obligation	<u>\$ 20,548,773</u>
Change in benefit obligation:	
Accumulated postretirement benefit obligation, beginning of fiscal year	\$ 21,276,724
Service cost	1,458,221
Interest cost	1,293,511
Participant contributions	296,282
Benefit payments	(637,172)
Administrative expenses	(114,047)
Actuarial loss	561,109
Accumulated postretirement benefit obligation, end of fiscal year	<u>\$ 24,134,628</u>
Change in plan assets:	
Fair value of plan assets, beginning of fiscal year	\$ 18,235,076
Employer contributions	2,064,047
Participant contributions	296,282
Benefit payments	(637,172)
Administrative expenses	(114,047)
Actual return on plan assets	(4,309,605)
Fair value of plan assets, end of fiscal year	<u>\$ 15,534,581</u>
Funded status, end of fiscal year	<u>\$ (8,600,047)</u>

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 9. Postretirement Benefits (Continued)

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

Weighted-average discount rate	6.35%
Weighted-average rate of compensation increase	4.00%
Expected long-term rate of return on plan assets	6.75%

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

Expected employer contributions	\$	1,900,000
Year 1 expected benefit payments	\$	4,220,585
Year 2 expected benefit payments	\$	1,754,419
Year 3 expected benefit payments	\$	2,200,204
Year 4 expected benefit payments	\$	2,788,671
Year 5 expected benefit payments	\$	1,764,988
Years 6 – 10 expected benefit payments	\$	16,393,479

Weighted-average asset allocation at year-end is as follows:

Equity securities	35.3%
Debt securities	35.8%
Cash equivalents and other	28.9%
	<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 measurement date of the Plan coincides with the consolidated balance sheet date; consequently, the measurement date provisions of SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*, have no effect on the Society's 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.

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 10. Unrestricted Net Assets (Continued)

Unrestricted net assets are held by the following funds at December 31, 2008:

Board designated:	
Investment fund	\$ 59,857,363
Endowment fund	208,048
Special purpose funds	458,544
Black Beauty Ranch	5,752,082
Total board designated	66,276,037
Undesignated	37,746,182
	\$ 104,022,219

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, 2008:

	Balance December 31, 2007	Additions	Releases from Restriction	Balance December 31, 2008
Unitrusts	\$ 519,482	\$ 1,357	\$ 4,696	\$ 516,143
Education, training programs and disaster relief	15,671,849	7,577,661	8,226,121	15,023,389
Scholarships	69,207	-	18,362	50,845
Support of other humane organizations	941,094	(524,024)	99,949	317,121
Betterment of song birds	44,086	-	44,086	-
Wildlife Land Trust	1,781,855	7,093,391	7,116,547	1,758,699
Endangered species	2,098,063	-	13,495	2,084,568
Doris Day Animal League	1,562,438	2,738,534	2,812,883	1,488,089
Fund for Animals	6,823,762	12,243,633	4,529,856	14,537,539
	\$ 29,511,836	\$ 29,130,552	\$ 22,865,995	\$ 35,776,393

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 11. Temporarily Restricted Net Assets (Continued)

During 2008, assets were released from donor restrictions by the Society incurring expenses satisfying the restricted purposes, or by the occurrence of other events specified by donors.

Purpose for which restrictions were accomplished:	
Donor-specified program expenses of the organization	\$ 20,508,413
Gifts to other humane organizations	2,273,917
Restricted fund investment expenses	83,665
	<u>\$ 22,865,995</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, (b) be preserved and not sold, or (c) 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, 2008:

Income-producing assets; income is expendable to support the following:	
To defray building operating expenses	\$ 660,374
To award scholarships to Connecticut secondary school students	16,919
To use for the best interests of the organization	19,356,553
To support other humane organizations	1,502,039
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	5,289,296
To use for the state of New Hampshire wildlife	154,747
To use for the betterment of song birds	1,130,283
	<u>28,110,211</u>
Non-income producing assets:	
Land and easements held to preserve natural habitats for wildlife	2,591,154
	<u>\$ 30,701,365</u>

Income earned on investments in the permanently restricted net assets class is reported in the accompanying consolidated statement of activities and changes in net assets 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, 2008, was \$466,893.

As of December 31, 2008, the future minimum lease commitments under non-cancelable operating leases are as follows:

Years Ending December 31,	
2009	\$ 192,738
2010	172,433
2011	141,056
2012	143,726
	<u>\$ 649,953</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,	
2009	\$ 65,646
2010	67,615
	<u>\$ 133,261</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 year ended December 31, 2008, the allocation of the joint costs is summarized as follows:

Programs	\$ 21,780,987
Fundraising	17,374,028
Membership development	1,210,980
	<u>\$ 40,365,995</u>

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 16. Retirement Plan

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 sections 401(k) and 402(a) of the IRC, as amended, effective January 1, 2008. Employees hired on or after January 1, 2008, are eligible to participate in the 401(k) 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 four 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 the 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. The Society contributed \$211,354 to the 401(k) Plan during the year ended December 31, 2008.

Note 17. Contingencies

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

Note 18. Subsequent Event

The Society for Prevention of Cruelty to Animals of Broward County, Inc. (SPCA Broward) was incorporated in Florida on October 10, 1969, and is an animal rescue and rehabilitation facility located two miles south of Fort Lauderdale, Florida. SPCA Broward provides care, treatment, and rehabilitation for abandoned or injured wildlife from within Broward County. Effective June 27, 2009, HSUS assumed the assets and liabilities of SPCA Broward. Certain assets and liabilities, which are not significant, were excluded from this arrangement. SPCA Broward is a not-for-profit 501(c)(3) organization and at the time of the combination had approximately \$7.5 million in net assets. SPCA Broward became a controlled affiliate of HSUS, with HSUS designees constituting or controlling the board and appointing officers.

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 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

Gaithersburg, Maryland
August 12, 2009

The Humane Society Of The United States And Affiliates

Consolidating Balance Sheet
December 31, 2008

Assets	HSUS	WLT	FFA	DDAL	HSI	Eliminations	Consolidated
Cash And Cash Equivalents	\$ 49,045,684	\$ 185,173	\$ 178,280	\$ 280,630	\$ 1,046,185	\$ -	\$ 50,735,952
Investments	101,557,989	-	-	318,192	-	-	101,876,181
Investments To Fund Deferred Compensation Liability	316,336	-	-	-	-	-	316,336
Due From (Due To) Affiliate	4,706,875	1,411,759	6,347,344	565,292	(13,031,270)	-	-
Accrued Interest Receivable	454,506	-	-	1,215	-	-	455,721
Prepaid Expenses And Other Assets	1,064,659	1,539	470	-	140	-	1,066,808
Contributions, Bequests And Other Receivables, net	15,983,438	79,917	6,054,838	293,969	373,821	-	22,785,983
Property And Equipment, net	14,571,183	2,622,862	1,826,515	569	-	-	19,021,129
Total assets	\$ 187,700,670	\$ 4,301,250	\$ 14,407,447	\$ 1,459,867	\$ (11,611,124)	\$ -	\$ 196,258,110
Liabilities And Net Assets							
Liabilities							
Accounts payable and accrued expenses	\$ 7,757,776	\$ 41,721	\$ 120,952	\$ 7,157	\$ 104,777	\$ -	\$ 8,032,383
Annuities and unitrusts	7,361,062	-	-	-	-	-	7,361,062
Accrued severance obligation	1,448,305	-	-	-	-	-	1,448,305
Deferred compensation liability	316,336	-	-	-	-	-	316,336
Accrued postretirement benefit obligation	8,600,047	-	-	-	-	-	8,600,047
Total liabilities	25,483,526	41,721	120,952	7,157	104,777	-	25,758,133
Net Assets							
Unrestricted							
Board designated	66,276,037	-	-	-	-	-	66,276,037
Undesignated	32,282,484	1,668,375	14,286,495	1,452,710	(11,943,882)	-	37,746,182
	98,558,521	1,668,375	14,286,495	1,452,710	(11,943,882)	-	104,022,219
Temporarily restricted	35,548,412	-	-	-	227,981	-	35,776,393
Permanently restricted	28,110,211	2,591,154	-	-	-	-	30,701,365
Total net assets	162,217,144	4,259,529	14,286,495	1,452,710	(11,715,901)	-	170,499,977
Total liabilities and net assets	\$ 187,700,670	\$ 4,301,250	\$ 14,407,447	\$ 1,459,867	\$ (11,611,124)	\$ -	\$ 196,258,110

The Humane Society Of The United States And Affiliates

Consolidating Statement Of Activities
Year Ended December 31, 2008

	HSUS	WLT	FFA	DDAL	HSI	Eliminations	Consolidated
Support and revenue:							
Contributions	\$ 81,590,980	\$ 6,652,601	\$ 2,794,895	\$ 2,314,510	\$ 2,165,615	\$ -	\$ 95,518,601
Bequests	11,444,350	193,647	8,809,739	450,748	352,640	-	21,251,124
Interest and dividends	4,896,732	32,761	109,200	16,146	27,003	-	5,081,842
Grants and trust contributions	2,207,731	517,048	193,651	150	31,000	-	2,949,580
Royalty income	3,359,777	-	-	-	-	-	3,359,777
Event income	1,550,599	-	-	-	-	-	1,550,599
Sales of literature and publications	953,175	-	20	-	-	-	953,195
Rental income	210,795	-	-	-	-	-	210,795
Annuities and unitrusts	38,005	-	-	-	-	-	38,005
Other income (loss)	190,741	195,764	336,128	71,985	(426,968)	-	367,650
Total support and revenue before transfers	106,442,885	7,591,821	12,243,633	2,853,539	2,149,290	-	131,281,168
Transfer income	(47,824)	5,637	(7,813)	-	50,000	-	-
Total support and revenue	106,395,061	7,597,458	12,235,820	2,853,539	2,199,290	-	131,281,168
Expenses:							
Program services	78,512,232	5,589,303	3,815,353	2,178,931	2,627,533	-	92,723,352
Management and general	4,245,916	160,430	286,855	73,226	94,469	-	4,860,896
Fundraising	24,215,238	1,457,137	670,879	596,105	594,551	-	27,533,910
Total expenses	106,973,386	7,206,870	4,773,087	2,848,262	3,316,553	-	125,118,158
Change in net assets from operations	(578,325)	390,588	7,462,733	5,277	(1,117,263)	-	6,163,010
Realized and unrealized loss on investments, net	(36,821,305)	-	-	(115,005)	-	-	(36,936,310)
Change in net assets before postretirement benefits adjustment	(37,399,630)	390,588	7,462,733	(109,728)	(1,117,263)	-	(30,773,300)
Postretirement benefits adjustment	(5,558,399)	-	-	-	-	-	(5,558,399)
Change in net assets	(42,958,029)	390,588	7,462,733	(109,728)	(1,117,263)	-	(36,331,699)
Net assets:							
Beginning	204,868,764	3,868,941	6,823,762	1,562,438	(10,598,638)	-	206,525,267
Net assets assumed in merger – AVAR	306,409	-	-	-	-	-	306,409
Ending	\$ 162,217,144	\$ 4,259,529	\$ 14,286,495	\$ 1,452,710	\$ (11,715,901)	\$ -	\$ 170,499,977

