

# **The Humane Society Of The United States And Affiliates**

Consolidated Financial Statements  
December 31, 2012

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## **Independent Auditor's Report**

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

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of The Humane Society of the United States and Affiliates (the Society) which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**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, 2012, and the results of changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited The Humane Society of the United States and Affiliates' (the Society) 2011 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 6, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*McGladrey LLP*

Gaithersburg, Maryland  
August 15, 2013

The Humane Society Of The United States And Affiliates

Consolidated Balance Sheet

December 31, 2012

(With Comparative Totals For 2011)

<b>Assets</b>	<b>2012</b>	<b>2011</b>
Cash And Cash Equivalents	\$ 27,706,707	\$ 25,212,413
Investments	178,187,342	159,203,742
Investments To Fund Deferred Compensation Liability	476,294	420,055
Accrued Interest Receivable	225,722	192,091
Prepaid Expenses And Other Assets	1,982,953	1,349,522
Contributions, Bequests, And Other Receivables, net	18,969,203	18,280,015
Redeemed Securities	-	6,246,897
Property And Equipment, net	21,653,358	20,970,197
<b>Total assets</b>	<b>\$ 249,201,579</b>	<b>\$ 231,874,932</b>

**Liabilities And Net Assets**

<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 13,294,010	\$ 9,970,063
Annuities and unitrusts	8,364,693	7,921,747
Accrued severance obligation	1,631,741	1,521,141
Deferred compensation liability	476,294	420,055
Accrued postretirement benefit obligation	10,111,358	11,559,327
<b>Total liabilities</b>	<b>33,878,096</b>	<b>31,392,333</b>

Commitments And Contingencies (Notes 13, 16, and 17)

**Net Assets**

<b>Unrestricted</b>		
Board designated	75,279,365	79,411,305
Undesignated	63,423,628	50,477,238
	<b>138,702,993</b>	<b>129,888,543</b>
Temporarily restricted	38,447,039	35,900,334
Permanently restricted	38,173,451	34,693,722
<b>Total net assets</b>	<b>215,323,483</b>	<b>200,482,599</b>

**Total liabilities and net assets**

**\$ 249,201,579      \$ 231,874,932**

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, 2012  
 (With Comparative Totals For 2011)

	2012			Total	2011 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenue:					
Contributions	\$ 111,328,470	\$ 25,776,974	\$ 2,619,750	\$ 139,725,194	\$ 120,780,228
Bequests	18,657,568	5,035,926	289,270	23,982,764	28,651,466
Interest and dividends	1,856,674	661,267	567,493	3,085,434	5,205,787
Royalty income	2,498,483	65,409	-	2,563,892	4,765,830
Grants and trust contributions	2,584,201	3,950,343	3,216	6,537,760	3,827,808
Event income	1,920,307	322,100	-	2,242,407	1,962,070
Other income	1,301,480	584,113	-	1,885,593	1,898,529
Net assets released from restrictions	34,084,637	(34,084,637)	-	-	-
<b>Total support and revenue</b>	<b>174,231,820</b>	<b>2,311,495</b>	<b>3,479,729</b>	<b>180,023,044</b>	<b>167,091,718</b>
Expenses:					
Program services	142,118,050	-	-	142,118,050	128,399,104
Management and general	5,225,819	-	-	5,225,819	6,102,224
Fundraising	29,479,645	-	-	29,479,645	25,404,046
<b>Total expenses</b>	<b>176,823,514</b>	<b>-</b>	<b>-</b>	<b>176,823,514</b>	<b>159,905,374</b>
<b>Change in net assets from operations</b>	<b>(2,591,694)</b>	<b>2,311,495</b>	<b>3,479,729</b>	<b>3,199,530</b>	<b>7,186,344</b>
Realized and unrealized gain (loss) on investments, net	10,542,064	235,210	-	10,777,274	(6,970,314)
<b>Change in net assets before postretirement benefits adjustment</b>	<b>7,950,370</b>	<b>2,546,705</b>	<b>3,479,729</b>	<b>13,976,804</b>	<b>216,030</b>
Postretirement benefits adjustment	864,080	-	-	864,080	(4,839,631)
<b>Change in net assets</b>	<b>8,814,450</b>	<b>2,546,705</b>	<b>3,479,729</b>	<b>14,840,884</b>	<b>(4,623,601)</b>
Net assets:					
Beginning	129,888,543	35,900,334	34,693,722	200,482,599	205,106,200
Ending	\$ 138,702,993	\$ 38,447,039	\$ 38,173,451	\$ 215,323,483	\$ 200,482,599

See Notes To Consolidated Financial Statements.

The Humane Society Of The United States And Affiliates

Consolidated Statement Of Functional Expenses  
 Year Ended December 31, 2012  
 (With Comparative Totals For 2011)

	2012										2011 Total
	Program Services					Management And General	Fundraising	Total	Total	Total	
	Research And Education	Cruelty Prevention Programs	Direct Care And Service	Advocacy And Public Policy	Total Program Services						
Compensation	\$ 6,624,854	\$ 8,891,021	\$ 8,754,982	\$ 14,887,920	\$ 39,158,777	\$ 718,897	\$ 4,655,973	\$ 44,533,647	\$ 40,019,089		
Education material, publications, and campaigns	3,129,224	2,231,885	6,129,228	31,035,284	42,525,621	18,622	4,335,486	46,879,729	35,454,828		
Mailing costs	2,895,332	4,103,604	4,953,858	6,561,385	18,514,179	976,514	14,566,417	34,057,110	33,165,755		
Consultant and contracted services	3,123,755	5,692,802	4,169,646	5,196,779	18,182,982	374,523	3,053,888	21,611,393	20,786,665		
Professional fees	133,316	415,648	161,043	4,817,580	5,527,587	98,224	214,525	5,840,336	5,984,965		
Travel, meals, and lodging	663,933	1,487,396	1,325,125	1,104,166	4,580,620	13,720	342,825	4,937,165	5,202,116		
Bank, trustee, and lockbox fees			2,176,216	544,487	3,795,754	2,321,587	1,521,493	3,843,080	4,011,981		
Supplies and field expenses	391,056	683,995	852,992	1,183,410	3,700,186	63,794	191,677	4,051,225	3,887,355		
Contributions and grants	145,212	1,518,572	865,158	342,237	2,000,252	-	-	3,700,186	3,866,979		
Occupancy and building expense	371,739	421,118	809,572	117,705	1,121,032	126,036	170,950	2,297,238	2,459,882		
Depreciation and amortization	96,781	96,974	76,632	79,408	1,159,142	391,917	43,990	1,556,939	1,567,732		
Postage and shipping	904,477	98,625	181,981	357,298	829,437	7,976	63,438	1,230,556	1,304,229		
Telephone	98,712	191,446	109,773	234,039	612,317	22,987	84,840	937,264	952,000		
Insurance and bonds	98,870	169,635	124,638	100,511	410,164	65,264	145,788	823,369	757,533		
Real estate and other taxes	131,926	53,089				25,758	88,355	524,277	454,265		
<b>Total</b>	<b>\$ 18,809,187</b>	<b>\$ 26,055,910</b>	<b>\$ 30,690,844</b>	<b>\$ 66,562,209</b>	<b>\$ 142,119,050</b>	<b>\$ 5,225,819</b>	<b>\$ 29,479,645</b>	<b>\$ 176,823,514</b>	<b>\$ 159,905,374</b>		

See Notes To Consolidated Financial Statements.

The Humane Society Of The United States And Affiliates

Consolidated Statement Of Cash Flows  
Year Ended December 31, 2012  
(With Comparative Totals For 2011)

	2012	2011
Cash Flows From Operating Activities		
Change in net assets	\$ 14,840,884	\$ (4,623,601)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions and interest received for endowment	(3,479,729)	(932,692)
Depreciation and amortization	1,556,939	1,567,732
Loss (gain) on sale of property and equipment	46,113	(112,147)
Net realized and unrealized (gain) loss on investments	(10,777,274)	6,970,314
Donated stock	(1,652,023)	(4,926,960)
Donated land	-	(50,000)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accrued interest receivable	(33,631)	147,716
Prepaid expenses and other assets	(633,431)	(358,899)
Contributions, bequests, and other receivables, net	(689,188)	(1,284,487)
Increase (decrease) in:		
Accounts payable and accrued expenses	3,323,947	796,404
Annuities and unitrusts	442,946	490,264
Accrued severance obligation	110,600	(34,491)
Accrued postretirement benefit obligation	(1,447,969)	3,983,618
<b>Net cash provided by operating activities</b>	<b>1,608,184</b>	<b>1,632,771</b>
Cash Flows From Investing Activities		
Proceeds from sale of investments	110,383,065	101,430,944
Purchase of investments	(110,690,471)	(100,462,294)
Proceeds from sale of property and equipment	-	172,396
Purchases of property and equipment	(2,286,213)	(2,252,048)
<b>Net cash used in investing activities</b>	<b>(2,593,619)</b>	<b>(1,111,002)</b>
Cash Flows From Financing Activities		
Contributions and interest received for endowment	3,479,729	932,692
<b>Net cash provided by financing activities</b>	<b>3,479,729</b>	<b>932,692</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,494,294</b>	<b>1,454,461</b>
Cash And Cash Equivalents:		
Beginning	25,212,413	23,757,952
Ending	<b>\$ 27,706,707</b>	<b>\$ 25,212,413</b>
Supplemental Schedules Of Noncash Investing And Financing Activities		
Donated stock	\$ 1,652,023	\$ 4,926,960
Donated land	\$ -	\$ 50,000

See Notes To Consolidated Financial Statements.



## The Humane Society Of The United States And Affiliates

### Notes To Consolidated Financial Statements

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#### 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, awareness, and direct animal care programs. The accompanying consolidated financial statements include the activities of the following entities:

- The Humane Society of the United States (HSUS)
- Doris Day Animal League (DDAL)
- The Fund for Animals (FFA)
- Humane Society International, Inc. (HSI)
- Humane Society University (HSU)
- Humane Society Veterinarians Medical Association (HSVMA)
- South Florida Wildlife Center, Inc. (SFWC)
- Humane Society Wildlife Land Trust (WLT)

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 financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). As required by the Non-Profit Entities Topic of the Codification, 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.

**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, 2012, 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 Society invests in a professionally managed portfolio that contains mutual funds, corporate bonds, government securities, hedge funds, partnerships, 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.

## The Humane Society Of The United States And Affiliates

### Notes To Consolidated Financial Statements

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

Contributions and bequests receivable: Contributions and bequests receivable 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 \$299,289 at December 31, 2012.

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 that 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 by reviewing such assets 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 during the year ended December 31, 2012.

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.

In-kind contributions: The Society produces and distributes public service television, radio, and newspaper announcements that focus attention on Companion Animal and Wildlife issues. 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 runs, and the value of the announcements is based on the date, time, and market. For the year ended December 31, 2012, the Society recorded \$31,042,594 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, 2012, the Society received \$4,019,069 in donated services and \$213,380 in donated equipment and supplies.

Use of estimates: In preparing 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 financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## The Humane Society Of The United States And Affiliates

### Notes To Consolidated Financial Statements

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

Tax status: HSUS, FFA, HSI, HSU, HSVMA, SFWC, and WLT qualify under Section 501(c)(3) of the Internal Revenue Code (IRC) and are classified as organizations that are not private foundations. DDAL qualifies under Section 501(c)(4) of the IRC. 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, 2012.

Management evaluated the Society's tax positions and concluded that the Society has taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance. Generally, the Society is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2009.

Hedge funds, fund of funds, and private equity funds: Investments in hedge funds, fund of funds, partnerships, and private equity funds are valued at net asset value, which estimates fair value. 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 could 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, fund of funds, and private equity funds generally represents the amount 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.

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.

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

Prior year information: The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Reclassifications: Certain items in the December 31, 2011, financial statements have been reclassified to comply with the current year presentation. These reclassifications had no effect on the previously reported change in net assets.

Subsequent events: The Society evaluated subsequent events through August 15, 2013, which is the date the consolidated financial statements were available to be issued.

**The Humane Society Of The United States And Affiliates**

**Notes To Consolidated Financial Statements**

**Note 2. Contributions, Bequests, And Other Receivables**

Contributions, bequests, and other receivables consist of the following at December 31, 2012:

Bequests	\$ 6,421,474
Contributions and other receivables	12,533,919
Capital campaign	175,000
Grants	147,883
	<u>19,278,276</u>
Less allowance for uncollectible contributions and bequests (5%)	(299,289)
Less discount on multi-year contributions and bequests (2.75%)	(9,784)
Total contributions, bequests, and other receivables, net	<u>\$ 18,969,203</u>

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

Less than one year	\$ 18,063,490
One to five years	1,214,786
	<u>\$ 19,278,276</u>

**Note 3. Property And Equipment**

Property and equipment and accumulated depreciation at December 31, 2012, and depreciation expense for the year ended December 31, 2012, consist of the following:

	Useful Life	Cost	Accumulated Depreciation	Net	Depreciation
Land	--	\$ 10,588,026	\$ -	\$ 10,588,026	\$ -
Buildings and improvements	10 to 40 years	19,595,265	9,833,975	9,761,290	1,017,970
Office furniture and equipment	5 years	2,898,316	2,519,181	379,135	353,562
Construction in progress		440,259	-	440,259	-
Automobiles	5 years	2,174,195	1,689,547	484,648	185,407
		<u>\$ 35,696,061</u>	<u>\$ 14,042,703</u>	<u>\$ 21,653,358</u>	<u>\$ 1,556,939</u>

**Note 4. Accounts Payable And Accrued Expenses**

Accounts payable and accrued expenses consist of the following at December 31, 2012:

Accrued accounts payable	\$ 8,291,058
Accrued vacation	1,951,688
Accrued wages	951,605
Other accrued expenses	2,099,659
	<u>\$ 13,294,010</u>

## The Humane Society Of The United States And Affiliates

### Notes To Consolidated Financial Statements

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#### Note 5. Annuities And Unitrusts

The annuities and unitrusts liability represents the future annuity payments due under charitable gift annuities and charitable remainder unitrusts determined by an actuary.

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 determined using the Annuity Table of Mortality 90CM and assumed interest rates of 1.6% to 10.2% by an actuary. A portion of the monies received from these split-interest agreements is required by law to be reserved for making the annuity payments. The amount required to be reserved as calculated by the actuary was \$7,570,994.

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 5.0% to 11.6%. At December 31, 2012, the amount of assets held in charitable unitrusts, which is restricted for the payment of related annuities, was \$738,481. The net assets of the trusts of \$761,878 were included in temporarily restricted net assets in the accompanying consolidated balance sheet.

#### Note 6. Severance Plan (Employment Longevity Retirement Enhancement Benefit)

The Society established the Humane Society of the United States Severance Pay Plan on September 13, 1997, to grant severance benefits to eligible employees. These benefits and related expenses are paid from the general assets of the Society. Only employees hired in full- or part-time positions before January 1, 1998, who have completed a minimum of 15 years of continuous full-time employment with HSUS, are eligible to become participants in this plan. Upon termination of employment (for reasons other than gross misconduct), a participant receives a lump sum equal to 2% of the average of his or her annual base salary for the three calendar years before cessation of employment, multiplied by the number of years of continuous full-time employment accrued by the employee, subject to a maximum benefit of two years base salary. The benefit obligation as of December 31, 2012, was calculated by an actuary, based on a census provided by the Society, using an assumed discount rate of 3.06% and an assumed compensation increase of 4.0%. The amount of the liability for future severance was \$1,631,741.

#### Note 7. 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 that the participants would otherwise be entitled to receive in cash, and those deferrals are invested in various mutual funds. The mutual funds 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 mutual funds is added to the deferred compensation liability. The amounts deferred by participants during the year ended December 31, 2012, which were included in the amounts reported in the accompanying consolidated financial statements as salaries, totaled \$22,000.

The deferred compensation plan assets and the related liability totaled \$476,294 at December 31, 2012.

## The Humane Society Of The United States And Affiliates

### Notes To Consolidated Financial Statements

#### Note 8. 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 receive 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, 2012:

Change in benefit obligation:	
Postretirement benefit obligation, beginning of fiscal year	\$ 34,942,713
Service cost	1,347,779
Interest cost	1,330,876
Participant contributions	216,702
Benefit payments	(1,389,193)
Administrative expenses	(13,690)
Actuarial loss	1,876,531
Postretirement benefit obligation, end of fiscal year	<u>\$ 38,311,718</u>
Change in Plan assets:	
Fair value of Plan assets, beginning of fiscal year	\$ 23,383,386
Employer contributions	3,000,000
Participant contributions	216,702
Benefit payments	(1,389,193)
Administrative expenses	(13,690)
Actual return on Plan assets	3,003,155
Fair value of Plan assets, end of fiscal year	<u>\$ 28,200,360</u>
Funded status, end of fiscal year	<u>\$ (10,111,358)</u>

The Plan had an accumulated benefit obligation of \$32,548,083 as of December 31, 2012. The accumulated benefit obligation is identical to the postretirement benefit obligation, with the exception that the accumulated benefit obligation does not consider the effects of future compensation levels.

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

Weighted-average discount rate	4.11%
Weighted-average rate of compensation increase	3.50%
Expected long-term rate of return on Plan assets	6.75%

## The Humane Society Of The United States And Affiliates

### Notes To Consolidated Financial Statements

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#### Note 8. Postretirement Benefits (Continued)

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.

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

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Expected employer contributions	\$ 2,500,000
Year 1 expected benefit payments	7,000,410
Year 2 expected benefit payments	3,182,396
Year 3 expected benefit payments	3,760,436
Year 4 expected benefit payments	3,623,444
Year 5 expected benefit payments	3,332,546
Years 6 – 10 expected benefit payments	15,122,783

#### Note 9. 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, 2012:

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Board designated:	
Investment fund	\$ 74,307,744
Endowment fund	254,353
Black Beauty Ranch	717,268
Total board designated	<u>75,279,365</u>
Undesignated	<u>63,423,628</u>
Total unrestricted net assets	<u>\$ 138,702,993</u>

**The Humane Society Of The United States And Affiliates**

**Notes To Consolidated Financial Statements**

**Note 10. 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, 2012:

	Balance December 31, 2011	Additions	Released From Restriction	Balance December 31, 2012
Unitrusts	\$ 951,961	\$ 35,719	\$ -	\$ 987,680
Animal welfare programs	12,641,899	12,716,141	11,468,133	13,889,907
Scholarships	60,408	967	46,130	15,245
Support of other humane organizations	444,519	148,061	81,002	511,578
Wildlife Land Trust	2,636,633	9,288,057	6,935,830	4,988,860
Endangered Species	2,282,825	-	-	2,282,825
Humane Society International	2,201,550	1,269,949	1,802,798	1,668,701
Doris Day Animal League	4,080,769	3,034,214	2,579,044	4,535,939
Fund for Animals	9,202,088	7,305,432	7,305,432	9,202,088
Humane Society University	-	1,000	150	850
South Florida Wildlife Center	1,300,403	2,699,013	3,691,763	307,653
Humane Society Veterinarians Medical Association	97,279	132,789	174,355	55,713
	<u>\$ 35,900,334</u>	<u>\$ 36,631,342</u>	<u>\$ 34,084,637</u>	<u>\$ 38,447,039</u>

During 2012, 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, as follows:

Purpose for which restrictions were accomplished:	
Donor-specified program expenses of the organization	\$ 31,743,090
Gifts to other humane organizations	2,201,786
Restricted fund investment expenses	139,761
	<u>\$ 34,084,637</u>



**The Humane Society Of The United States And Affiliates**

**Notes To Consolidated Financial Statements**

**Note 11. Endowments**

The Codification defines an endowment as an established fund of cash, securities, or other assets to provide income for the maintenance of a not-for-profit organization. Management has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (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 those amounts are 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 endowment fund
- The duration and preservation of the fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other available financial resources
- Investment policies

Investment and spending 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 Society's endowment funds consist of the following as of December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (6,533,194)	\$ 506,283	\$ 38,173,452	\$ 32,146,541
Board designated endowment funds	254,353	-	-	254,353
	<u>\$ (6,278,841)</u>	<u>\$ 506,283</u>	<u>\$ 38,173,452</u>	<u>\$ 32,400,894</u>

**The Humane Society Of The United States And Affiliates**

**Notes To Consolidated Financial Statements**

**Note 11. Endowments (Continued)**

Donor-restricted endowment fund activity consists of the following for the year ended December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (6,655,108)	\$ 440,109	\$ 34,693,722	\$ 28,478,723
Investment return:				
Interest and dividends	279,423	23,103	-	302,526
Realized and unrealized loss on investments	1,483,445	127,909	-	1,611,354
Amounts appropriated for expenditure	(1,073,808)	(84,492)	-	(1,158,300)
Transfer to maintain earning power of corpus	(567,128)	(365)	567,493	-
Contributions	-	-	2,912,238	2,912,238
Endowment net assets, end of year	<u>\$ (6,533,176)</u>	<u>\$ 506,264</u>	<u>\$ 38,173,453</u>	<u>\$ 32,146,541</u>

**Board Designated Endowment Fund Activity**

Endowment net assets, beginning of year	\$ 238,805
Investment return:	
Interest and dividends	2,587
Realized and unrealized loss	14,282
Amounts appropriated for expenditure	(1,321)
Endowment net assets, end of year	<u>\$ 254,353</u>

**Permanently Restricted Net Assets – Fund Categories At December 31, 2012**

Income-producing assets; income is expendable to support the following:	
To defray operating expenses	\$ 3,467,977
To award scholarships to Connecticut secondary school students	18,042
To be used for the best interests of the organization	20,948,431
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	5,651,580
To be used for the state of New Hampshire wildlife	165,483
To be used for the betterment of song birds	1,208,989
	<u>32,962,541</u>
Non-income producing assets:	
Land and easements held to preserve natural habitats for wildlife	5,210,910
Total permanently restricted net assets	<u>\$ 38,173,451</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. For all endowment funds with negative unrestricted net assets, all earnings are reflected as unrestricted net assets, until the net assets are replenished. At such time, all earnings from these funds are reflected as temporarily restricted net assets.

## The Humane Society Of The United States And Affiliates

### Notes To Consolidated Financial Statements

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#### Note 12. 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, 2012, was \$755,496.

As of December 31, 2012, the future minimum lease commitments under non-cancelable operating leases are as follows:

Years Ending December 31,	
2013	\$ 479,815
2014	393,154
2015	47,195
	<u>\$ 920,164</u>

#### Note 13. Allocation Of Joint Costs

The Society has allocated the joint costs of providing educational materials and activities that include a fundraising appeal. Since only those activities that include both programmatic and fundraising components are included in this allocation, the amounts below do not include all of the expenses presented in the consolidated statement of functional expenses. For the year ended December 31, 2012, the allocation of the joint costs is summarized as follows:

Programs	\$ 25,620,871
Fundraising	22,629,693
Membership development	1,257,121
	<u>\$ 49,507,685</u>

#### Note 14. 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 payroll basis. The Society makes matching contributions at a rate of 100% of the first 1% of the participant's salary deferred into the 401(k) Plan and 50% of the next 5% of the participant's salary deferral.

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 \$935,944 to the 401(k) Plan during the year ended December 31, 2012.

## The Humane Society Of The United States And Affiliates

### Notes To Consolidated Financial Statements

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#### Note 15. 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 16. Line Of Credit

The Society has a \$20 million line of credit with Bank of New York Mellon. The line of credit accrues interest at the LIBOR Market Index Rate for one-month U.S. dollars plus 65 basis points. The line of credit is secured by certain investments of the Society.

#### Note 17. Fair Value Measurements

The Fair Value Measurement Topic of the Codification defines fair value as 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 the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under this topic as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy 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 included in Level 1 include listed equities and mutual funds.

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 corporate loans, less liquid, restricted equity securities and certain corporate bonds, government obligations and over-the-counter derivatives. A significant adjustment to Level 2 input could result in a reclassification to 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 as described below.

The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risk associated with investing in those investments. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is 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:

Investments in securities traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation. Fair value of exchange-traded contracts is based upon exchange settlement prices. These financial instruments are classified as Level 1 in the fair value hierarchy.

Investment in corporate bonds and government obligations are stated at the last reported sales price on the day of valuation. These financial instruments are classified as Level 2 in the fair value hierarchy.

Level 3 investments are not readily marketable. The Society's investment in investments in limited partnerships where the general partner or managers have imposed lock-in-periods or suspended or postponed redemptions, which are classified as Level 3.

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 17. Fair Value Measurements (Continued)

Investments Fair Value:

The table below presents the balances at December 31, 2012, of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy:

	Level 1	Level 2	Level 3	Total
<b>Hedge funds:</b>				
Equity long/short	\$ -	\$ 14,319,047	\$ 6,928,865	\$ 21,247,912
Global opportunities	-	488,027	-	488,027
Multi-strategy	-	15,048,518	-	15,048,518
	-	29,855,592	6,928,865	36,784,457
<b>Fund of funds:</b>				
Equity long/short	-	40,331	-	40,331
Global opportunities	-	-	12,794,613	12,794,613
	-	40,331	12,794,613	12,834,944
<b>Private equity funds:</b>				
Debt securities	-	-	14,205,422	14,205,422
Global opportunities	-	-	12,448,658	12,448,658
Other	-	-	5,307,904	5,307,904
	-	-	31,961,984	31,961,984
<b>Fixed income securities:</b>				
U.S. Government and agency obligations (AAA Rated)	-	7,827,810	-	7,827,810
Corporate bonds (AAA to A Rated)	-	7,032,784	-	7,032,784
Asset-backed fixed income securities (AAA Rated)	-	1,039,898	-	1,039,898
Other	-	1,827,536	-	1,827,536
Corporate bonds (BBB to B Rated)	-	3,817,076	-	3,817,076
	-	21,545,104	-	21,545,104
<b>Equity mutual funds:</b>				
Mid cap blend	1,145,143	-	-	1,145,143
Emerging markets	14,376,277	-	-	14,376,277
Global opportunities	852,562	-	-	852,562
Large cap blend	17,547,526	-	-	17,547,526
Other	16,528,748	-	-	16,528,748
Small cap blend	686,061	-	-	686,061
Commodities	9,002,869	-	-	9,002,869
Real estate	393,260	-	-	393,260
	60,532,446	-	-	60,532,446
<b>Fixed income mutual fund –</b>				
short-term bonds	7,168,343	-	-	7,168,343
Equity securities	7,246,546	-	-	7,246,546
Other investments	-	-	113,518	113,518
	\$ 74,947,335	\$ 51,441,027	\$ 51,798,980	\$ 178,187,342

The Humane Society Of The United States And Affiliates

Notes To Consolidated Financial Statements

Note 17. Fair Value Measurements (Continued)

For assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3), the topic requires reconciliation of the beginning and ending balances, separately, for each major category of assets and liabilities, except for derivative assets and liabilities, which may be presented net. The table below represents the reconciliation of the Society's assets measured at fair value on a recurring basis using significant unobservable inputs:

	Balance January 1, 2012	Purchases	Sales	Realized And Unrealized Gains	Balance December 31, 2012
Hedge funds:					
Equity long/short	\$ 5,944,739	\$ -	\$ -	\$ 984,126	\$ 6,928,865
	5,944,739	-	-	984,126	6,928,865
Fund of funds:					
Global opportunities	11,120,498	-	-	1,674,115	12,794,613
	11,120,498	-	-	1,674,115	12,794,613
Private equity funds:					
Debt securities	14,124,999	845,647	(2,130,823)	1,365,595	14,205,418
Global opportunities	4,848,924	8,000,000	(797,764)	397,498	12,448,658
Other	4,329,384	500,000	(500,000)	978,520	5,307,904
	23,303,307	9,345,647	(3,428,587)	2,741,613	31,961,980
Other investments					
	13,432	100,000	-	90	113,522
	\$ 40,381,976	\$ 9,445,647	\$ (3,428,587)	\$ 5,399,944	\$ 51,798,980

The Society invests in certain entities for which the fair value measurement is assessed using net asset value per share or its equivalent. Information pertaining to these investments is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
			Monthly, Quarterly and Bi-Annually	15 – 65 days
Hedge funds – Equity long/short (a)	\$ 15,048,518	\$ -	Quarterly	30 days
Hedge funds – Global opportunities (b)	488,027	-	Quarterly	45 days
Hedge funds – Multi-strategy (c)	21,247,912	-	Quarterly	60 days
Fund of funds – Equity long/short (d)	40,331	-	Semi-Annually	60 days
Fund of funds – Global opportunities (e)	12,794,613	-	None	Not Applicable
Private equity funds (f)	31,961,984	6,203,278		
	<u>\$ 81,581,385</u>	<u>\$ 6,203,278</u>		

## The Humane Society Of The United States And Affiliates

### Notes To Consolidated Financial Statements

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#### Note 17. Fair Value Measurements (Continued)

- (a) This category includes investments in hedge funds that invest both long and short in various domestic and international common stocks. Management of the various funds have the ability to shift from value to growth strategies, from small to large capitalization stocks, and from a net short position to a net long position. The fair value of the investments in this category has been estimated using the net asset value per share of the investments.
- (b) This category includes an investment in a hedge fund that holds the majority of the funds' investments in non-U.S. common stocks, debt instruments, and diversified currencies. The fair value of the investment in this category has been estimated using the net asset value per share of the investment.
- (c) This category includes an investment in a hedge fund that pursues multiple strategies to diversify risk and reduce volatility. The fair value of the investment in this category has been estimated using the net asset value per share of the investment.
- (d) This category includes a fund of funds that invests both long and short in hedge funds in various domestic and international common stocks. The fair value of the investments in this category has been estimated using the net asset value per share of the investments.
- (e) This category includes an investment in a fund of funds that holds the majority of the funds' investments in non-U.S. common stocks, debt instruments, and diversified currencies. The fair value of the investment in this category has been estimated using the net asset value per share of the investment.
- (f) This category includes several private equity funds. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the funds. As of December 31, 2012, it was probable that the investments in this category would be liquidated at an amount different from the net asset value of the Society's ownership interest in partners' capital. Therefore, the fair value of the investments in this category has been estimated using recent observable transaction information received from potential buyers of the investments. It is estimated that the underlying assets of the funds will be liquidated over five to eight years.

#### Deferred Compensation:

Fair value, as defined in the Fair Value Measurement Topic of the Codification, is described above. In determining the appropriate levels for the deferred compensation plan, the Society performs a detailed analysis of the assets and liabilities that are subject to the fair value disclosures of the Codification.

Following is a description of the valuation methodology used for assets and liabilities held by the deferred compensation plan measured at fair value:

Mutual funds are classified as Level 1 instruments, as they are quoted market prices in active markets for identified assets. The Society's deferred compensation liability is based on the fair value of the deferred compensation plan assets, and is therefore, a Level 2 instrument.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Society believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**The Humane Society Of The United States And Affiliates**

**Notes To Consolidated Financial Statements**

**Note 17. Fair Value Measurements (Continued)**

The following table sets forth, by level within the fair value hierarchy, the deferred compensation plan's assets and liabilities at fair value as of December 31, 2012:

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Mutual funds	\$ 476,295	\$ -	\$ -	\$ 476,295
<b>Liabilities:</b>				
Deferred compensation liability	\$ -	\$ 476,295	\$ -	\$ 476,295

**Pension:**

Fair value, as defined in the Fair Value Measurement Topic of the Codification, is described in above. In determining the appropriate levels for the Plan, the Society performs a detailed analysis of the assets and liabilities that are subject to the fair value disclosures of the Codification. At each reporting period, all assets and liabilities of the Plan for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 3 inputs for any assets held by the Plan at December 31, 2012.

Following is a description of the valuation methodology used for assets held by the Plan measured at fair value:

Mutual funds and cash management funds are valued at quoted market prices.

The following table sets forth, by level within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2012:

	Level 1	Level 2	Level 3	Total
<b>Equity mutual funds:</b>				
Foreign large cap blend	\$ 2,551,261	\$ -	\$ -	\$ 2,551,261
Moderate allocation	1,765,858	-	-	1,765,858
Diversified emerging markets	2,389,448	-	-	2,389,448
Long/short equity	2,275,544	-	-	2,275,544
	<u>8,982,111</u>	<u>-</u>	<u>-</u>	<u>8,982,111</u>
<b>Fixed income mutual funds:</b>				
Intermediate-term bond	422,077	-	-	422,077
Emerging debt	1,450,904	-	-	1,450,904
Bank loan	1,699,625	-	-	1,699,625
Short-term bond	1,519,888	-	-	1,519,888
World bond	2,568,452	-	-	2,568,452
Other	3,646,919	-	-	3,646,919
	<u>11,307,865</u>	<u>-</u>	<u>-</u>	<u>11,307,865</u>
Mutual fund – commodities	868,095	-	-	868,095
Partnerships	-	1,472,817	-	1,472,817
Exchange trade funds	5,404,500	-	-	5,404,500
	<u>\$ 26,562,571</u>	<u>\$ 1,472,817</u>	<u>\$ -</u>	<u>\$ 28,035,388</u>

The Plan's assets also consisted of \$164,972 in cash and cash equivalents at December 31, 2012.