

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

Consolidated Financial Statements  
December 31, 2013

## Contents

<b>Independent Auditor's Report On The Financial Statements</b>	1 – 2
<b>Financial Statements</b>	
Consolidated Balance Sheet	3
Consolidated Statement Of Activities And Changes In Net Assets	4
Consolidated Statement Of Functional Expenses	5
Consolidated Statement Of Cash Flows	6
<b>Notes To Consolidated Financial Statements</b>	7 – 23
<b>Independent Auditor's Report On The Supplementary Information</b>	24
<b>Supplementary Information</b>	
Consolidating Balance Sheet	25
Consolidating Statement Of Activities	26



## **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, 2013, 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 from 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, 2013, and the 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) 2012 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 15, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*McGladrey LLP*

Gaithersburg, Maryland  
October 14, 2014

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

**Consolidated Balance Sheet**

**December 31, 2013**

**(With Comparative Totals For 2012)**

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Cash And Cash Equivalents	\$ 21,311,912	\$ 27,706,707
Investments	201,443,505	178,187,342
Investments To Fund Deferred Compensation Liability	262,771	476,294
Accrued Interest Receivable	267,569	225,722
Prepaid Expenses And Other Assets	6,711,087	1,982,953
Contributions, Bequests And Other Receivables, net	16,546,104	18,969,203
Property And Equipment, net	25,937,575	21,653,358
<b>Total assets</b>	<b>\$ 272,480,523</b>	<b>\$ 249,201,579</b>
<b>Liabilities And Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 23,871,402	\$ 13,294,010
Annuities and unitrusts	8,250,574	8,364,693
Accrued severance obligation	1,384,738	1,631,741
Deferred compensation liability	262,771	476,294
Accrued retirement benefit obligation	6,832,915	10,111,358
<b>Total liabilities</b>	<b>40,602,400</b>	<b>33,878,096</b>
Commitments And Contingencies (Notes 9, 10 and 14)		
Net Assets		
Unrestricted		
Board designated	84,224,339	75,279,365
Undesignated	73,440,990	63,423,628
	<b>157,665,329</b>	<b>138,702,993</b>
Temporarily restricted	35,623,410	38,447,039
Permanently restricted	38,589,384	38,173,451
<b>Total net assets</b>	<b>231,878,123</b>	<b>215,323,483</b>
<b>Total liabilities and net assets</b>	<b>\$ 272,480,523</b>	<b>\$ 249,201,579</b>

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, 2013  
 (With Comparative Totals For 2012)

	2013			Total	2012 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenue:					
Contributions	\$ 98,072,051	\$ 25,457,163	\$ -	\$ 123,529,214	\$ 139,725,194
Bequests	27,470,447	5,758,462	6,746	33,235,655	23,982,764
Interest and dividends	1,981,367	607,213	409,187	2,997,767	3,085,434
Royalty income	823,128	105,025	-	928,153	2,563,892
Grants and trust contributions	2,261,624	2,462,769	-	4,724,393	6,537,760
Event income	1,797,498	216,325	-	2,013,823	2,242,407
Other income	2,287,302	183,986	-	2,471,288	1,885,593
Net assets released from restrictions	37,929,159	(37,929,159)	-	-	-
<b>Total support and revenue</b>	<b>172,622,576</b>	<b>(3,138,216)</b>	<b>415,933</b>	<b>169,900,293</b>	<b>180,023,044</b>
Expenses:					
Program services	140,890,119	-	-	140,890,119	142,118,050
Management and general	5,635,577	-	-	5,635,577	5,225,819
Fundraising	24,960,396	-	-	24,960,396	29,479,645
<b>Total expenses</b>	<b>171,486,092</b>	<b>-</b>	<b>-</b>	<b>171,486,092</b>	<b>176,823,514</b>
<b>Change in net assets from operations</b>	<b>1,136,484</b>	<b>(3,138,216)</b>	<b>415,933</b>	<b>(1,585,799)</b>	<b>3,199,530</b>
Realized and unrealized gain on investments, net	15,061,454	314,587	-	15,376,041	10,777,274
<b>Change in net assets before retirement benefits adjustment</b>	<b>16,197,938</b>	<b>(2,823,629)</b>	<b>415,933</b>	<b>13,790,242</b>	<b>13,976,804</b>
Pension benefits adjustment	2,764,398	-	-	2,764,398	864,080
<b>Change in net assets</b>	<b>18,962,336</b>	<b>(2,823,629)</b>	<b>415,933</b>	<b>16,554,640</b>	<b>14,840,884</b>
Net assets:					
Beginning	138,702,993	38,447,039	38,173,451	215,323,483	200,482,599
Ending	\$ 157,665,329	\$ 35,623,410	\$ 38,589,384	\$ 231,878,123	\$ 215,323,483

See Notes To Consolidated Financial Statements.

The Humane Society Of The United States And Affiliates

Consolidated Statement Of Functional Expenses  
 Year Ended December 31, 2013  
 (With Comparative Totals For 2012)

	2013								2012 Total
	Program Services				Total Program Services	Management And General		Fundraising	
Research And Education	Cruelty Prevention Programs	Direct Care And Service	Advocacy And Public Policy						
Compensation	\$ 7,121,510	\$ 9,489,342	\$ 9,112,848	\$ 13,593,743	\$ 39,317,443	\$ 1,048,769	\$ 4,864,831	\$ 45,231,043	\$ 44,533,647
Education material, publications and campaigns	2,834,082	1,836,068	6,498,800	20,428,384	31,597,334	29,721	2,240,977	33,868,032	46,879,729
Mailing costs	3,034,793	4,853,093	4,692,033	5,835,776	18,415,695	893,593	11,735,080	31,044,368	34,057,110
Consultant and contracted services	3,507,247	6,083,784	4,133,607	4,483,520	18,208,158	517,432	3,177,479	21,903,069	21,611,393
Professional fees and settlements	390,456	526,662	433,198	10,456,590	11,806,906	331,420	416,197	12,554,523	5,840,336
Contributions and grants	141,270	2,633,166	278,667	3,486,916	6,540,019	-	-	6,540,019	3,700,186
Travel, meals, and lodging	343,095	1,578,614	1,476,134	1,248,107	4,645,950	18,386	283,664	4,948,000	4,937,165
Supplies and field expenses	526,660	733,473	2,220,877	610,129	4,091,139	146,406	258,406	4,495,951	4,051,225
Bank, trustee, and lockbox fees	-	-	-	-	-	1,913,403	1,443,193	3,356,596	3,843,080
Occupancy and building expense	417,456	414,743	1,082,541	299,237	2,213,977	181,735	168,299	2,564,011	2,297,238
Depreciation and amortization	80,044	96,992	893,047	94,217	1,164,300	383,270	67,959	1,615,529	1,556,939
Postage and shipping	979,045	126,899	54,131	62,633	1,222,708	8,570	66,080	1,297,358	1,230,556
Telephone	96,693	197,859	192,223	304,670	791,445	34,986	76,533	902,964	937,264
Insurance and bonds	114,978	148,239	188,450	205,592	657,259	93,237	123,514	874,010	823,369
Real estate and other taxes	51,068	26,873	53,756	86,089	217,786	34,649	38,184	290,619	524,277
<b>Total</b>	<b>\$ 19,638,397</b>	<b>\$ 28,745,807</b>	<b>\$ 31,310,312</b>	<b>\$ 61,195,603</b>	<b>\$ 140,890,119</b>	<b>\$ 5,635,577</b>	<b>\$ 24,960,396</b>	<b>\$ 171,486,092</b>	<b>\$ 176,823,514</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, 2013**  
**(With Comparative Totals For 2012)**

	2013	2012
Cash Flows From Operating Activities		
Change in net assets	\$ 16,554,640	\$ 14,840,884
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions and interest received for endowment	(415,933)	(3,479,729)
Decrease in allowance for uncollectible contributions and bequests	(1,362)	(353,511)
Change in discount on multi-year contributions and bequests	12,536	(17,161)
Depreciation and amortization	1,615,529	1,556,939
Loss on sale of property and equipment	319,298	46,113
Net realized and unrealized gain on investments	(15,376,041)	(10,777,274)
Donated stock	(1,097,809)	(1,652,023)
Donated land	(2,500,000)	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accrued interest receivable	(41,847)	(33,631)
Prepaid expenses and other assets	(4,728,134)	(633,431)
Contributions, bequests, and other receivables, gross	2,411,925	(318,516)
Increase (decrease) in:		
Accounts payable and accrued expenses	10,577,392	3,323,947
Annuities and unitrusts	(114,119)	442,946
Accrued severance obligation	(247,003)	110,600
Accrued postretirement benefit obligation	(3,278,443)	(1,447,969)
<b>Net cash provided by operating activities</b>	<b>3,690,629</b>	<b>1,608,184</b>
Cash Flows From Investing Activities		
Proceeds from sale of investments	108,337,555	110,383,065
Purchase of investments	(115,119,868)	(110,690,471)
Purchases of property and equipment	(3,719,044)	(2,286,213)
<b>Net cash used in investing activities</b>	<b>(10,501,357)</b>	<b>(2,593,619)</b>
Cash Flows From Financing Activities		
Contributions and interest received for endowment	415,933	3,479,729
<b>Net cash provided by financing activities</b>	<b>415,933</b>	<b>3,479,729</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(6,394,795)</b>	<b>2,494,294</b>
Cash And Cash Equivalents		
Beginning	27,706,707	25,212,413
Ending	<b>\$ 21,311,912</b>	<b>\$ 27,706,707</b>
Supplemental Schedules Of Noncash Investing And Financing Activities		
Donated stock	\$ 1,097,809	\$ 1,652,023
Donated land	<b>\$ 2,500,000</b>	<b>\$ -</b>

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, 2013, 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 investments, 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, equity securities, private equity funds and other investments. 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 \$297,927 at December 31, 2013.

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 property and equipment 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, 2013.

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. This policy applies only to The Humane Society of the United States entity.

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, 2013, the Society recorded \$22,943,791 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, 2013, the Society received \$3,408,804 in donated services and \$278,476 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, 2013.

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 2010.

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, partnerships, 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 and the consolidated statement of functional expenses. Certain overhead costs have been allocated among program services, management and general, and fundraising.

Fair value of financial instruments: The carrying amounts of 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, 2012, from which the summarized information was derived.

Reclassifications: Certain items in the December 31, 2012, summarized comparative information have been reclassified to conform to the December 31, 2013, consolidated financial statement presentation. The reclassifications had no effect on the previously reported change in net assets or net assets.

Humane Society University: In December 2013, the Society made the determination that it was no longer practical to continue to operate Humane Society University (HSU) due to increase regulations related to online learning opportunities, shortfalls in growth expectation and shortfalls in revenue. The Society has outlined a plan for individuals currently enrolled in classes at HSU to complete their degree programs. HSU is expected remain open in a limited capacity through 2017. No expenses were qualified to be recognized in 2013 for the discontinued operations.

## The Humane Society Of The United States And Affiliates

### Notes To Consolidated Financial Statements

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

Subsequent events: The Society evaluated subsequent events through October 14, 2014, which is the date the consolidated financial statements were available to be issued.

In May 2014, the Society and the Fund for Animals settled an animal protection lawsuit and a related defensive action involving a consortium of animal charities for \$5.675 million, net of all proceeds received from parties involved in the litigation and related settlements. As this suit relates to actions taken in 2013 and prior years, the corresponding damages have been recorded in these financial statements. The Society expects that all or a portion of net damages will be recovered from insurance proceeds. Such insurance proceeds will be recognized in the year received.

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

Contributions, bequests, and other receivables (excluding note receivable) consist of the following at December 31, 2013:

Bequests	\$ 9,033,602
Contributions and other receivables	6,895,564
Capital campaign	138,333
Grants	798,852
	<u>16,866,351</u>
Less allowance for uncollectible contributions and bequests (5%)	(297,927)
Less discount on multi-year contributions and bequests (2.75%)	(22,320)
Total contributions, bequests, and other receivables, net	<u><u>\$ 16,546,104</u></u>

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

Less than one year	\$ 13,666,595
One to five years	3,199,756
	<u><u>\$ 16,866,351</u></u>

#### Note 3. Property And Equipment

Property and equipment and accumulated depreciation at December 31, 2013, and depreciation expense for the year ended December 31, 2013, consist of the following:

	Useful Life	Cost	Accumulated Depreciation	Net	Depreciation
Land	–	\$ 12,869,858	\$ -	\$ 12,869,858	\$ -
Buildings and improvements	10 to 40 years	21,734,023	10,650,168	11,083,855	1,123,107
Office furniture and equipment	5 years	3,594,591	2,785,769	808,822	307,728
Construction in progress	–	800,977	-	800,977	-
Automobiles	5 years	2,241,912	1,867,849	374,063	184,694
		<u>\$ 41,241,361</u>	<u>\$ 15,303,786</u>	<u>\$ 25,937,575</u>	<u>\$ 1,615,529</u>

## The Humane Society Of The United States And Affiliates

### Notes To Consolidated Financial Statements

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

Accounts payable and accrued expenses consist of the following at December 31, 2013:

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Accounts payable	\$ 14,774,519
Accrued vacation	2,005,255
Accrued wages	991,350
Other accrued expenses	6,100,278
	<u>\$ 23,871,402</u>

#### 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 1.0% 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 \$7,546,438.

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, 2013, the amount of assets held in charitable unitrusts, which is restricted for the payment of related annuities, was \$704,134. The net assets of the trusts of \$719,591 are 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, 2013, was calculated by an actuary, based on a census provided by the Society, using an assumed discount rate of 4.11% and an assumed compensation increase of 4%. The amount of the liability for future severance was \$1,384,738.

## The Humane Society Of The United States And Affiliates

### Notes To Consolidated Financial Statements

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#### 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, 2013, which were included in the amounts reported in the accompanying consolidated financial statements as salaries, totaled \$18,966.

The deferred compensation plan assets and the related liability totaled \$262,771 at December 31, 2013.

#### Note 8. Retirement Plan

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 pension benefit obligation, the fair value of Plan assets, and the funded status of the Plan at December 31, 2013:

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Change in benefit obligation:	
Benefit obligation, beginning of fiscal year	\$ 38,311,718
Service cost	1,018,928
Interest cost	1,462,411
Participant contributions	213,409
Benefit payments	(2,269,640)
Administrative expenses	(13,184)
Actuarial loss	(313,905)
Benefit obligation, end of fiscal year	<u>\$ 38,409,737</u>
Change in Plan assets:	
Fair value of Plan assets, beginning of fiscal year	\$ 28,200,360
Employer contributions	2,400,000
Participant contributions	213,409
Benefit payments	(2,269,640)
Administrative expenses	(13,184)
Actual return on Plan assets	3,045,877
Fair value of Plan assets, end of fiscal year	<u>\$ 31,576,822</u>
Funded status, end of fiscal year	<u>\$ (6,832,915)</u>

The Plan had an accumulated benefit obligation of \$34,441,303 as of December 31, 2013. 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 Humane Society Of The United States And Affiliates

### Notes To Consolidated Financial Statements

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#### Note 8. Retirement Plan (Continued)

Amounts recognized in Plan assets at December 31, 2013, not yet reported as net periodic benefit cost (expense), are \$11,056,677. The Society expects to amortize \$901,963 of the net loss into net periodic benefit cost in 2014. The following assumptions were used by the actuary in determining the Society's pension benefit obligation as of December 31, 2013:

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Weighted-average discount rate	4.40%
Weighted-average rate of compensation increase	3.50%
Expected long-term rate of return on Plan assets	6.75%

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	\$	2,400,000
Year 1 expected benefit payments		5,403,697
Year 2 expected benefit payments		3,306,122
Year 3 expected benefit payments		3,663,055
Year 4 expected benefit payments		3,292,897
Year 5 expected benefit payments		2,953,395
Years 6 – 10 expected benefit payments		14,150,087

See Note 17 for information on the fair value of the Plan assets.

#### Note 9. 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. There was no outstanding balance at December 31, 2013, and no advances or payments made during 2013.

#### Note 10. Contingencies

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

## The Humane Society Of The United States And Affiliates

### Notes To Consolidated Financial Statements

#### Note 11. 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, 2013:

Board designated:	
Investment fund	\$ 83,173,381
Endowment fund	274,892
Black Beauty Ranch	776,066
Total board designated	<u>84,224,339</u>
Undesignated	73,440,990
Total unrestricted net assets	<u><u>\$ 157,665,329</u></u>

#### Note 12. 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.

Changes in temporarily restricted net by restriction purpose during 2013 were as follows:

	Balance December 31, 2012	Additions	Released From Restriction	Balance December 31, 2013
Unitrusts	\$ 987,680	\$ 84,060	\$ -	\$ 1,071,740
Animal welfare programs	13,889,907	10,284,118	12,404,669	11,769,356
Scholarships	15,245	2,278	3,145	14,378
Support of other humane organizations	511,578	188,028	72,898	626,708
Endangered Species	2,282,825	-	-	2,282,825
Doris Day Animal League	4,535,939	2,374,980	2,450,609	4,460,310
Fund for Animals	9,202,088	8,693,217	9,558,375	8,336,930
Humane Society International	1,668,701	2,089,501	1,950,823	1,807,379
Humane Society University	850	31,133	6,671	25,312
Humane Society Veterinarians Medical Association	55,713	27,531	83,244	-
South Florida Wildlife Center	307,653	3,696,480	3,697,231	306,902
Wildlife Land Trust	4,988,860	7,634,204	7,701,494	4,921,570
	<u>\$ 38,447,039</u>	<u>\$ 35,105,530</u>	<u>\$ 37,929,159</u>	<u>\$ 35,623,410</u>



## The Humane Society Of The United States And Affiliates

### Notes To Consolidated Financial Statements

#### Note 12. Temporarily Restricted Net Assets (Continued)

During 2013, 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	\$ 33,795,928
Gifts to other humane organizations	4,030,162
Restricted fund investment expenses	103,069
	<u>\$ 37,929,159</u>

#### Note 13. 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, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (5,766,402)	\$ 619,587	\$ 38,589,384	\$ 33,442,569
Board designated endowment funds	274,892	-	-	274,892
	<u>\$ (5,491,510)</u>	<u>\$ 619,587</u>	<u>\$ 38,589,384</u>	<u>\$ 33,717,461</u>

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

**Notes To Consolidated Financial Statements**

**Note 13. Endowments (Continued)**

Donor-restricted endowment fund activity consists of the following for the year ended December 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (6,533,176)	\$ 506,264	\$ 38,173,453	\$ 32,146,541
Investment return:				
Interest and dividends	247,014	20,954	-	267,968
Realized and unrealized loss on investments	1,975,375	170,906	-	2,146,281
Amounts appropriated for expenditure	(1,045,817)	(78,273)	(876)	(1,124,966)
Transfer to maintain earning power of corpus	(409,798)	(264)	410,062	-
Contributions	-	-	6,745	6,745
Endowment net assets, end of year	<u>\$ (5,766,402)</u>	<u>\$ 619,587</u>	<u>\$ 38,589,384</u>	<u>\$ 33,442,569</u>

**Board Designated Endowment Fund Activity**

Endowment net assets, beginning of year	\$ 254,353
Investment return:	
Interest and dividends	2,235
Realized and unrealized loss	18,851
Amounts appropriated for expenditure	(547)
Endowment net assets, end of year	<u>\$ 274,892</u>

**Permanently Restricted Net Assets – Fund Categories At December 31, 2013**

Income-producing assets; income is expendable to support the following:	
To defray operating expenses	\$ 3,473,847
To award scholarships to Connecticut secondary school students	18,306
To be used for the best interests of the organization	21,255,306
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	5,734,370
To be used for the state of New Hampshire wildlife	167,907
To be used for the betterment of song birds	1,226,699
	<u>33,378,474</u>
Non-income producing assets:	
Land and easements held to preserve natural habitats for wildlife	5,210,910
Total permanently restricted net assets	<u>\$ 38,589,384</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 will thereafter be 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 14. 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, 2013, was \$785,916. As of December 31, 2013, the future minimum lease commitments under non-cancelable operating leases are as follows:

Years Ending December 31,

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2014	\$ 392,120
2015	67,655
2016	21,186
2017	21,985
2018	12,963
Thereafter	49,331
	<u>\$ 565,240</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. 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, 2013, the allocation of the joint costs is summarized as follows:

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Programs	\$ 22,951,856
Fundraising	14,829,005
Membership development	1,168,480
	<u>\$ 38,949,341</u>

#### 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 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 \$1,027,955 to the 401(k) Plan during the year ended December 31, 2013.

## The Humane Society Of The United States And Affiliates

### Notes To Consolidated Financial Statements

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#### 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. 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, 2013, of assets 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	\$ 6,476,907	\$ 20,038,048	\$ 8,126,824	\$ 34,641,779
Multi-strategy	-	424,159	-	424,159
	<u>6,476,907</u>	<u>20,462,207</u>	<u>8,126,824</u>	<u>35,065,938</u>
<b>Fund of funds:</b>				
Equity long/short	-	5,240,050	-	5,240,050
Global opportunities	-	-	7,914,486	7,914,486
	<u>-</u>	<u>5,240,050</u>	<u>7,914,486</u>	<u>13,154,536</u>
<b>Equity funds:</b>				
International	-	10,976,337	-	10,976,337
Domestic	10,866,958	-	-	10,866,958
	<u>10,866,958</u>	<u>10,976,337</u>	<u>-</u>	<u>21,843,295</u>
<b>Private equity funds:</b>				
Debt securities	-	-	6,557,399	6,557,399
Global opportunities	10,050,476	-	11,832,474	21,882,950
Other	-	-	9,176,328	9,176,328
	<u>10,050,476</u>	<u>-</u>	<u>27,566,201</u>	<u>37,616,677</u>
<b>Fixed income securities:</b>				
U.S. Government and agency obligations (AAA Rated)	-	7,441,849	-	7,441,849
Corporate bonds (AAA to A Rated)	-	5,677,396	-	5,677,396
Asset-backed fixed income securities (AAA Rated)	-	1,440,666	-	1,440,666
Other	1,497,592	1,081,029	-	2,578,621
Corporate bonds (BBB to B Rated)	-	3,218,311	-	3,218,311
	<u>1,497,592</u>	<u>19,521,712</u>	<u>-</u>	<u>21,019,304</u>
<b>Equity mutual funds:</b>				
Mid cap blend	1,264,505	-	-	1,264,505
Emerging markets	9,100,778	-	-	9,100,778
Global opportunities	10,826,031	-	-	10,826,031
Large cap blend	6,782,764	-	-	6,782,764
Other	8,117,244	-	-	8,117,244
Small cap blend	755,274	-	-	755,274
Commodities	391,792	-	-	391,792
Real estate	390,997	-	-	390,997
	<u>37,629,385</u>	<u>-</u>	<u>-</u>	<u>37,629,385</u>
<b>Fixed income mutual fund –</b>				
short-term bonds	10,119,617	-	-	10,119,617
Equity securities	9,689,422	-	-	9,689,422
Other investments	11,914,014	2,291,317	1,100,000	15,305,331
	<u>\$ 98,244,371</u>	<u>\$ 58,491,623</u>	<u>\$ 44,707,511</u>	<u>\$ 201,443,505</u>

## The Humane Society Of The United States And Affiliates

### Notes To Consolidated Financial Statements

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

For assets 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, 2013	Purchases	Sales	Realized And Unrealized Gains	Balance December 31, 2013
Hedge funds:					
Equity long/short	\$ 6,928,865	\$ -	\$ -	\$ 1,197,959	\$ 8,126,824
	6,928,865	-	-	1,197,959	8,126,824
Fund of funds:					
Global opportunities	12,794,613	-	(7,700,000)	2,819,873	7,914,486
	12,794,613	-	(7,700,000)	2,819,873	7,914,486
Private equity funds:					
Debt securities	14,205,418	2,512,161	(9,835,652)	(324,528)	6,557,399
Global opportunities	12,448,658	-	(908,647)	292,463	11,832,474
Other	5,307,904	3,198,552	(187,522)	857,394	9,176,328
	31,961,980	5,710,713	(10,931,821)	825,329	27,566,201
Other investments	113,522	1,000,000	(13,522)	-	1,100,000
	\$ 51,798,980	\$ 6,710,713	\$ (18,645,343)	\$ 4,843,161	\$ 44,707,511

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
Hedge funds – Equity long/short (a)	\$ 28,164,872	\$ -	Monthly, Quarterly and Bi-Annually	15 – 65 days
Hedge funds – Multi-strategy (b)	424,159	-	Quarterly	45 days
Fund of funds – Equity long/short (c)	5,240,050	-	Quarterly	60 days
Fund of funds – Global opportunities (d)	7,914,486	-	Semi-Annually	60 days
Private equity funds (e)	27,566,201	5,224,234	None	Not Applicable
Equity funds – International long/short (f)	10,976,337	-	Annual	60 days
	<u>\$ 80,286,105</u>	<u>\$ 5,224,234</u>		

- (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.

## The Humane Society Of The United States And Affiliates

### Notes To Consolidated Financial Statements

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

- (b) 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.
- (c) 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.
- (d) 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.
- (e) 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, 2013, 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.
- (f) This category includes investments in international equities invested to seek both long and short term growth. The fair value of the investments in this category has been estimated using net asset value per share of the investment. A total of \$ 10,976,337 is available for redemption quarterly with 60 days written notices. The remainder of amount (R shares) is available for redemption on the third year anniversary with 60 days prior written notice given.

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

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#### 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, 2013:

	Level 1	Level 2	Level 3	Total
Assets:				
Mutual funds	\$ 262,771	\$ -	\$ -	\$ 262,771
Liabilities:				
Deferred compensation liability	\$ -	\$ 262,771	\$ -	\$ 262,771

Pension: Fair value, as defined in the Fair Value Measurement Topic of the Codification, is described above. In determining the appropriate levels for its defined benefit retirement plan (See Note 8), 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.

The following section describes the valuation techniques used by the Society:

Investments in equity, fixed income mutual funds and exchange traded funds are 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.

Investments in some partnerships, hedge funds, and international equities have a determinable market value but they are not actively traded for identical and are classified as Level 2 investments.

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, are classified as Level 3 as they are not readily marketable. Investments in hedge funds for which the value is not readily determinable and the holdings are not actively traded for identical assets are also classified as Level 3.



## 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 Plan's assets at fair value as of December 31, 2013:

	Level 1	Level 2	Level 3	Total
<b>Equity mutual funds:</b>				
Foreign large cap blend	\$ 1,189,166	\$ -	\$ -	\$ 1,189,166
Moderate allocation	1,860,948	-	-	1,860,948
Diversified emerging markets	3,162,332	-	-	3,162,332
Foreign large blend	2,248,403	-	-	2,248,403
Large blend	4,494,584	-	-	4,494,584
Other	767,937	-	-	767,937
	<u>13,723,370</u>	<u>-</u>	<u>-</u>	<u>13,723,370</u>
<b>ETF:</b>				
Large growth	1,441,296	-	-	1,441,296
Large blend	3,786,330	-	-	3,786,330
	<u>5,227,626</u>	<u>-</u>	<u>-</u>	<u>5,227,626</u>
<b>Fixed income mutual funds:</b>				
Intermediate-term bond	427,121	-	-	427,121
Bank loan	1,282,085	-	-	1,282,085
Short-term bond	2,842,827	-	-	2,842,827
World bond	1,087,611	-	-	1,087,611
	<u>5,639,644</u>	<u>-</u>	<u>-</u>	<u>5,639,644</u>
Partnerships	-	79,515	-	79,515
Equity long/short hedge fund	-	1,556,964	2,666,732	4,223,696
Equity long/short international	-	2,048,941	-	2,048,941
	<u>\$ 24,590,640</u>	<u>\$ 3,685,420</u>	<u>\$ 2,666,732</u>	<u>\$ 30,942,792</u>

The Plan's assets also consisted of \$634,030 in cash and cash equivalents at December 31, 2013, which are not subject to the provisions of fair value since they are held at cost.



## Independent Auditor's Report On The Supplementary Information

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

We have audited the consolidated financial statements of The Humane Society of the United States and Affiliates as of and for the year ended December 31, 2013, and have issued our report dated October 10, 2014 which contained an unmodified opinion on those consolidated financial statements. See pages 1 - 2.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis, rather than to present the financial position or changes in net assets of the individual entities and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*McGladrey LLP*

Gaithersburg, Maryland  
October 14, 2014

The Humane Society Of The United States And Affiliates

Consolidating Balance Sheet  
December 31, 2013

Assets	HSUS	DDAL	FFA	HSI	HSU	HSVMA	SFWC	WLT	Eliminations	Consolidated
Cash And Cash Equivalents	\$ 19,494,709	\$ 151,563	445,614	\$ 755,393	\$ 23,004	\$ 41,888	\$ 78,598	\$ 321,143	\$ -	\$ 21,311,912
Investments	198,460,072	487,187	-	-	-	-	-	2,496,246	-	201,443,505
Investments To Fund Deferred										
Compensation Liability	262,771	-	-	-	-	-	-	-	-	262,771
Due From Affiliates*	-	3,760,223	-	-	-	-	-	1,223,214	-	4,983,437
Accrued Interest Receivable	262,628	572	-	-	-	-	-	4,369	-	267,569
Prepaid Expenses And Other Assets	7,832,181	-	270	25,901	19,735	3,000	-	30,000	(1,200,000)	6,711,087
Contributions, Bequests And										
Other Receivables, net	13,446,000	70,729	1,952,947	445,373	12,348	35,662	7,905	575,140	-	16,546,104
Property And Equipment, net	11,198,491	-	8,797,011	17,000	-	36,228	361,443	5,527,402	-	25,937,575
<b>Total assets</b>	<b>\$ 250,956,852</b>	<b>\$ 4,470,274</b>	<b>11,195,842</b>	<b>\$ 1,243,667</b>	<b>\$ 55,087</b>	<b>\$ 116,778</b>	<b>\$ 447,946</b>	<b>\$ 10,177,514</b>	<b>\$ (1,200,000)</b>	<b>\$ 277,463,960</b>
<b>Liabilities And Net Assets</b>										
Liabilities										
Accounts Payable And										
Accrued Expenses	\$ 23,232,310	\$ 9,963	142,504	\$ 175,947	\$ 70,247	\$ 77,969	\$ 117,429	\$ 45,033	\$ -	\$ 23,871,402
Due To Affiliates*	(3,556,335)	-	2,716,405	1,846,369	1,486,834	3,666,551	23,613	-	(1,200,000)	4,983,437
Annuities And Unitrusts	8,250,574	-	-	-	-	-	-	-	-	8,250,574
Accrued Severance Obligation	1,384,738	-	-	-	-	-	-	-	-	1,384,738
Deferred Compensation Liability	262,771	-	-	-	-	-	-	-	-	262,771
Accrued Postretirement										
Benefit Obligation	6,832,915	-	-	-	-	-	-	-	-	6,832,915
<b>Total liabilities</b>	<b>36,406,973</b>	<b>9,963</b>	<b>2,858,909</b>	<b>2,022,316</b>	<b>1,557,081</b>	<b>3,744,520</b>	<b>141,042</b>	<b>45,033</b>	<b>(1,200,000)</b>	<b>45,585,837</b>
Net Assets (Deficit)										
Unrestricted										
Board Designated	84,224,339	-	-	-	-	-	-	-	-	84,224,339
Undesignated	81,182,068	-	-	(2,586,028)	(1,527,307)	(3,627,742)	-	-	-	73,440,991
	165,406,407	-	-	(2,586,028)	(1,527,307)	(3,627,742)	-	-	-	157,665,330
Temporarily restricted	15,764,998	4,460,311	8,336,933	1,807,379	25,313	-	306,904	4,921,571	-	35,623,409
Permanently restricted	33,378,474	-	-	-	-	-	-	5,210,910	-	38,589,384
<b>Total net assets</b>	<b>214,549,879</b>	<b>4,460,311</b>	<b>8,336,933</b>	<b>(778,649)</b>	<b>(1,501,994)</b>	<b>(3,627,742)</b>	<b>306,904</b>	<b>10,132,481</b>	<b>-</b>	<b>231,878,123</b>
<b>Total liabilities and net assets</b>	<b>\$ 250,956,852</b>	<b>\$ 4,470,274</b>	<b>\$ 11,195,842</b>	<b>\$ 1,243,667</b>	<b>\$ 55,087</b>	<b>\$ 116,778</b>	<b>\$ 447,946</b>	<b>\$ 10,177,514</b>	<b>\$ -</b>	<b>\$ 277,463,960</b>

\*Eliminated in consolidation.

The Humane Society Of The United States And Affiliates

Consolidating Statement Of Activities  
Year Ended December 31, 2013

	HSUS	DDAL	FFA	HSI	HSU	HSVMA	SFWC	WLT	Eliminations	Consolidated
Support and revenue:										
Contributions	\$ 104,497,142	\$ 2,015,246	\$ 3,521,010	\$ 5,577,649	\$ 28,776	\$ 568,995	\$ 647,497	\$ 6,672,899	\$ -	\$ 123,529,214
Bequests	27,605,655	299,490	5,029,264	29,665	-	33,547	131,348	106,686	-	33,235,655
Interest and dividends	2,524,992	4,218	-	-	-	-	-	468,557	-	2,997,767
Royalty income	915,885	-	9,092	1,242	-	1,352	-	582	-	928,153
Grants and trust contributions	3,929,481	1,170	47,219	450,448	30,234	-	51,081	214,760	-	4,724,393
Event income	1,733,984	-	33,855	3,070	168,601	34,912	35,379	4,022	-	2,013,823
Other income	2,315,172	20,417	75,066	(1,000)	(27,855)	1,376	29,009	59,103	-	2,471,288
Program support	-	-	5,242	4,566,940	1,832,420	-	2,802,166	-	(9,206,768)	-
<b>Total support and revenue before transfers</b>	<b>143,522,311</b>	<b>2,340,541</b>	<b>8,720,748</b>	<b>10,628,014</b>	<b>2,032,176</b>	<b>640,182</b>	<b>3,696,480</b>	<b>7,526,609</b>	<b>(9,206,768)</b>	<b>169,900,293</b>
Transfer (loss) income	-	-	(27,531)	(5,000)	-	32,531	-	-	-	-
<b>Total support and revenue</b>	<b>143,522,311</b>	<b>2,340,541</b>	<b>8,693,217</b>	<b>10,623,014</b>	<b>2,032,176</b>	<b>672,713</b>	<b>3,696,480</b>	<b>7,526,609</b>	<b>(9,206,768)</b>	<b>169,900,293</b>
Expenses:										
Program services	116,590,083	2,061,698	8,743,030	8,854,046	1,870,413	1,731,741	3,053,827	7,192,049	(9,206,768)	140,890,119
Management and general	3,988,782	67,785	344,588	511,716	162,512	105,769	294,079	160,346	-	5,635,577
Fundraising	21,802,558	321,125	470,754	1,327,737	-	339,800	349,322	349,100	-	24,960,396
<b>Total expenses</b>	<b>142,381,423</b>	<b>2,450,608</b>	<b>9,558,372</b>	<b>10,693,499</b>	<b>2,032,925</b>	<b>2,177,310</b>	<b>3,697,228</b>	<b>7,701,495</b>	<b>(9,206,768)</b>	<b>171,486,092</b>
<b>Change in net assets from operations</b>	<b>1,140,888</b>	<b>(110,067)</b>	<b>(865,155)</b>	<b>(70,485)</b>	<b>(749)</b>	<b>(1,504,597)</b>	<b>(748)</b>	<b>(174,886)</b>	<b>-</b>	<b>(1,585,799)</b>
Realized and unrealized gain on investments, net	15,234,007	34,439	-	-	-	-	-	107,595	-	15,376,041
<b>Change in net assets before pension benefits adjustment</b>	<b>16,374,895</b>	<b>(75,628)</b>	<b>(865,155)</b>	<b>(70,485)</b>	<b>(749)</b>	<b>(1,504,597)</b>	<b>(748)</b>	<b>(67,291)</b>	<b>-</b>	<b>13,790,242</b>
Pension benefits adjustment	2,764,398	-	-	-	-	-	-	-	-	2,764,398
<b>Change in net assets</b>	<b>19,139,293</b>	<b>(75,628)</b>	<b>(865,155)</b>	<b>(70,485)</b>	<b>(749)</b>	<b>(1,504,597)</b>	<b>(748)</b>	<b>(67,291)</b>	<b>-</b>	<b>16,554,640</b>
Net assets (deficit):										
Beginning	195,410,586	4,535,939	9,202,088	(708,164)	(1,501,245)	(2,123,145)	307,652	10,199,772	-	215,323,483
Ending	\$ 214,549,879	\$ 4,460,311	\$ 8,336,933	\$ (778,649)	\$ (1,501,994)	\$ (3,627,742)	\$ 306,904	\$ 10,132,481	\$ -	\$ 231,878,123