Defenders of Wildlife

Financial Statements
and Independent Auditors' Report

September 30, 2013 and 2012

Defenders of Wildlife

Financial Statements
September 30, 2013 and 2012

Contents

ROGERS & COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Defenders of Wildlife

We have audited the accompanying financial statements of the Defenders of Wildlife ("Defenders"), which comprise the statements of financial position as of September 30, 2013, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

ROGERS & COMPANY

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Defenders as of September 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Defenders' September 30, 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 7, 2013. In our opinion, the summarized comparative information presented herein, as of and for the year ended September 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Rogers + Company PLLC

Vienna, Virginia
February 26, 2014

Defenders of Wildlife

Statements of Financial Position
September 30, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 4,424,630	$ 2,510,713
Short-term investments	541,903	112,897
Investments – annuity reserve fund	3,483,907	3,356,323
Certificates of deposit	1,314,663	1,673,060
Bequests and trusts receivable	780,705	1,232,072
Grants and pledges receivable	1,604,121	1,327,493
Accounts receivable	609,300	481,703
Prepaid expenses	417,466	376,269
Accrued interest and dividends	4,476	5,475
Inventory	588,291	619,439
Total current assets	13,769,462	11,695,444
Long-term investments	6,683,865	6,406,482
Grants and pledges receivable, long-term	1,464,657	-
Charitable remainder and other trusts	3,336,457	3,205,453
Property and equipment, net	10,515,667	10,903,338
Other assets	79,286	159,100
Total assets	$ 35,849,394	$ 32,369,817
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,576,394	$ 1,018,485
Annuity and other split-interest obligations	301,641	317,451
Loan payable	227,887	-
Capital lease obligation, net	7,567	-
Deferred revenue	2,940	9,961
Bonds payable	-	205,000
Total current liabilities	2,116,429	1,550,897
Loan payable, net of current portion	6,060,454	-
Annuity and other split-interest obligations, long-term	1,911,791	1,946,354
Capital lease obligation, net of current portion	61,400	-
Bonds payable, net of current portion	-	5,505,000
Interest rate swap	-	984,865
Total liabilities	10,150,074	9,987,116
Net Assets		
Unrestricted:		
Undesignated	8,761,606	7,784,969
Board designated	6,452,765	6,226,559
Total unrestricted	15,214,371	14,011,528
Temporarily restricted	9,037,759	6,952,977
Permanently restricted	1,447,190	1,418,196
Total net assets	25,699,320	22,382,701
Total liabilities and net assets	$ 35,849,394	$ 32,369,817

See accompanying notes.

Defenders of Wildlife

Statement of Activities
For the Year Ended September 30, 2013
(with comparative totals for the year ended September 30, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Totals
Revenue					
Grants and contributions	$ 19,655,314	$ 5,853,295	$ -	$ 25,508,609	$ 20,398,519
Contributed services	884,232	-	-	884,232	422,500
Bequests	4,894,054	25,709	-	4,919,763	2,749,189
Royalties	592,576	-	-	592,576	812,145
Investment income	642,448	-	102	642,550	1,130,199
Split-interest contributions	-	152,989	-	152,989	101,408
Change in value of split interests	175,565	198,342	28,892	402,799	153,578
Mailing list royalties	60,928	-	-	60,928	50,313
Other income	714,847	-	-	714,847	480,812
Released from restrictions	4,145,553	(4,145,553)	-	-	-
Total revenue and support	31,765,517	2,084,782	28,994	33,879,293	26,298,663
Expenses					
Program services:					
ESA	7,422,010	-	-	7,422,010	6,566,423
Key Species	11,696,775	-	-	11,696,775	10,348,407
Habitat	7,645,648	-	-	7,645,648	6,764,280
Total program services	26,764,433	-	-	26,764,433	23,679,110
Supporting services:					
Management and general	2,708,502	-	-	2,708,502	3,173,246
Fundraising	1,089,739	-	-	1,089,739	902,960
Total supporting services	3,798,241	-	-	3,798,241	4,076,206
Total expenses	30,562,674	-	-	30,562,674	27,755,316
Change in Net Assets	1,202,843	2,084,782	28,994	3,316,619	(1,456,653)
Net Assets, beginning of year	14,011,528	6,952,977	1,418,196	22,382,701	23,839,354
Net Assets, end of year	$ 15,214,371	$ 9,037,759	$ 1,447,190	$ 25,699,320	$ 22,382,701

See accompanying notes.

Defenders of Wildlife

Statements of Cash Flows
For the Years Ended September 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	$ 3,316,619	$ (1,456,653)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	587,848	614,316
Equipment acquired under capital lease	71,000	-
Discount on grants and pledges receivable	4,163	-
Amortization of cost of issuing bonds	154,690	9,120
Net realized and unrealized gain on investments	(216,080)	(872,586)
Net unrealized gain on interest rate swap	(245,593)	(69,790)
Change in annuity reserve fund	(127,584)	1,297,529
Net loss on disposal of fixed assets	1,061	357
Change in value of perpetual, lead, and remainder trusts and pooled income fund	(131,004)	(407,102)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Bequests and trusts receivable	451,367	482,903
Grants and pledges receivable	(1,745,448)	1,003,119
Accounts receivable	(127,597)	562,093
Prepaid expenses	(41,197)	307,524
Accrued interest and dividends	999	50
Inventory	31,148	(187,095)
Increase (decrease) in:		
Accounts payable and accrued expenses	557,909	(321,528)
Annuity and other split-interest obligations	(50,373)	(877,868)
Deferred revenue	(7,021)	(2,282)
Net cash provided by operating activities	2,484,907	82,107
Cash Flows from Investing Activities		
Proceeds from sale of investments	5,994,483	184
Proceeds from maturity of certificates of deposit	358,397	-
Purchase of investments	(6,484,792)	(232,960)
Purchase of certificates of deposit	-	(150,389)
Purchase of property and equipment	(201,238)	(267,055)
Net cash used in by investing activities	(333,150)	(650,220)
Cash Flows from Financing Activities		
Payments on bond principal	(223,031)	(195,000)
Cost of issuing long-term debt	(74,876)	(6,340)
Issuance of long-term debt	6,306,372	-
Redemption of long-term debt	(5,505,000)	-
Payments under capital lease	(2,033)	-
Termination of interest rate swap	(739,272)	-
Net cash used in financing activities	(237,840)	(201,340)
Net Increase (Decrease) in Cash and Cash Equivalents	1,913,917	(769,453)
Cash and Cash Equivalents, beginning of year	2,510,713	3,280,166
Cash and Cash Equivalents, end of year	$ 4,424,630	$ 2,510,713
Noncash Investing and Financing Transaction		
Lease of equipment:		
Equipment acquired	$ 71,000	$ -
Capital lease obligation	$ (71,000)	$ -

See accompanying notes.

1. Nature of Operations

Defenders of Wildlife ("Defenders") is a District of Columbia nonprofit corporation founded in 1947. Its mission is to conserve the natural abundance and diversity of native wild animals and plants, and the habitats on which they depend. As one of the country's leaders in science-based, results-oriented wildlife conservation, Defenders works to educate and mobilize the public to protect and restore America's native wildlife. Programs are primarily funded through grants and contributions.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

Defenders' financial statements are prepared on the accrual basis of accounting and are in accordance with generally accepted accounting principles for not-for-profit organizations. Net assets are reported based on the presence or absence of donor-imposed restrictions in the following classes:

- *Unrestricted net assets* represent funds that are not subject to donor-imposed stipulations and are available for support of Defenders' operations. These net assets include both internally designated and undesignated resources.

- *Temporarily restricted net assets* represent funds subject to donor-imposed restrictions that are met either by actions of Defenders or the passage of time.

- *Permanently restricted net assets* represent funds in which the principal must be held in perpetuity, while the earnings may be available for general operations or a restricted purpose imposed by the donors.

Cash Equivalents

Cash equivalents consist of interest-earning checking accounts, as well as highly liquid investments with original maturities of three months or less. Temporary cash investments are placed with creditworthy, high-quality financial institutions. These banking arrangements preclude any significant concentration of uninsured cash. The carrying amounts on the statements of financial position approximate fair value because of the short-term maturities of the instruments.

2. Summary of Significant Accounting Policies (continued)

Investments

Investments consist of money market funds, mutual funds, and corporate bonds. Investments are recorded at fair value based on quoted market prices. Certain investments are recorded as long-term, as Defenders has the intent and ability to hold them for more than one year. Short-term investments are included with current assets, since the intent is for them to be available for working capital purposes.

Certificates of Deposit

At September 30, 2013 and 2012, Defenders held certificates of deposit with original maturity dates greater than a period of ninety days that are carried at amortized cost. Interest earned on the certificates of deposit is included in investment income in the accompanying statement of activities. These certificates of deposit do not qualify as securities, as defined in FASB Accounting Standards Codification (ASC) 320, *Investments – Debt and Equity Securities.* Therefore, these investments are not included in the fair value disclosures required by ASC 820, *Fair Value Measurements and Disclosures.*

Accounts Receivable

Accounts receivable consist of royalty and other receivables, and are recorded at net realizable value. Defenders' policy is to charge off uncollectible accounts receivable when management determines the receivable will not be collected. No allowance for uncollectible accounts has been established at September 30, 2013 and 2012, as all amounts are deemed fully collectible.

Property and Equipment

Property and equipment purchased at a cost of $1,000 or more are capitalized and recorded at acquisition cost. The building is depreciated over an estimated useful life of 25 years. Furniture, equipment, and improvements are depreciated over estimated useful lives of 5 to 25 years, with no salvage value. All depreciation is computed using the straight-line method. Donated items are recorded at fair market value.

Inventory

Inventory includes membership items such as bags and jackets, which are branded with Defenders' logo. Inventory is recorded at cost (using specific identification), and is expensed when used.

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

All grants and contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Defenders reports grants and contributions as temporarily restricted support if they are received with donor or grantor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted contributions are invested in perpetuity by or on Defenders' behalf. The principal of the gift is never expended, while the investment income is spent on current temporarily restricted or unrestricted programs as specified by the donor.

Defenders will receive communications indicating that it has been named as a beneficiary in an individual's will. These promises to give are recognized at the time the probate court declares the will valid and the proceeds are reasonably measurable. It is Defenders' practice to reduce these amounts by approximately 10% before recording the receivable, for estimated administration costs associated with the estates.

Deferred revenue consists of payments received in advance for royalty, advertising, and contracts. Deferred revenue is recognized as earned in the period corresponding to the services performed or activity conducted. All other revenues are recognized when earned.

Split-Interest Agreements

Defenders receives certain planned gift donations that benefit not only Defenders, but also another beneficiary designated by the donor. These contributions are termed split-interest agreements, which include perpetual trusts, charitable remainder trusts, charitable gift annuities, and a pooled income fund.

Income is received from perpetual trusts, from which the assets held by the respective trustees will not revert to Defenders at any time and the income received is used according to donor stipulations. Defenders is also a remainderman to certain charitable remainder trusts. Upon the death of the beneficiaries of these remainder trusts, the assets will revert to Defenders to be used according to the donors' wishes. Assets held in trust by and for Defenders are valued at either fair-value or at the discounted present value of the estimated future receipts from the trusts. Where applicable, estimated future payments are discounted at a risk-free rate of return based on the expected term of the split-interest agreements at the time the agreements are created, ranging from 3% to 6%.

2. Summary of Significant Accounting Policies (continued)

Split-Interest Agreements (continued)

Defenders has entered into irrevocable agreements with donors whereby in exchange for the gift from the donor, Defenders is obligated to provide an annuity to the donor or other designated beneficiary over the life of the annuitant. A liability is recognized for the estimated present value of the annuity obligation, and the assets are recorded at their fair value. The discount rate and actuarial assumptions used in calculating the annuity are those provided in the Internal Revenue Service (IRS) guidelines and actuarial tables.

In accordance with certain state laws, the charitable gift annuity reserve fund is invested primarily in money market funds, bonds, mutual funds, and equities, and reserves for California donors are segregated.

In 1980, Defenders established a pooled income fund. The fund accepts gifts of cash or other property, while the donors retain a life interest in the income generated by the contributed assets. Upon the death of a donor or their designated beneficiaries, Defenders owns the remainder interest in the principal balance of the gift.

Fair Value Measurements

Defenders follows ASC 820, *Fair Value Measurements and Disclosures*, for financial assets and liabilities. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs.

In addition, Defenders follows ASC 2009-12, *Investments in Certain Entities That Calculate Net Assets Value per Share (or its Equivalent)*, which has amended the existing guidance in ASC 820. This guidance permits, as a practical expedient, the fair value of investments that do not have a quoted market price to be estimated using net asset value (NAV) per share or its equivalent. At September 30, 2013 and 2012, Defenders did not have any investments required to be valued using NAV.

2. Summary of Significant Accounting Policies (continued)

In-Kind Donations

Donated services meeting the criteria for recognition under ASC 958, *Revenue Recognition – Contributions Received*, are recognized at fair value at the time of receipt. These services benefit the general programs and consist primarily of advertising, and legal and professional services. The value of these donated services is included in the financial statements as both revenue and expense in the amounts of $884,232 and $422,500 for the years ended September 30, 2013 and 2012, respectively.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management 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 revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the split-interest agreements; carrying value of land, buildings and equipment; and bequests and trusts receivable. Actual results could differ materially, in the near term, from the amounts reported.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Prior Year Information

Statement of Activities

The 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 Defenders' financial statements for the year ended September 30, 2012, from which the summarized information was derived.

2. Summary of Significant Accounting Policies (continued)

Prior Year Information (continued)

Program Classification

During the year ended September 30, 2013, Defenders implemented a new ten-year strategic plan that defines three main conservation goals that constitute the focal areas of Defenders' mission-driven work. These three conservation goals were translated into new program classifications for budgetary purposes, and are shown in the program services expense line items of the accompanying statement of activities. The three conservation goals and related ten-year benchmarks of success are defined as follows:

Program Classification	10-Year Benchmark
Endangered Species Act (ESA)	More than half of the species presently listed under the ESA are stable or improving
Key Species	25 vulnerable species are secure in important ecosystems and focal landscapes
Habitat	Double the acreage of high priority wildlife habitat managed for ecological integrity

Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

Subsequent Events

Defenders follows the guidance of FASB ASC 855, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the statement of financial position date but before the financial statements are issued. FASB ASC 855 also requires disclosure of the date through which an entity has evaluated subsequent events. In preparing these financial statements, Defenders has evaluated events and transactions for potential recognition or disclosure through February 26, 2014, the date the financial statements were available to be issued.

3. Concentration of Credit Risk

Financial instruments that potentially subject Defenders to significant concentrations of credit risk consist of cash and investments. Defenders maintains cash deposits and investments with various financial institutions that may, from time to time, exceed insurable limits under the Federal Depository Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). Defenders has not experienced any losses on its cash and investments to date as it relates to FDIC and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

4. Investments

Investments consist of the following at September 30:

	2013	2012
Money market funds	$ 876,075	$ 668,290
Mutual funds:		
Equity	3,668,763	4,046,336
Fixed income	2,651,066	1,774,524
Corporate bonds	29,864	30,229
Total investments	7,225,768	6,519,379
Less: long-term investments	(6,683,865)	(6,406,482)
Short-term investments	$ 541,903	$ 112,897

Investment income consists of the following for the years ended September 30:

	2013	2012
Net realized and unrealized gain	$ 163,893	$ 870,008
Unrealized gain on interest rate swap	245,593	69,790
Interest and dividends	233,064	190,401
Total investment income	$ 642,550	$ 1,130,199

5. Fair Value Measurements

Fair value of assets and liabilities measured on a recurring basis is as follows at September 30:

	Total fair value	Level 1	Level 2	Level 3
2013:				
Assets				
Money market funds	$ 876,075	$ 876,075	$ -	$ -
Mutual funds:				
Equity	3,668,763	3,668,763	-	-
Fixed income	2,651,066	2,651,066	-	-
Corporate bonds	29,864	29,864	-	-
Annuity reserve fund	3,483,907	3,483,907	-	-
Charitable remainder trusts and pooled income fund	2,072,161	136,112	-	1,936,049
Interest in perpetual trusts	1,264,296	-	-	1,264,296
Total assets	$ 14,046,132	$ 10,845,787	$ -	$ 3,200,345
2012:				
Assets				
Money market funds	$ 668,290	$ 668,290	$ -	$ -
Mutual funds:				
Equity	4,046,336	4,046,336	-	-
Fixed income	1,774,524	1,774,524	-	-
Corporate bonds	30,229	30,229	-	-
Annuity reserve fund	3,356,323	3,356,323	-	-
Charitable remainder trusts and pooled income fund	1,970,049	195,839	-	1,774,210
Interest in perpetual trusts	1,235,404	-	-	1,235,404
Total assets	$ 13,081,155	$ 10,071,541	$ -	$ 3,009,614
Liabilities				
Interest rate swap	$ 984,865	$ -	$ -	$ 984,865
Total liabilities	$ 984,865	$ -	$ -	$ 984,865

5. Fair Value Measurements (continued)

Defenders used the following methods and significant assumptions to estimate fair value of assets and liabilities recorded at fair value:

Investments and Annuity Reserve Fund

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 includes mutual funds, money market funds, corporate bonds, stocks, and fixed income securities held as investments and within the annuity reserve fund.

Charitable Remainder, Perpetual Trusts, and Pooled Income Fund

Level 1 Assets

Charitable remainder trust assets for which Defenders is a trustee are invested in a diversified portfolio of mutual funds and marketable securities, which are valued at fair value based on quoted market prices of the underlying investments, and are therefore classified within Level 1.

Level 3 Assets

Charitable trust assets also include the fair value of Defenders' interest in charitable remainder trusts receivable where Defenders is not a trustee. The fair value is measured upon the estimated net present value of amounts to be received. Distributions are to be made to the donor's designee (remainder trusts) during the terms of the agreements. At the end of the remainder trust terms, a portion of the remaining trust assets, as defined in the trust agreements, is to be distributed to Defenders. The expected future cash inflows from the trusts are based on the fair value of the investments, future expected investment returns, and life expectancy of the donor or donor's designee, and have been recorded at present value.

Expected future cash flows for a beneficial interest in a perpetual trust are estimated by fair valuing the underlying assets contributed to the trust.

Investments in the pooled income fund are valued based on the net asset value of each investment position, as provided by the respective fund manager.

The value of these assets is based on unobservable inputs and Defenders' own assumptions and are therefore classified within Level 3.

5. Fair Value Measurements (continued)

Interest Rate Swap

Defenders entered into an interest rate swap to reduce the impact of changes in interest rates on its floating debt rate. The estimated fair value of an interest rate swap is determined by the Bank using a model based on forward looking assumptions of interest rates and the resulting effect on the underlying cash flows of the interest rate swap. Since the interest rate swap valuation model utilizes significant inputs that are unobservable, it was classified within Level 3. The interest rate swap agreement was terminated on August 1, 2013.

The following table is a rollforward of the fair value measurements using unobservable inputs (Level 3) as of September 30, 2013:

	Fair value at September 30, 2012	Change in value	Realized and unrealized gains and losses	Fair value at September 30, 2013
Assets				
Charitable remainder trusts and pooled income fund	$ 1,774,210	$ 161,839	$ -	$ 1,936,049
Interest in perpetual trusts	1,235,404	28,892	-	1,264,296
Total assets	$ 3,009,614	$ 190,731	$ -	$ 3,200,345
Liabilities				
Interest rate swap	$ 984,865	$ (1,230,458)	$ 245,593	$ -
Total liabilities	$ 984,865	$ (1,230,458)	$ 245,593	$ -

6. Grants and Pledges Receivable

All grants and pledges receivable are deemed to be fully collectible and are reflected at either net realizable value or at net present value based on projected cash flows. Amounts receivable in more than one year initially recorded in fiscal years 2013 and 2012 were discounted at an average annual rate of 3.57% using a rate that considers market and credit risk.

6. Grants and Pledges Receivable (continued)

Grants and pledges receivable are promised as follows at September 30:

	2013	2012
Due in less than one year	$ 1,604,121	$ 1,327,493
Due in one to five years	1,468,820	-
Total	3,072,941	1,327,493
Less: discount	(4,163)	-
Total grants and pledges receivable, net	$ 3,068,778	$ 1,327,493

7. Split-Interest Agreements

Assets held under split-interest agreements in the accompanying statements of financial position were comprised of the following at September 30:

	2013	2012
Investments – annuity reserve fund	$ 3,483,907	$ 3,356,323
Charitable remainder and other trusts:		
Charitable remainder trusts	136,112	195,839
Receivables from charitable remainder and charitable lead trusts	1,859,701	1,697,522
Beneficial interest in perpetual trusts	1,264,296	1,235,404
Pooled income fund	76,348	76,688
Total charitable remainder and other trusts	3,336,457	3,205,453
Total split-interest agreements	$ 6,820,364	$ 6,561,776

Liabilities under split-interest agreements included in the accompanying statements of financial position were $2,213,432 and $2,263,805 at September 30, 2013 and 2012, respectively. Net contributions under split-interest agreements were approximately $152,989 and $101,408 for the years ended September 30, 2013 and 2012, respectively.

8. Property and Equipment

Defenders held the following property and equipment at September 30:

	2013	2012
Land	$ 4,585,586	$ 4,585,586
Buildings and improvements	8,681,319	8,681,319
Computer equipment	1,631,184	1,618,458
Furniture and equipment	739,625	636,416
Website	792,084	730,561
Total property and equipment	16,429,798	16,252,340
Less: accumulated depreciation	(5,914,131)	(5,349,002)
Property and equipment, net	$ 10,515,667	$ 10,903,338

9. Bonds and Loan Payable

Defenders participated in the District of Columbia's tax-exempt bond program to help with the financing of its 2002 building purchase. Total debt assumed was $7,000,000. The bonds carry a variable interest rate and are marketed by Bank of America ("the Bank") under a 10-year letter of credit. The term of the bonds was 27 years, with interest-only for the first 2 years. Annual principal payments commenced July 1, 2005.

Defenders also entered into an interest rate swap agreement to manage the interest cost and risk associated with its outstanding bond debt. The interest rate swap agreement was not entered into for trading or speculative purposes. Under the terms of this agreement, Defenders paid a fixed rate of 4.335% and received a variable rate on the respective notional principal amount, which was $5,710,000 at September 30, 2012. The initial maturity of the agreement was July 1, 2017, and it was collateralized by a first deed of trust on the building; however, the agreement was terminated on August 1, 2013, and the estimated cost to terminate this agreement was $984,865.

This financial instrument necessarily involves counterparty credit exposure. The counterparty for this swap transaction, the aforementioned Bank, is a major financial institution that meets Defenders' criteria for financial stability and creditworthiness. The fair value of the interest rate swap was computed and provided to Defenders by the Bank.

9. Bonds and Loan Payable (continued)

On August 1, 2013, Defenders refinanced the mortgage on its building by entering into an agreement for a new loan in the amount of $6,306,672, including redemption of the outstanding bond balance of $5,505,000 at the date of refinance. The new loan expires on August 1, 2020, and requires monthly payments of $35,898 with an interest rate of 3.29%. The outstanding principal balance on the loan at September 30, 2013 was $6,288,341.

Principal payments on the loan obligation are as follows for the years ending September 30:

2014	$	227,877
2015		234,903
2016		242,749
2017		250,857
2018		259,236
Thereafter		5,072,719
Total maturities	$	6,288,341

There are a number of financial and operating covenants associated with the loan and with the Bank's participation in the project, including a requirement for maintaining $2,000,000 in unsecured liquid assets. Defenders was in compliance with all terms and conditions of the debt instruments at September 30, 2013 and 2012. Interest expense on the bonds and loan for the year ended September 30, 2013 was $250,447. Interest expense on the bonds for the year ended September 30, 2012 was $262,943.

10. Line of Credit Payable

In 2004, Defenders arranged a line of credit with the Bank for cash flow management purposes. The total amount available is $1,000,000, with interest at the LIBOR daily floating rate and a fee of 0.4% applied quarterly to the unused loan amount. There were no outstanding balances on the line of credit at September 30, 2013 and 2012.

11. Net Assets

At September 30, 2013, the unrestricted, temporarily restricted, and permanently restricted net assets are dedicated to the following purposes:

	Unrestricted				
	Undesignated	Defenders Designated	Temporarily Restricted	Permanently Restricted	Total
Undesignated	$ 4,600,547	$ -	$ -	$ -	$ 4,600,547
Land and building	3,597,163	-	-	-	3,597,163
Property and equipment	563,896	-	-	-	563,896
Program grants	-	6,719	5,176,520	-	5,183,239
Board-designated endowment	-	6,283,534	-	-	6,283,534
Charitable remainder and other trusts	-	-	1,911,326	-	1,911,326
Charitable gift annuities	-	-	1,873,563	-	1,873,563
Beneficial interest in perpetual trusts	-	-	-	1,264,295	1,264,295
Other endowment	-	-	-	145,951	145,951
Pooled income fund	-	-	76,350	-	76,350
Lloyd Symington Memorial Fund for Wildlife Education	-	162,512	-	36,944	199,456
Total net assets	$ 8,761,606	$ 6,452,765	$ 9,037,759	$ 1,447,190	$ 25,699,320

11. Net Assets (continued)

At September 30, 2012, the unrestricted, temporarily restricted, and permanently restricted net assets are dedicated to the following purposes:

	Unrestricted				
	Undesignated	Defenders Designated	Temporarily Restricted	Permanently Restricted	Total
Undesignated	$ 2,593,599	$ -	$ -	$ -	$ 2,593,599
Land and building	4,522,076	-	-	-	4,522,076
Property and equipment	669,294	-	-	-	669,294
Program grants	-	6,719	3,371,603	-	3,378,322
Board-designated endowment	-	6,020,012	-	-	6,020,012
Charitable remainder and other trusts	-	-	1,806,754	-	1,806,754
Charitable gift annuities	-	-	1,697,929	-	1,697,929
Beneficial interest in perpetual trusts	-	-	-	1,235,404	1,235,404
Other endowment	-	-	-	145,868	145,868
Pooled income fund	-	-	76,691	-	76,691
Lloyd Symington Memorial Fund for Wildlife Education	-	162,512	-	36,924	199,436
Walter Kuhlmann Memorial Fund for Wildlife Litigation	-	37,316	-	-	37,316
Total net assets	$ 7,784,969	$ 6,226,559	$ 6,952,977	$ 1,418,196	$ 22,382,701

11. Net Assets (continued)

Board Designated Endowment

Defenders maintains a Board designated endowment fund to provide for the long-term needs of the organization. Income from the fund may be used for operating costs and unrestricted Board designated activities.

Program Grants

Defenders receives a number of program-specific grants that are often expended over more than one fiscal year. The unused grant funds that are not expended at the end of the fiscal year are carried over to the next fiscal year, and are classified as temporarily restricted net assets until appropriate expenses are incurred in accordance with the program restrictions.

Split-Interest Agreements

As discussed in Note 2 above, Defenders is party to various split-interest agreements with donors, including irrevocable charitable remainder trusts, charitable gift annuities, perpetual trusts, pooled income funds, and similar arrangements. Certain revenues from these arrangements are restricted for the purposes or time periods specified in the arrangements.

Lloyd Symington Memorial Fund for Wildlife Education

The Board of Directors designated this separate fund to strengthen Defenders' ability to respond to requests for wildlife information from school children, teachers, and the general public, and to enable Defenders to expand its other educational activities. The balance, including amounts that are permanently restricted, was $199,456 and $199,436 for the years ended September 30, 2013 and 2012, respectively.

Walter Kuhlmann Memorial Fund for Wildlife Litigation

Defenders established the Walter Kuhlmann Memorial Fund for Wildlife Litigation in 1998. Income generated by the fund is used to supplement Defenders' litigation program on behalf of threatened or endangered wildlife species and their habitats. The balance was $0 and $37,316 for the years ended September 30, 2013 and 2012, respectively.

11. Net Assets (continued)

Undesignated and Other Funds

Undesignated funds represent unrestricted amounts that have not been specifically set aside by the Board for an internally-designated purpose. These amounts are available for general operations. Certain amounts included in undesignated funds are tracked separately for purposes of future property and equipment needs.

12. Endowment

Defenders' endowment (permanently restricted net assets) has been funded by donor-restricted contributions to be held in perpetuity, the earnings of which can be used to fund either specific programs or general operations. In addition, Defenders maintains a Board-designated endowment fund to provide for the long-term needs of the organization. Under accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of Defenders has interpreted the District of Columbia's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, Defenders classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Defenders in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, Defenders considers the following factors in making a determination to appropriate or accumulate donor-restricted funds: (1) duration and preservation of the fund; (2) purposes of Defenders and the donor-restricted endowment fund; (3) general economic conditions; (4) possible effect of inflation and deflation; (5) expected total return from income and the appreciation or depreciation of investments; (6) other resources of Defenders; and (7) investment policies of Defenders.

12. Endowment (continued)

Endowment net asset composition was as follows for the years ended June 30:

Composition of Endowment Net Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2013:				
Donor-restricted endowment funds	$ -	$ -	$ 1,447,190	$ 1,447,190
Board designated endowment funds	6,283,534	-	-	6,283,534
Total endowment funds	$ 6,283,534	$ -	$ 1,447,190	$ 7,730,724
2012:				
Donor-restricted endowment funds	$ -	$ -	$ 1,418,196	$ 1,418,196
Board designated endowment funds	6,020,012	-	-	6,020,012
Total endowment funds	$ 6,020,012	$ -	$ 1,418,196	$ 7,438,208

Changes in Endowment Net Assets

Changes in endowment net assets were as follows for the year ended September 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning	$ 6,020,012	$ -	$ 1,418,196	$ 7,438,208
Investment return:				
Net appreciation	263,522	-	102	263,624
Change in value in split interest agreements	-	-	28,892	28,892
Total investment return	263,522	-	28,994	292,516
Contributions	-	-	-	-
Reclassification	-	-	-	-
Endowment net assets, ending	$ 6,283,534	$ -	$ 1,447,190	$ 7,730,724

12. Endowment (continued)

Changes in Endowment Net Assets (continued)

Changes in endowment net assets were as follows for the year ended September 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning	$ 5,063,712	$ -	$ 1,292,246	$ 6,355,958
Investment return:				
Net appreciation	956,300	-	2,102	958,402
Change in value in split interest agreements	-	-	123,848	123,848
Total investment return	956,300	-	125,950	1,082,250
Contributions	-	-	-	-
Reclassification	-	-	-	-
Endowment net assets, ending	$ 6,020,012	$ -	$ 1,418,196	$ 7,438,208

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature would be reported by Defenders in unrestricted net assets. There were no fund deficiencies for the years ended September 30, 2013 and 2012.

Return Objectives, Risk Parameters, and Strategies

Defenders follows a conservative investment policy for endowment assets that attempts to preserve fully the original corpus and optimize returns. Should significant, new donations be made to the endowment assets, Defenders' investment policy would permit a strategy of long term growth of the endowment assets. Under such a policy, the endowment assets would be invested in a manner that is intended to produce results exceeding major investment benchmarks while assuming a moderate level of risk.

13. Related Parties

Defenders is affiliated with a related 501(c)(4) organization, the Defenders of Wildlife Action Fund ("the Fund"). The Fund is also a District of Columbia nonprofit and was incorporated in 2001 to carry on public policy, social welfare, and advocacy work. Its mission is to educate people of all ages about wildlife, habitats, and other environmental activities. Defenders and the Fund have common staff, facilities, and overhead costs, with the appropriate shares of these expenses assigned to each organization under a formal cost-sharing agreement. During the years ended September 30, 2013 and 2012, the Fund's full portion of shared costs was $27,167 and $30,429, respectively. The Fund contributed $306,000 and $25,000 to Defenders during the years ended September 30, 2013 and 2012, respectively.

The Fund rented Defenders' membership list for educational and fundraising purposes. The total income to Defenders for these rentals was $412,110 and $0 for the years ended September 30, 2013 and 2012, respectively. In addition, Defenders rented the Fund's e-subscriber list for education, advocacy, and fundraising purposes. The total income to the Fund for these rentals was $959,496 and $260,962 for the years ended September 30, 2013 and 2012, respectively. Included in accounts payable is $244,883 due to the Fund at September 30, 2013, which was paid subsequent to year-end. Included in accounts receivable is $2,972 due from the Fund at September 30, 2012, which was received subsequent to year-end.

During the years ended September 30, 2013 and 2012, Defenders retained a public-service law firm affiliated with a member of Defenders' Board of Directors. The firm specializes in endangered species litigation and provides legal services at significantly discounted rates. The value of the work performed for Defenders in fiscal years 2013 and 2012 amounted to $74,305 and $117,706, respectively, of which $70,000 and $89,475 are represented as in-kind donation for the years then ended.

14. Retirement Plan

<u>Money Purchase Pension Plan</u>

A money purchase pension plan was established by Defenders under section 401(a) of the Internal Revenue Code (IRC), covering substantially all employees. Employees are eligible for participation after one year of service and are vested ratably over five years of service. Defenders' required contribution to the plan is 7% of each participant's aggregate compensation. Employee contributions are not permissible under the plan. Current pension costs are funded as they accrue. Total pension expense was $439,726 and $588,789 for the years ended September 30, 2013 and 2012, respectively.

14. Retirement Plan (continued)

Deferred Compensation Plan

Defenders maintained a non-qualified deferred compensation plan for the former President as a means of providing a supplemental benefit. During 2012, the President retired and the plan assets were paid out. Accordingly, the deferred compensation assets and corresponding liabilities were $0 at September 30, 2012.

15. Commitments

Operating Lease

Defenders is obligated under the terms of non-cancellable operating leases for the rental of office and storage space for several of its field locations. Rental expense for all leases for the years ended September 30, 2013 and 2012, using the straight-line method, amounted to $187,105 and $176,132, respectively.

Future minimum lease payments are as follows for the years ending September 30:

2014	$ 103,238
2015	94,901
2016	51,011
2017	7,441
Total future minimum payments	$ 256,591

Capital Lease

Defenders leases office equipment under capital leases, which extend through 2018. The assets and liabilities under capital leases were recorded at the lower of their present value of the minimum lease payments or the fair value of the asset. The assets are being depreciated over the related lease terms. This leased equipment is included in property and equipment in the accompanying statements of financial position at a capitalized cost of $71,000 at September 30, 2013, net of accumulated depreciation of $4,733, as of September 30, 2013.

15. Commitments (continued)

Capital Lease (continued)

The interest expense associated with these leases for the year ended September 30, 2013 was $7,551. Payments under the capital leases are due as follows:

2014	$	28,752
2015		28,752
2016		28,752
2017		28,752
2018		19,168
Total		134,176
Less: amounts representing interest		(65,209)
Total capital lease obligations	$	68,967

16. Allocation of Joint Costs

Defenders achieves some of its programmatic, management, and general goals through direct response and similar campaigns that include requests for contributions. In the years ended September 30, 2013 and 2012, Defenders incurred joint costs for its direct response programs of $5,230,773 and $5,964,773, respectively, including information materials and fundraising appeals.

These joint costs were allocated as follows for the years ended September 30:

	2013		2012	
ESA	$	369,697	$	442,428
Key Species		3,073,301		3,677,918
Habitat		156,846		187,703
Fundraising		1,009,335		766,875
Management and general		621,594		889,849
Total allocated joint costs	$	5,230,773	$	5,964,773

17. Supplemental Disclosure of Cash Flow Information

Total cash payments for interest were $242,896 and $262,943 for the years ended September 30, 2013 and 2012, respectively.

18. Income Taxes

Under §501(c)(3) of the IRC, Defenders is exempt from the payment of taxes on income other than net unrelated business income. Defenders was granted non-private foundation status under IRC §509(a)(1) and IRC §170(b)(1)(A)(vi). No provision for taxes has been made as there were no significant taxes resulting from unrelated business activities during fiscal years 2013 and 2012. Defenders has elected to be subject to the lobbying limitations under IRC §501(h). Defenders had no significant uncertain tax positions at September 30, 2013 and 2012.