

**Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund**

Consolidated Financial Statements  
and Independent Auditors' Report

September 30, 2019 and 2018

**Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund**

Consolidated Financial Statements  
September 30, 2019 and 2018

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

We have audited the accompanying consolidated financial statements of Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund (collectively, "Defenders"), which comprise the consolidated statement of financial position as of September 30, 2019; the consolidated statements of activities, functional expenses, and cash flows for the year then ended; and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated 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 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 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 Defenders as of September 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As disclosed in Note 2 to the consolidated financial statements, Defenders adopted Financial Accounting Standards Board Accounting Standards Update 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this standard resulted in the issuance of the consolidated statement of functional expenses, additional footnote disclosures, and changes to the classification of net assets. Our opinion is not modified with respect to this matter.

***Other Matter***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included on pages 33-36 is presented for purposes of additional analysis 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 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.

***Report on Summarized Comparative Information***

We have previously audited Defenders' September 30, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 28, 2019. In our opinion, the summarized comparative information presented herein, as of and for the year ended September 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Vienna, Virginia  
February 20, 2020

**Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund**

Consolidated Statements of Financial Position  
September 30, 2019 and 2018

	2019	2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,938,654	\$ 6,340,469
Short-term investments	5,646,095	4,905,649
Investments – annuity reserve fund	3,676,917	3,658,716
Bequests and trusts receivable	1,418,920	1,316,437
Grants and contributions receivable, current portion	1,833,751	1,451,023
Accounts receivable	296,097	345,635
Prepaid expenses	1,073,306	1,026,062
Inventory	706,429	859,597
Total current assets	<u>19,590,169</u>	<u>19,903,588</u>
Long-term investments	12,717,552	9,681,197
Grants and contributions receivable, long-term, net	24,335	1,283,257
Beneficial interests in trusts	2,610,054	2,647,448
Property and equipment, net	9,508,179	9,954,886
Deferred compensation	90,385	72,655
Total assets	<u>\$ 44,540,674</u>	<u>\$ 43,543,031</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,001,907	\$ 1,797,450
Annuity and other split-interest obligations, current portion	324,647	309,000
Capital lease obligation, current portion	22,980	19,914
Deferred revenue	1,272	153,211
Total current liabilities	<u>2,350,806</u>	<u>2,279,575</u>
Annuity and other split-interest obligations, long-term	1,923,462	1,948,685
Deferred compensation	90,385	72,655
Capital lease obligation, net of current portion	54,399	77,379
Total liabilities	<u>4,419,052</u>	<u>4,378,294</u>
<b>Net Assets</b>		
Without donor restrictions	26,757,085	26,166,620
With donor restrictions	13,364,537	12,998,117
Total net assets	<u>40,121,622</u>	<u>39,164,737</u>
Total liabilities and net assets	<u>\$ 44,540,674</u>	<u>\$ 43,543,031</u>

**Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund**

Consolidated Statement of Activities  
For the Year Ended September 30, 2019  
(With Comparative Totals for the Year Ended September 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
<b>Revenue and Support</b>				
Grants and contributions	\$ 20,584,788	\$ 4,486,087	\$ 25,070,875	\$ 28,623,914
Contributed goods and services	5,145,841	-	5,145,841	4,058,726
Bequests	5,826,382	845,798	6,672,180	8,627,116
Royalties	658,862	-	658,862	727,605
Investment income	753,755	8,643	762,398	650,915
Split-interest contributions	-	85,430	85,430	109,405
Change in value of split interests	37,359	(95,045)	(57,686)	104,699
Mailing list royalties	216,429	-	216,429	211,373
Rental income	12,724	-	12,724	7,568
Other income	370,943	-	370,943	420,565
Released from restrictions – program	4,964,493	(4,964,493)	-	-
<b>Total revenue and support</b>	<b>38,571,576</b>	<b>366,420</b>	<b>38,937,996</b>	<b>43,541,886</b>
<b>Expenses</b>				
Program services:				
Biodiversity conservation	15,722,183	-	15,722,183	-
Constituency mobilization	16,380,993	-	16,380,993	-
Legislative advocacy	25,000	-	25,000	-
ESA	-	-	-	9,262,055
Key Species	-	-	-	11,774,891
Habitat	-	-	-	8,752,324
<b>Total program services</b>	<b>32,128,176</b>	<b>-</b>	<b>32,128,176</b>	<b>29,789,270</b>
Supporting services:				
Management and general	4,757,978	-	4,757,978	4,675,581
Fundraising	1,094,957	-	1,094,957	951,701
<b>Total supporting services</b>	<b>5,852,935</b>	<b>-</b>	<b>5,852,935</b>	<b>5,627,282</b>
<b>Total expenses</b>	<b>37,981,111</b>	<b>-</b>	<b>37,981,111</b>	<b>35,416,552</b>
<b>Change in Net Assets</b>	<b>590,465</b>	<b>366,420</b>	<b>956,885</b>	<b>8,125,334</b>
<b>Net Assets, beginning of year</b>	<b>26,166,620</b>	<b>12,998,117</b>	<b>39,164,737</b>	<b>31,039,403</b>
<b>Net Assets, end of year</b>	<b>\$ 26,757,085</b>	<b>\$ 13,364,537</b>	<b>\$ 40,121,622</b>	<b>\$ 39,164,737</b>

See accompanying notes.

**Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund**

Consolidated Statement of Functional Expenses  
For the Year Ended September 30, 2019  
(With Comparative Totals for the Year Ended September 30, 2018)

	Program Services			Total Program Services	Supporting Services			2019 Total	2018 Total
	Biodiversity Conservation	Constituency Mobilization	Legislative Advocacy		Management and General	Fundraising	Total Supporting Services		
Salaries and wages	\$ 5,657,641	\$ 3,539,504	\$ -	\$ 9,197,145	\$ 1,584,548	\$ 341,808	\$ 1,926,356	\$ 11,123,501	\$ 10,019,818
Payroll taxes and benefits	1,542,968	964,388	-	2,507,356	430,080	94,329	524,409	3,031,765	2,713,272
Professional fundraising fees	-	1,030,456	-	1,030,456	112,058	57,753	169,811	1,200,267	1,706,146
Other professional fees	724,602	823,852	-	1,548,454	115,348	58,308	173,656	1,722,110	1,487,503
Grants and contributions	1,104,224	94,843	25,000	1,224,067	4,047	3,827	7,874	1,231,941	1,321,374
Computer services	24,514	771,794	-	796,308	277,319	30,463	307,782	1,104,090	1,179,368
Conference fees	24,591	10,267	-	34,858	2,286	451	2,737	37,595	36,343
Advertising	28,190	662,692	-	690,882	22,555	1,526	24,081	714,963	387,750
Membership incentives and fulfillment	-	1,133,997	-	1,133,997	130	837	967	1,134,964	935,168
Supplies	109,675	33,385	-	143,060	6,514	976	7,490	150,550	88,621
Telephone	43,576	23,388	-	66,964	136,286	1,548	137,834	204,798	189,652
Postage and shipping	15,057	3,704,046	-	3,719,103	485,432	250,791	736,223	4,455,326	4,098,189
Occupancy and other	459,717	215,545	-	675,262	126,328	9,975	136,303	811,565	825,646
Equipment rental and maintenance	21,119	13,624	-	34,743	6,303	639	6,942	41,685	31,803
Printing and publications	18,782	2,328,240	-	2,347,022	257,743	132,311	390,054	2,737,076	3,101,987
Travel	320,080	133,904	-	453,984	35,328	12,026	47,354	501,338	492,503
Conferences, conventions, and meetings	50,286	30,418	-	80,704	23,079	62,227	85,306	166,010	278,340
Training	6,604	4,379	-	10,983	5,516	180	5,696	16,679	17,192
Interest	6,956	4,337	-	11,293	2,156	218	2,374	13,667	190,093
Depreciation	393,934	245,597	-	639,531	122,086	12,373	134,459	773,990	738,958
Amortization of cost of issuing debt	-	-	-	-	-	-	-	-	32,873
Loss on asset disposal	-	-	-	-	-	-	-	-	682
Honoraria	249	62	-	311	-	-	-	311	101
Staffing and temporary help	3,214	1,756	-	4,970	21,849	106	21,955	26,925	16,136
List rentals	-	243,310	-	243,310	14,588	10,887	25,475	268,785	253,268
Insurance	44,422	27,650	-	72,072	13,730	1,391	15,121	87,193	86,359
Royalties	2,607	14,096	-	16,703	128	368	496	17,199	15,386
Taxes, fees, and licenses	142,553	89,142	-	231,695	54,380	4,507	58,887	290,582	271,957
Dues and subscriptions	52,161	78,632	-	130,793	9,548	4,051	13,599	144,392	102,820
Proactive projects	15,362	3,841	-	19,203	-	-	-	19,203	45,078
DR transaction fees/bank fees	-	-	-	-	806,801	-	806,801	806,801	695,935
Contributed services	4,909,099	153,848	-	5,062,947	81,812	1,081	82,893	5,145,840	4,056,231
<b>Total Expenses</b>	<b>\$ 15,722,183</b>	<b>\$ 16,380,993</b>	<b>\$ 25,000</b>	<b>\$ 32,128,176</b>	<b>\$ 4,757,978</b>	<b>\$ 1,094,957</b>	<b>\$ 5,852,935</b>	<b>\$ 37,981,111</b>	<b>\$ 35,416,552</b>

See accompanying notes.

**Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund**

Consolidated Statements of Cash Flows  
For the Years Ended September 30, 2019 and 2018

	2019	2018
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 956,885	\$ 8,125,334
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	773,990	738,958
Net realized and unrealized gains on investments	(423,576)	(402,794)
Donated securities	(550,146)	(400,824)
Change in value of charitable remainder and other trusts	37,394	(39,276)
Change in value of annuity reserve fund	(18,201)	81,587
Change in discount on grants and contributions receivable	(36,078)	36,164
Amortization of cost of issuing debt	-	32,873
Net loss on disposal of property and equipment	-	682
Change in operating assets and liabilities:		
(Increase) decrease in:		
Bequests and trusts receivable	(102,483)	680,983
Grants and contributions receivable	912,272	(2,413,450)
Accounts receivable	49,538	(54,877)
Prepaid expenses	(47,244)	(214,328)
Inventory	153,168	(37,951)
Deferred compensation	(17,730)	(16,987)
Increase (decrease) in:		
Accounts payable and accrued expenses	204,457	148,276
Annuity and other split-interest obligations	(9,576)	(102,057)
Deferred revenue	(151,939)	152,593
Deferred compensation	17,730	16,987
Net cash provided by operating activities	<u>1,748,461</u>	<u>6,331,893</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	9,324,051	4,584,871
Purchase of investments	(12,127,130)	(4,820,365)
Purchase of property and equipment	<u>(327,283)</u>	<u>(893,056)</u>
Net cash used in investing activities	<u>(3,130,362)</u>	<u>(1,128,550)</u>
<b>Cash Flows from Financing Activities</b>		
Payments on loan principal	-	(5,344,481)
Principal payments under capital lease	<u>(19,914)</u>	<u>(17,256)</u>
Net cash used in financing activities	<u>(19,914)</u>	<u>(5,361,737)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(1,401,815)	(158,394)
<b>Cash and Cash Equivalents, beginning of year</b>	<u>6,340,469</u>	<u>6,498,863</u>
<b>Cash and Cash Equivalents, end of year</b>	<u>\$ 4,938,654</u>	<u>\$ 6,340,469</u>

See accompanying notes.



# Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

## 1. Nature of Operations

Defenders of Wildlife (DOW) is a District of Columbia nonprofit corporation founded in 1947. DOW is a national, nonprofit membership organization dedicated to the protection of all native animals and plants in their natural communities. Programs are primarily funded through grants and contributions.

Defenders of Wildlife Action Fund (“the Action Fund”) was incorporated on June 22, 2017 in the District of Columbia. The Action Fund is a national nonprofit social welfare organization, whose only member is DOW. The Action Fund was organized for the purpose of protecting wildlife, natural habitats, and the environment by educating people about wildlife, and advocating for laws, regulations, and policies that will positively affect wildlife, habitats, and the environment.

## 2. Summary of Significant Accounting Policies

### Principles of Consolidation

Consolidated financial statements are presented due to varying degrees of control and financial interests between DOW and the Action Fund. DOW and the Action Fund share certain personnel and overhead costs, with the shared costs allocated between the two entities based on a resource-sharing and expense reimbursement agreement. All significant intercompany balances and transactions are eliminated in consolidation. Except when referred to separately, both entities are collectively referred to as “Defenders” throughout the accompanying consolidated financial statements and related notes.

### Basis of Accounting and Presentation

Defenders’ consolidated financial statements are prepared on the accrual basis of accounting. Net assets are reported based on the presence or absence of donor-imposed restrictions in the following classes:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 2. Summary of Significant Accounting Policies (continued)

#### Basis of Accounting and Presentation (continued)

- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

#### 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 consolidated statements of financial position approximate fair value because of the short-term maturities of the instruments.

#### Investments

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.

#### Grants and Contributions Receivable

All grants and contributions receivable 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 the year ended September 30, 2019 were discounted at an average annual rate of 2.81%, using a rate that considers market and credit risk. Amounts receivable in more than one year initially recorded in the year ended September 30, 2018 were discounted at an average annual rate of 2.81%, using a rate that considers market and credit risk. Defenders' policy is to write off uncollectible grants and contributions receivable when management determines the receivable will not be collected. All grants and contributions receivable were deemed fully collectible at September 30, 2019 and 2018.

## **Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund**

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### **2. Summary of Significant Accounting Policies (continued)**

#### 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, 2019 and 2018, as all amounts are deemed fully collectible.

#### Inventory

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

#### 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.

The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended September 30, 2019 and 2018.

## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 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 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Contributions with donor restrictions to the endowment corpus 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 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 events held in subsequent fiscal periods. Deferred revenue is recognized as earned in the period corresponding to the services performed or activity conducted.

All other revenues are recognized when earned.

#### Assets Held and Liabilities Under 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.

## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 2. Summary of Significant Accounting Policies (continued)

#### Assets Held and Liabilities Under Split-Interest Agreements (continued)

##### *Charitable Remainder Trusts*

Defenders acts as trustee for various irrevocable charitable remainder trusts. These trusts are governed by the respective trust agreements, which generally provide for either an income stream or a future distribution of cash, in whole or in part, for a specified period or upon the occurrence of a specific event, respectively. The trust assets are recorded at fair value, and a related liability for future payments to be made to specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect assumptions market participants would use in pricing the liability. The excess of contributed assets over the trust liability is recorded as a contribution with donor restrictions until such amount is received via trust distribution or is expended in satisfaction of the donor-restricted purpose stipulated by the trust agreement, or both, if any. In subsequent years, the liability for future trust payments to the donor is reduced by payments made to the donor and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the fiscal year. Upon termination of the trust, the remaining liability is removed and recognized as income.

##### *Charitable Gift Annuities*

Under charitable gift annuity contracts, Defenders receives immediate and unrestricted title to contributed assets and agrees to make fixed recurring payments over the stipulated period. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability.

The excess of contributed assets over the annuity liability is recorded as a contribution with donor restrictions. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the fiscal year. Upon termination of the annuity contract, the remaining liability is removed and recognized as income.

In accordance with certain state laws, the charitable gift annuity reserve fund is invested primarily in money market funds, bonds, mutual funds, and fixed income investments.

## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 2. Summary of Significant Accounting Policies (continued)

#### Assets Held and Liabilities Under Split-Interest Agreements (continued)

##### *Charitable Gift Annuities (continued)*

As of September 30, 2019 and 2018, Defenders had sufficient funds in its reserve fund to meet the California Insurance Code (“the Code”) requirements, and those funds were invested in accordance with the Code.

##### *Pooled Income Fund*

In 1980, Defenders established a pooled income fund. The fund is divided into units, and contributions of many donors’ life-income gifts are pooled and invested as a group. Each donor is assigned a specific number of units based on the proportion of the fair value of their contributions to the total fair value of the pooled income fund on the date of the donor’s entry to the pooled fund. Until a donor’s death, the donor (or a designated beneficiary) is paid the actual income earned on the donor’s assigned units. Upon the donor’s death, the value of these assigned units reverts to Defenders.

#### Beneficial Interests in Trusts Held by Others

##### *Charitable Remainder Trusts Held by Others*

Defenders has been named as an irrevocable beneficiary of several charitable trusts held and administered by independent trustees. These trusts were created independently by donors and are administered by outside agents designated by the donors. Therefore, Defenders has neither possession nor control over the assets of the trusts. At the date Defenders receives notice of a beneficial interest, a contribution with donor restrictions is recorded in the consolidated statement of activities, and a beneficial interest in charitable trusts held by others is recorded in the consolidated statements of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, beneficial interests in the trusts are reported at fair value in the consolidated statements of financial position, with changes in fair value recognized in the consolidated statement of activities. Upon receipt of trust distributions or expenditures, or both, in satisfaction of the donor-restricted purpose, if any, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions.

## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 2. Summary of Significant Accounting Policies (continued)

#### Beneficial Interests in Trusts Held by Others (continued)

##### *Perpetual Trusts Held by Others*

Defenders was named as an irrevocable beneficiary of several perpetual trusts held and administered by a third-party trustee. Under the terms of the trust, Defenders has the irrevocable right to receive the income earned on the trust assets in perpetuity, but never receives the assets held in trust. The beneficial interests are recorded at fair value, which is measured using the fair value of the assets contributed to the trust. Distributions of the trusts' annual earnings are recorded as unrestricted income and any changes in the market value of the original gifts are reported as restricted gains and losses in the accompanying consolidated statement of activities.

#### Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### Contributed Goods and Services

Donated goods and services meeting the criteria for recognition under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Revenue Recognition – Contributions Received*, are recognized at fair value at the time of receipt. Defenders received donated services that benefit the general programs, and consist primarily of advertising, marketing, legal, and other professional services. The value of these donated services is included in the consolidated financial statements as both revenue and expense in the amounts of \$5,145,841 and \$4,056,231 for the years ended September 30, 2019 and 2018, respectively. Additionally, Defenders received donated goods that are recorded as revenue at their estimated fair values at the date of donation. The value of donated goods received during the years ended September 30, 2019 and 2018 was \$0 and \$2,495, respectively.

## **Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund**

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### **2. Summary of Significant Accounting Policies (continued)**

#### Advertising Costs

Defenders expenses advertising costs as incurred. Advertising expenses were \$714,963 and \$387,750 for the years ended September 30, 2019 and 2018, respectively.

#### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. 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.

#### Reclassifications

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the 2019 presentation. These reclassifications have no effect on the change in net assets previously reported.

#### Prior Year Information

The consolidated statement of activities includes 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' consolidated financial statements for the year ended September 30, 2018, from which the summarized information was derived.



## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 2. Summary of Significant Accounting Policies (continued)

#### Adopted Accounting Pronouncement

On August 18, 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Defenders has implemented ASU 2016-14 and has adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and availability footnote and the statement of functional expenses, which is permitted by the ASU in the year of adoption. The implementation had no impact on previously reported net assets.

#### Recently Issued Accounting Pronouncement

In August 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard provides clarifications on recognition of contributions and grants (including government grants). This standard is effective for Defenders' fiscal year 2020. Management continues to evaluate the potential impact of this update on Defenders' consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The update requires a lessee to recognize a right-of-use asset and lease liability, initially measured at the present value of the lease payments, in its consolidated statements of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. The guidance is effective beginning in Defenders' fiscal year 2021.

#### Subsequent Events

In preparing these consolidated financial statements, Defenders has evaluated events and transactions for potential recognition or disclosure through February 20, 2020, the date the consolidated financial statements were available to be issued.

## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 3. Liquidity and Availability

Financial assets that are available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following at September 30, 2019:

Cash and cash equivalents	\$	4,938,654
Short-term investments		5,646,095
Bequests and trusts receivable		1,418,920
Accounts receivable		<u>296,097</u>
Total available for general expenditures	\$	<u><u>12,299,766</u></u>

Defenders' endowment funds consist of beneficial interests in perpetual trusts and other donor-restricted endowments to be held in perpetuity. Donor-restricted endowment funds are not available for general expenditures.

### 4. Concentration of Credit Risk

Financial instruments that potentially subject Defenders to significant concentrations of credit risk consist of cash and cash equivalents, and investments. Defenders maintains cash deposits and investments with various financial institutions that may, from time to time, exceed insurable limits under the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). Defenders has not experienced any losses on its cash and cash equivalents, 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.

## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 5. Investments and Fair Value Measurements

#### Fair Value Measurements

Defenders follows FASB ASC 820, *Fair Value Measurements and Disclosures*, for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The inputs used in measuring fair value are categorized into three 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. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to Defenders' assessment of the quality, risk, or liquidity profile of the asset or liability.

In general, and where applicable, Defenders uses quoted prices in active markets for identical assets and quoted market prices for similar assets in markets that are not active to determine fair value. This pricing methodology applies to Level 1 and Level 2 investments.

## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 5. Investments and Fair Value Measurements (continued)

The following table presents Defenders' fair value hierarchy for those assets measured on a recurring basis as of September 30, 2019:

	Level 1	Level 2	Level 3	Total fair value
<b>Investments:</b>				
Money market funds	\$ 1,416,737	\$ -	\$ -	\$ 1,416,737
Short-term bonds	104,915	-	-	104,915
<b>Mutual funds:</b>				
Equity	7,877,718	-	-	7,877,718
Fixed income	7,346,237	-	-	7,346,237
Hedge funds	-	1,500,000	-	1,500,000
Tangible assets	118,040	-	-	118,040
<b>Total investments</b>	<b>16,863,647</b>	<b>1,500,000</b>	<b>-</b>	<b>18,363,647</b>
<b>Annuity reserve fund:</b>				
Money market funds	187,460	-	-	187,460
Fixed income	2,214,918	-	-	2,214,918
Equity	1,274,539	-	-	1,274,539
<b>Total annuity reserve fund</b>	<b>3,676,917</b>	<b>-</b>	<b>-</b>	<b>3,676,917</b>
<b>Beneficial interests in trusts:</b>				
Charitable remainder trusts	284,423	-	907,460	1,191,883
Pooled income fund	-	87,545	-	87,545
Perpetual trusts	-	-	1,330,626	1,330,626
<b>Total beneficial interests in trusts</b>	<b>284,423</b>	<b>87,545</b>	<b>2,238,086</b>	<b>2,610,054</b>
<b>Deferred compensation:</b>				
Mutual funds	90,385	-	-	90,385
<b>Total assets at fair value</b>	<b>\$ 20,915,372</b>	<b>\$ 1,587,545</b>	<b>\$ 2,238,086</b>	<b>\$ 24,741,003</b>

## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 5. Investments and Fair Value Measurements (continued)

The following table presents Defenders' fair value hierarchy for those assets measured on a recurring basis as of September 30, 2018:

	Level 1	Level 2	Level 3	Total fair value
Investments:				
Money market funds	\$ 1,203,625	\$ -	\$ -	\$ 1,203,625
Short-term bonds	99,060	-	-	99,060
Mutual funds:				
Equity	6,110,121	-	-	6,110,121
Fixed income	5,998,677	-	-	5,998,677
Hedge funds	-	1,079,517	-	1,079,517
Tangible assets	95,846	-	-	95,846
<b>Total investments</b>	<b>13,507,329</b>	<b>1,079,517</b>	<b>-</b>	<b>14,586,846</b>
Annuity reserve fund:				
Money market funds	216,858	-	-	216,858
Fixed income	2,166,948	-	-	2,166,948
Equity	1,274,910	-	-	1,274,910
<b>Total annuity reserve fund</b>	<b>3,658,716</b>	<b>-</b>	<b>-</b>	<b>3,658,716</b>
Beneficial interests in trusts:				
Charitable remainder trusts	284,116	-	938,417	1,222,533
Pooled income fund	-	85,212	-	85,212
Perpetual trusts	-	-	1,339,703	1,339,703
<b>Total beneficial interests in trusts</b>	<b>284,116</b>	<b>85,212</b>	<b>2,278,120</b>	<b>2,647,448</b>
Deferred compensation:				
Mutual funds	72,655	-	-	72,655
<b>Total assets at fair value</b>	<b>\$ 17,522,816</b>	<b>\$ 1,164,729</b>	<b>\$ 2,278,120</b>	<b>\$ 20,965,665</b>

## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 5. Investments and Fair Value Measurements (continued)

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

#### Investments

##### *Level 1*

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

##### *Level 2*

When quoted market prices for similar assets are available in markets that are not active, securities are classified within Level 2 of the valuation hierarchy. Level 2 includes hedge funds. The hedge funds are comprised of tracker funds, debt funds, global credit securities, and research funds. These hedge funds are measured in quantifiable units at quoted market prices on a monthly basis by the broker, and the broker's pricing methodology is assessed when determining the fair value hierarchy. Due to the frequency of the availability of market quotations, the hedge funds held by Defenders at September 30, 2019 and 2018 are categorized as Level 2 in the valuation hierarchy.

#### Annuity Reserve Fund

##### *Level 1*

Annuity reserve fund is primarily invested in money market funds, bonds, mutual funds, and fixed income investments, which are valued at fair value based on quoted market prices of the underlying investments, and therefore classified as Level 1.

#### Beneficial Interests in Trusts

##### *Level 1*

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.

## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 5. Investments and Fair Value Measurements (continued)

#### Beneficial Interests in Trusts (continued)

##### *Level 2*

Pooled income fund consists primarily of fixed income equity mutual funds that are valued at price per unit of shares held by Defenders at year end and are based on quoted market prices in active markets.

##### *Level 3*

The fair values of beneficial interests in charitable and perpetual trusts are determined by using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and are based on the fair values of trust investments as reported by the trustees. These are considered to be Level 3 measurements. The following table is a rollforward of the fair value measurements using unobservable inputs (Level 3):

	Charitable Remainder Trusts	Interest in Perpetual Trusts	Total Assets
Value at September 30, 2017	\$ 925,053	\$ 1,328,229	\$ 2,253,282
Change in value	13,364	11,474	24,838
Value at September 30, 2018	938,417	1,339,703	2,278,120
Change in value	(30,957)	(9,077)	(40,034)
Value at September 30, 2019	\$ 907,460	\$ 1,330,626	\$ 2,238,086

#### Investment Income

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

	2019	2018
Interest and dividends	\$ 409,258	\$ 315,681
Unrealized gains	345,068	242,118
Realized gains	78,508	160,676
Investment management fees	(70,436)	(67,560)
Total investment income	\$ 762,398	\$ 650,915

## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 6. Grants and Contributions Receivable

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

	2019	2018
Due in less than one year	\$ 1,833,751	\$ 1,451,023
Due in one to five years	25,000	1,320,000
Total grants and contributions receivable	1,858,751	2,771,023
Less: discount	(665)	(36,743)
Grants and contributions receivable, net	\$ 1,858,086	\$ 2,734,280

### 7. Split-Interest Agreements

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

	2019	2018
Investments – annuity reserve fund	\$ 3,676,917	\$ 3,658,716
Beneficial interests in trusts:		
Assets held by Defenders:		
Charitable remainder trusts	284,423	284,116
Pooled income fund	87,545	85,212
Assets held by a third party:		
Charitable remainder trusts	907,460	938,416
Perpetual trusts	1,330,626	1,339,704
Total beneficial interests in trusts	2,610,054	2,647,448
Total split-interest agreements	\$ 6,286,971	\$ 6,306,164

Liabilities under split-interest agreements included in the accompanying consolidated statements of financial position were \$2,248,109 and \$2,257,685 at September 30, 2019 and 2018, respectively. Net contributions under split-interest agreements were approximately \$85,430 and \$109,405 for the years ended September 30, 2019 and 2018, respectively.



## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 8. Property and Equipment

Defenders held the following property and equipment at September 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 4,585,586	\$ 4,585,586
Buildings and improvements	9,270,738	9,210,800
Computer equipment	3,059,272	2,973,107
Furniture and equipment	1,106,191	1,085,182
Website	<u>1,210,160</u>	<u>1,049,991</u>
Total property and equipment	19,231,947	18,904,666
Less: accumulated depreciation	<u>(9,723,768)</u>	<u>(8,949,780)</u>
Property and equipment, net	<u><u>\$ 9,508,179</u></u>	<u><u>\$ 9,954,886</u></u>

### 9. Loan Payable

On August 1, 2013, Defenders refinanced the mortgage on its headquarters building, executing a loan agreement in the amount of \$6,306,672. The loan was scheduled to expire on August 1, 2020, and required monthly payments of \$35,898 with an interest rate of 3.29%. Defenders paid off the outstanding principal of the loan on January 31, 2018 in the amount of \$5,239,128, plus the prepayment penalty of \$115,694. Total interest expense on the loan for the year ended September 30, 2018 was \$174,698. For the year ended September 30, 2018, the \$115,694 prepayment penalty was included in the total \$174,698 interest paid.

There were 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 \$2,500,000 in unsecured liquid assets. Defenders was in compliance with all terms and conditions of the debt instruments through the payoff of the loan on January 31, 2018.

## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 10. Net Assets

#### Net Assets Without Donor Restrictions

Net assets without donor restrictions consist of the following at September 30:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 17,248,906	\$ 16,211,734
Land and building	8,352,935	8,661,838
Property and equipment	<u>1,155,244</u>	<u>1,293,048</u>
Total net assets without donor restrictions	<u>\$ 26,757,085</u>	<u>\$ 26,166,620</u>

Net assets without donor restrictions include undesignated funds that have not been specifically set aside by the Board for an internally-designated purpose and are available for general operations, as well as funds designated for purposes of future property and equipment needs.

#### Net Assets With Donor Restrictions

##### *Subject to Expenditure for Specific Purpose*

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 net assets with donor restrictions until appropriate expenses are incurred in accordance with the program restrictions.

##### *Subject to the Passage of Time*

As discussed in Note 2, 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.

## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 10. Net Assets (continued)

#### Net Assets With Donor Restrictions (continued)

Net assets with donor restrictions are restricted for the following purposes or periods at September 30:

	2019	2018
Subject to expenditure for specific purpose:		
Program grants	\$ 8,965,875	\$ 8,597,737
Subject to the passage of time:		
Charitable remainder and other trusts	1,015,337	1,048,144
Charitable gift annuities	1,605,354	1,575,418
Pooled income fund	87,545	85,212
Lloyd Symington Memorial Fund for Wildlife Education	162,512	162,511
Total subject to the passage of time	2,870,748	2,871,285
Endowments:		
Beneficial interest in perpetual trusts	1,330,626	1,339,703
Harding Educational and Charitable Foundation	157,436	151,135
Lloyd Symington Memorial Fund for Wildlife Education	39,852	38,257
Total endowments	1,527,914	1,529,095
Total net assets with donor restrictions	\$ 13,364,537	\$ 12,998,117

## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 11. Endowment

Defenders' endowment includes beneficial interests in perpetual trusts and other donor-restricted contributions to be held in perpetuity, the earnings of which can be used to fund either specific programs or general operations. 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 net assets with donor restrictions (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.

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.

#### 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.

## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 11. Endowment (continued)

#### 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 net assets with donor restrictions. There were no fund deficiencies for the years ended September 30, 2019 and 2018.

#### Composition of Endowment Net Assets

Endowment net asset composition was as follows at September 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 1,527,914	\$ 1,527,914
Total endowment funds	\$ -	\$ 1,527,914	\$ 1,527,914

Endowment net asset composition was as follows at September 30, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 1,529,095	\$ 1,529,095
Total endowment funds	\$ -	\$ 1,529,095	\$ 1,529,095

## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 11. Endowment (continued)

#### Changes in Endowment Net Assets

Changes in endowment net assets were as follows for the year ended September 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning	\$ -	\$ 1,529,095	\$ 1,529,095
Investment return:			
Net appreciation	-	7,896	7,896
Change in value in perpetual trusts	-	(9,077)	(9,077)
Total investment return	-	(1,181)	(1,181)
Endowment net assets, ending	\$ -	\$ 1,527,914	\$ 1,527,914

Changes in endowment net assets were as follows for the year ended September 30, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning	\$ -	\$ 1,516,787	\$ 1,516,787
Investment return:			
Net appreciation	-	833	833
Change in value in perpetual trusts	-	11,475	11,475
Total investment return	-	12,308	12,308
Endowment net assets, ending	\$ -	\$ 1,529,095	\$ 1,529,095

## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 12. Deferred Compensation Plan

Defenders maintains a non-qualified deferred compensation 457(b) plan for the President as a means of providing a supplemental benefit. Defenders contributes 7% in the aggregate of the President's compensation to the money purchase pension plan and the 457(b) plan. The applicable statutory maximum is contributed initially to the money purchase pension plan, and the remaining amount is contributed to the 457(b) plan. Deferred compensation and investments designated for the deferrals are only available and taxable upon termination of employment, retirement, death, or an unforeseeable emergency. Until paid or made available to the participant or beneficiary, all deferred amounts, and investment earnings related thereto, are solely the property and rights of Defenders. At September 30, 2019 and 2018, the deferred compensation assets and a corresponding liability were \$90,385 and \$72,655, respectively.

### 13. Retirement Plan

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 \$558,957 and \$554,329 for the years ended September 30, 2019 and 2018, respectively.

### 14. Commitments

#### Operating Leases

Defenders is obligated under the terms of noncancellable 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, 2019 and 2018, using the straight-line method, amounted to \$331,116 and \$340,074, respectively.

## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 14. Commitments (continued)

#### Operating Leases (continued)

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

2020	\$	296,684
2021		283,837
2022		233,886
2023		204,556
2024		197,719
2025		122,312
		<hr/>
Total future minimum lease payments	\$	<u>1,338,994</u>

#### Capital Leases

Defenders leases office equipment under capital leases, which extend through 2022. 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 consolidated statements of financial position at a capitalized cost of \$115,878 at both September 30, 2019 and 2018, net of accumulated depreciation of \$48,283 and \$25,107 as of September 30, 2019 and 2018, respectively.

The interest expense associated with these leases for the years ended September 30, 2019 and 2018 was \$13,668 and \$15,396, respectively. Payments under the capital leases are due as follows for the years ending September 30:

2020	\$	32,652
2021		32,652
2022		29,931
		<hr/>
Total		95,235
Less: amounts representing interest		<u>(17,856)</u>
Capital lease obligations, net	\$	<u>77,379</u>



## Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### 15. 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. During the years ended September 30, 2019 and 2018, the costs of direct response programs included joint costs not directly attributable to any single function. The costs were allocated among the following functional expense categories as follows for the years ended September 30:

	2019	2018
Constituency mobilization	\$ 3,760,102	\$ -
ESA	-	188,013
Key Species	-	3,216,978
Habitat	-	196,508
Management and general	755,429	744,228
Fundraising	634,283	683,180
	<u>5,149,814</u>	<u>5,028,907</u>
Total allocated joint costs	<u>\$ 5,149,814</u>	<u>\$ 5,028,907</u>

### 16. Functionalized Expenses

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Defenders allocates the majority of its expenses utilizing an indirect cost allocation methodology. Expenses that are allocated include salaries and wages, employee benefits, and payroll taxes, which are allocated on the basis of estimates of time and effort. Additionally, the remaining expenses are allocated using a methodology that is calculated based on the estimates of personnel time spent on each function per type of natural expense category, and also a consideration of square footage of space and resources dedicated to a particular function.

### 17. Supplementary Disclosure of Cash Flow Information

Total interest expenses were \$13,667 and \$190,094 for the years ended September 30, 2019 and 2018, respectively. The interest expense of \$190,094 for the year ended September 30, 2018 included \$115,694 of a prepayment penalty for the loan payoff.

There were no noncash investing and financing transactions for the years ended September 30, 2019 and 2018.

## **Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund**

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### **18. Income Taxes**

Under IRC §501(c)(3), DOW is exempt from the payment of taxes on income other than net unrelated business income. DOW was granted nonprivate 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 2019 and 2018. DOW has elected to be subject to the lobbying limitations under IRC §501(h).

Under IRC §501(c)(4), the Action Fund is exempt from the payment of taxes on income other than net unrelated business income. For the periods ended September 30, 2019 and 2018, there was no unrelated business income and, accordingly, no federal or state income taxes have been recorded.

Management has evaluated Defenders' tax positions and concluded that Defenders had no significant uncertain tax positions at September 30, 2019 and 2018.

**SUPPLEMENTARY INFORMATION**

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**Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund**

Consolidating Schedule of Financial Position  
September 30, 2019

	<u>DOW</u>	<u>Action Fund</u>	<u>Elimination</u>	<u>Total</u>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 4,764,566	\$ 174,088	\$ -	\$ 4,938,654
Short-term investments	5,646,095	-	-	5,646,095
Investments – annuity reserve fund	3,676,917	-	-	3,676,917
Bequests and trusts receivable	1,418,920	-	-	1,418,920
Grants and contributions receivable, current portion	1,833,751	-	-	1,833,751
Accounts receivable	295,991	106	-	296,097
Prepaid expenses	1,073,306	-	-	1,073,306
Inventory	706,429	-	-	706,429
Total current assets	<u>19,415,975</u>	<u>174,194</u>	<u>-</u>	<u>19,590,169</u>
Long-term investments	12,717,552	-	-	12,717,552
Grants and contributions receivable, long-term, net	24,335	-	-	24,335
Beneficial interests in trusts	2,610,054	-	-	2,610,054
Property and equipment, net	9,508,179	-	-	9,508,179
Deferred compensation	90,385	-	-	90,385
Total assets	<u>\$ 44,366,480</u>	<u>\$ 174,194</u>	<u>\$ -</u>	<u>\$ 44,540,674</u>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 2,001,693	\$ 214	\$ -	\$ 2,001,907
Annuity and other split-interest obligations, current portion	324,647	-	-	324,647
Capital lease obligation, current portion	22,980	-	-	22,980
Deferred revenue	1,272	-	-	1,272
Total current liabilities	<u>2,350,592</u>	<u>214</u>	<u>-</u>	<u>2,350,806</u>
Annuity and other split-interest obligations, long-term	1,923,462	-	-	1,923,462
Deferred compensation	90,385	-	-	90,385
Capital lease obligation, net of current portion	54,399	-	-	54,399
Total liabilities	<u>4,418,838</u>	<u>214</u>	<u>-</u>	<u>4,419,052</u>
<b>Net Assets</b>				
Without donor restrictions	26,583,105	173,980	-	26,757,085
With donor restrictions	13,364,537	-	-	13,364,537
Total net assets	<u>39,947,642</u>	<u>173,980</u>	<u>-</u>	<u>40,121,622</u>
Total liabilities and net assets	<u>\$ 44,366,480</u>	<u>\$ 174,194</u>	<u>\$ -</u>	<u>\$ 44,540,674</u>

**Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund**

Consolidating Schedule of Financial Position  
September 30, 2018

	<u>DOW</u>	<u>Action Fund</u>	<u>Elimination</u>	<u>Total</u>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 6,157,941	\$ 182,528	\$ -	\$ 6,340,469
Short-term investments	4,905,649	-	-	4,905,649
Investments – annuity reserve fund	3,658,716	-	-	3,658,716
Bequests and trusts receivable	1,316,437	-	-	1,316,437
Grants and contributions receivable, current portion	1,451,023	-	-	1,451,023
Accounts receivable	345,567	68	-	345,635
Prepaid expenses	1,026,062	-	-	1,026,062
Inventory	859,597	-	-	859,597
Total current assets	<u>19,720,992</u>	<u>182,596</u>	<u>-</u>	<u>19,903,588</u>
Long-term investments	9,681,197	-	-	9,681,197
Grants and contributions receivable, long-term, net	1,283,257	-	-	1,283,257
Beneficial interests in trusts	2,647,448	-	-	2,647,448
Property and equipment, net	9,954,886	-	-	9,954,886
Deferred compensation	72,655	-	-	72,655
Total assets	<u>\$ 43,360,435</u>	<u>\$ 182,596</u>	<u>\$ -</u>	<u>\$ 43,543,031</u>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 1,797,242	\$ 208	\$ -	\$ 1,797,450
Annuity and other split-interest obligations, current portion	309,000	-	-	309,000
Capital lease obligation, current portion	19,914	-	-	19,914
Deferred revenue	153,211	-	-	153,211
Total current liabilities	<u>2,279,367</u>	<u>208</u>	<u>-</u>	<u>2,279,575</u>
Annuity and other split-interest obligations, long-term	1,948,685	-	-	1,948,685
Deferred compensation	72,655	-	-	72,655
Capital lease obligation, net of current portion	77,379	-	-	77,379
Total liabilities	<u>4,378,086</u>	<u>208</u>	<u>-</u>	<u>4,378,294</u>
<b>Net Assets</b>				
Without donor restrictions	25,984,232	182,388	-	26,166,620
With donor restrictions	12,998,117	-	-	12,998,117
Total net assets	<u>38,982,349</u>	<u>182,388</u>	<u>-</u>	<u>39,164,737</u>
Total liabilities and net assets	<u>\$ 43,360,435</u>	<u>\$ 182,596</u>	<u>\$ -</u>	<u>\$ 43,543,031</u>

**Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund**

Consolidating Schedule of Activities  
For the Year Ended September 30, 2019

	DOW		Action Fund		Elimination	Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions			
<b>Revenue and Support</b>						
Grants and contributions	\$ 20,564,788	\$ 4,486,087	\$ 20,000	\$ -	\$ -	\$ 25,070,875
Contributed goods and services	5,145,841	-	-	-	-	5,145,841
Bequests	5,826,382	845,798	-	-	-	6,672,180
Royalties	658,862	-	-	-	-	658,862
Investment income	752,844	8,643	911	-	-	762,398
Split-interest contributions	-	85,430	-	-	-	85,430
Change in value of split interests	37,359	(95,045)	-	-	-	(57,686)
Mailing list royalties	216,429	-	-	-	-	216,429
Rental income	12,724	-	-	-	-	12,724
Other income	371,182	-	-	(239)	-	370,943
Released from restrictions – programs	4,964,493	(4,964,493)	-	-	-	-
<b>Total revenue and support</b>	<b>38,550,904</b>	<b>366,420</b>	<b>20,911</b>	<b>(239)</b>		<b>38,937,996</b>
<b>Expenses</b>						
Program services:						
Biodiversity conservation	15,722,183	-	-	-	-	15,722,183
Constituency mobilization	16,380,993	-	-	-	-	16,380,993
Legislative advocacy	-	-	25,239	(239)	-	25,000
<b>Total program services</b>	<b>32,103,176</b>	<b>-</b>	<b>25,239</b>	<b>(239)</b>		<b>32,128,176</b>
Supporting services:						
Management and general	4,753,898	-	4,080	-	-	4,757,978
Fundraising	1,094,957	-	-	-	-	1,094,957
<b>Total supporting services</b>	<b>5,848,855</b>	<b>-</b>	<b>4,080</b>	<b>-</b>		<b>5,852,935</b>
<b>Total expenses</b>	<b>37,952,031</b>	<b>-</b>	<b>29,319</b>	<b>(239)</b>		<b>37,981,111</b>
<b>Change in Net Assets</b>	<b>598,873</b>	<b>366,420</b>	<b>(8,408)</b>	<b>-</b>		<b>956,885</b>
<b>Net Assets, beginning of year</b>	<b>25,984,232</b>	<b>12,998,117</b>	<b>182,388</b>	<b>-</b>		<b>39,164,737</b>
<b>Net Assets, end of year</b>	<b>\$ 26,583,105</b>	<b>\$ 13,364,537</b>	<b>\$ 173,980</b>	<b>\$ -</b>		<b>\$ 40,121,622</b>

**Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund**

Consolidating Schedule of Activities  
For the Year Ended September 30, 2018

	DOW		Action Fund		Elimination	Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions			
<b>Revenue and Support</b>						
Grants and contributions	\$ 20,690,930	\$ 7,806,984	\$ 126,000	\$ -	\$ -	\$ 28,623,914
Contributed goods and services	4,058,726	-	-	-	-	4,058,726
Bequests	7,595,782	1,031,334	-	-	-	8,627,116
Royalties	727,605	-	-	-	-	727,605
Investment income	649,123	1,544	248	-	-	650,915
Split-interest contributions	-	109,405	-	-	-	109,405
Change in value of split interests	154,359	(49,660)	-	-	-	104,699
Mailing list royalties	211,373	-	-	-	-	211,373
Rental income	7,568	-	-	-	-	7,568
Other income	424,345	-	-	(3,780)	-	420,565
Released from restrictions – programs	4,352,757	(4,352,757)	-	-	-	-
<b>Total revenue and support</b>	<b>38,872,568</b>	<b>4,546,850</b>	<b>126,248</b>	<b>(3,780)</b>	<b>-</b>	<b>43,541,886</b>
<b>Expenses</b>						
Program services:						
ESA	9,258,803	-	4,262	(1,010)	-	9,262,055
Key Species	11,771,639	-	4,262	(1,010)	-	11,774,891
Habitat	8,749,072	-	4,262	(1,010)	-	8,752,324
<b>Total program services</b>	<b>29,779,514</b>	<b>-</b>	<b>12,786</b>	<b>(3,030)</b>	<b>-</b>	<b>29,789,270</b>
Supporting services:						
Management and general	4,671,705	-	4,556	(680)	-	4,675,581
Fundraising	951,374	-	397	(70)	-	951,701
<b>Total supporting services</b>	<b>5,623,079</b>	<b>-</b>	<b>4,953</b>	<b>(750)</b>	<b>-</b>	<b>5,627,282</b>
<b>Total expenses</b>	<b>35,402,593</b>	<b>-</b>	<b>17,739</b>	<b>(3,780)</b>	<b>-</b>	<b>35,416,552</b>
<b>Change in Net Assets</b>	<b>3,469,975</b>	<b>4,546,850</b>	<b>108,509</b>	<b>-</b>	<b>-</b>	<b>8,125,334</b>
<b>Net Assets, beginning of year</b>	<b>22,514,257</b>	<b>8,451,267</b>	<b>73,879</b>	<b>-</b>	<b>-</b>	<b>31,039,403</b>
<b>Net Assets, end of year</b>	<b>\$ 25,984,232</b>	<b>\$ 12,998,117</b>	<b>\$ 182,388</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 39,164,737</b>