

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Consolidated Financial Statements
and Independent Auditors' Report

September 30, 2020 and 2019

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Consolidated Financial Statements
September 30, 2020 and 2019

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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, 2020; 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, 2020, 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 discussed in Note 2 to the consolidated financial statements, Defenders adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) and FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. 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, 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 20, 2020. In our opinion, the summarized comparative information presented herein, as of and for the year ended September 30, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Vienna, Virginia
February 18, 2021

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Consolidated Statements of Financial Position
September 30, 2020 and 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,079,917	\$ 4,938,654
Short-term investments	6,325,590	5,646,095
Investments – annuity reserve fund	3,828,955	3,676,917
Bequests and trusts receivable	497,513	1,418,920
Grants and contributions receivable, current portion	393,774	1,833,751
Accounts receivable	266,067	296,097
Prepaid expenses	1,168,825	1,073,306
Inventory	699,400	706,429
Total current assets	23,260,041	19,590,169
Long-term investments	13,890,884	12,717,552
Grants and contributions receivable, long-term, net	189,474	24,335
Beneficial interests in trusts	2,015,147	2,610,054
Property and equipment, net	9,140,388	9,508,179
Deferred compensation	122,181	90,385
Total assets	\$ 48,618,115	\$ 44,540,674
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,314,107	\$ 2,001,907
Annuity and other split-interest obligations, current portion	316,711	324,647
Capital lease obligation, current portion	26,519	22,980
Deferred revenue	1,310	1,272
Loan payable – Paycheck Protection Program	2,397,455	-
Total current liabilities	5,056,102	2,350,806
Annuity and other split-interest obligations, long-term	1,986,662	1,923,462
Deferred compensation	122,181	90,385
Capital lease obligation, net of current portion	27,880	54,399
Total liabilities	7,192,825	4,419,052
Net Assets		
Without donor restrictions	28,686,427	26,757,085
With donor restrictions	12,738,863	13,364,537
Total net assets	41,425,290	40,121,622
Total liabilities and net assets	\$ 48,618,115	\$ 44,540,674

See accompanying notes.

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Consolidated Statement of Activities
 For the Year Ended September 30, 2020
 (With Comparative Totals for the Year Ended September 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Revenue and Support				
Grants and contributions	\$ 21,654,068	\$ 5,266,568	\$ 26,920,636	\$ 25,070,875
Contributed goods and services	5,299,220	-	5,299,220	5,145,841
Bequests	6,071,424	68,690	6,140,114	6,672,180
Royalties	660,722	-	660,722	658,862
Investment return	1,355,552	6,458	1,362,010	762,398
Split-interest contributions	-	131,622	131,622	85,430
Change in value of split interests	155,014	11,541	166,555	(57,686)
Mailing list royalties	186,607	-	186,607	216,429
Rental income	15,568	-	15,568	12,724
Other income	636	-	636	370,943
Released from restrictions – program	6,110,553	(6,110,553)	-	-
Total revenue and support	41,509,364	(625,674)	40,883,690	38,937,996
Expenses				
Program services:				
Biodiversity conservation	16,974,614	-	16,974,614	15,722,183
Constituency mobilization	16,151,176	-	16,151,176	16,380,993
Legislative advocacy	-	-	-	25,000
Total program services	33,125,790	-	33,125,790	32,128,176
Supporting services:				
Management and general	5,252,168	-	5,252,168	4,757,978
Fundraising	1,202,064	-	1,202,064	1,094,957
Total supporting services	6,454,232	-	6,454,232	5,852,935
Total expenses	39,580,022	-	39,580,022	37,981,111
Change in Net Assets	1,929,342	(625,674)	1,303,668	956,885
Net Assets, beginning of year	26,757,085	13,364,537	40,121,622	39,164,737
Net Assets, end of year	\$ 28,686,427	\$ 12,738,863	\$ 41,425,290	\$ 40,121,622

See accompanying notes.

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2020
(With Comparative Totals for the Year Ended September 30, 2019)

	Program Services			Supporting Services			2020 Total	2019 Total
	Biodiversity Conservation	Constituency Mobilization	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Salaries and wages	\$ 6,540,191	\$ 3,651,240	\$ 10,191,431	\$ 1,817,455	\$ 366,002	\$ 2,183,457	\$ 12,374,888	\$ 11,123,501
Payroll taxes and benefits	1,881,566	1,051,944	2,933,510	524,698	104,099	628,797	3,562,307	3,031,765
Professional fundraising fees	-	735,700	735,700	100,185	89,281	189,466	925,166	1,200,267
Other professional fees	621,273	733,044	1,354,317	91,910	15,825	107,735	1,462,052	1,722,110
Grants and contributions	1,163,956	113,361	1,277,317	3,550	7,100	10,650	1,287,967	1,231,941
Computer services	27,284	853,489	880,773	375,529	46,906	422,435	1,303,208	1,104,090
Conference fees	13,316	8,096	21,412	1,675	324	1,999	23,411	37,595
Advertising	22,886	595,526	618,412	107,260	196,296	303,556	921,968	714,963
Membership incentives and fulfillment	-	1,321,342	1,321,342	932	170	1,102	1,322,444	1,134,964
Supplies	152,595	43,014	195,609	4,899	611	5,510	201,119	150,550
Telephone	42,761	22,453	65,214	99,802	1,524	101,326	166,540	204,798
Postage and shipping	13,671	3,264,922	3,278,593	454,012	171,768	625,780	3,904,373	4,455,326
Occupancy and other	481,569	206,240	687,809	131,472	9,668	141,140	828,949	811,565
Equipment rental and maintenance	21,877	12,609	34,486	6,632	679	7,311	41,797	41,685
Printing and publications	23,543	2,747,147	2,770,690	316,318	119,020	435,338	3,206,028	2,737,076
Travel	157,355	50,875	208,230	14,944	2,446	17,390	225,620	501,338
Conferences, conventions, and meetings	25,503	8,576	34,079	15,798	344	16,142	50,221	166,010
Training	11,840	4,650	16,490	132,262	18	132,280	148,770	16,679
Interest	4,519	2,658	7,177	11,207	145	11,352	18,529	13,667
Depreciation	378,676	222,760	601,436	118,995	12,183	131,178	732,614	773,990
Loss on asset disposal	4,007	2,357	6,364	1,259	129	1,388	7,752	-
Honoraria	200	50	250	-	-	-	250	311
Staffing and temporary help	2,963	1,356	4,319	18,506	107	18,613	22,932	26,925
List rentals	-	173,879	173,879	24,234	15,730	39,964	213,843	268,785
Insurance	48,472	28,514	76,986	15,232	1,560	16,792	93,778	87,193
Royalties	2,231	24,032	26,263	1,144	443	1,587	27,850	17,199
Taxes, fees, and licenses	142,566	84,149	226,715	49,934	4,619	54,553	281,268	290,582
Dues and subscriptions	57,432	99,137	156,569	10,740	7,972	18,712	175,281	144,392
Proactive projects	24,345	6,086	30,431	-	-	-	30,431	19,203
DR transaction fees/bank fees	-	-	-	719,447	-	719,447	719,447	806,801
Contributed services	5,108,017	81,970	5,189,987	82,137	27,095	109,232	5,299,219	5,145,840
Total Expenses	\$ 16,974,614	\$ 16,151,176	\$ 33,125,790	\$ 5,252,168	\$ 1,202,064	\$ 6,454,232	\$ 39,580,022	\$ 37,981,111

See accompanying notes.

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Consolidated Statements of Cash Flows
For the Years Ended September 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	\$ 1,303,668	\$ 956,885
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	732,614	773,990
Net realized and unrealized gains on investments	(1,013,731)	(423,576)
Donated securities	(515,826)	(550,146)
Change in value of charitable remainder and other trusts	594,907	37,394
Change in value of annuity reserve fund	(152,038)	(18,201)
Change in discount on grants and contributions receivable	(139)	(36,078)
Net loss on disposal of property and equipment	7,753	-
Change in operating assets and liabilities:		
Decrease (increase) in:		
Bequests and trusts receivable	921,407	(102,483)
Grants and contributions receivable	1,274,977	912,272
Accounts receivable	30,030	49,538
Prepaid expenses	(95,519)	(47,244)
Inventory	7,029	153,168
Deferred compensation	(31,796)	(17,730)
Increase (decrease) in:		
Accounts payable and accrued expenses	312,200	204,457
Annuity and other split-interest obligations	55,264	(9,576)
Deferred revenue	38	(151,939)
Deferred compensation	31,796	17,730
	3,462,634	1,748,461
Cash Flows from Investing Activities		
Proceeds from sale of investments	583,533	9,324,051
Purchase of investments	(906,803)	(12,127,130)
Purchase of property and equipment	(372,576)	(327,283)
Net cash used in investing activities	(695,846)	(3,130,362)
Cash Flows from Financing Activities		
Proceeds from issuance of loan – Paycheck Protection Program	2,397,455	-
Principal payments under capital lease	(22,980)	(19,914)
Net cash provided by (used in) financing activities	2,374,475	(19,914)
Net Increase (Decrease) in Cash and Cash Equivalents	5,141,263	(1,401,815)
Cash and Cash Equivalents, beginning of year	4,938,654	6,340,469
Cash and Cash Equivalents, end of year	\$ 10,079,917	\$ 4,938,654

See accompanying notes.

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

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.

Comparative 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, 2019, from which the summarized information was derived.

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

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.
- *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.

Change in Accounting Principles

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update provides clarifications and improves the scope and the accounting guidance for contributions received and contributions made; in particular, evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions, and determining whether a contribution is conditional.

For the year ended September 30, 2020, Defenders adopted ASU 2018-08 for all transactions in which Defenders serves as a resource recipient, as required by ASU 2018-08, and has also elected to early adopt ASU 2018-08 for transactions in which Defenders serves as a resource provider. ASU 2018-08 has been applied on a modified prospective basis for all agreements that were either not completed as of or entered into after October 1, 2019. The adoption of ASU 2018-08 had no impact on previously reported net assets.

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Change in Accounting Principles (continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 requires an entity to recognize revenues to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity is expected to be entitled in exchange for those goods or services. Defenders early adopted ASU 2014-09 on October 1, 2019, using the modified retrospective approach.

Defenders applied the five-step revenue model stipulated by Accounting Standards Codification (ASC) 606 to all of its significant revenue streams in order to determine when revenue is earned and recognized. The five-step model requires Defenders to i.) identify contracts with customers, ii.) identify performance obligations related to those contracts, iii.) determine the transaction price, iv.) allocate that transaction price to each performance obligation, and v.) recognize revenue when or as Defenders satisfies a performance obligation. The adoption of ASU 2014-09 did not materially impact the timing or amount of revenue recognized by Defenders in the consolidated financial statements.

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 in 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, if needed.

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

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, 2020 were discounted at an average annual rate of 0.14%, using a rate that considers market and credit risk. 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. 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, 2020 and 2019.

Accounts Receivable

Accounts receivable consist of royalties, list rentals, pension forfeitures, and other receivables. All accounts receivable 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, 2020 and 2019, 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.

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

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, 2020 and 2019.

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 term split-interest agreements, which include charitable remainder trusts, charitable gift annuities, a pooled income fund, and perpetual trusts.

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.

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

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

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. According to certain state laws, the charitable gift annuity reserve fund is invested primarily in money market funds, bonds, mutual funds, and fixed income investments. As of September 30, 2020 and 2019, 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.

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Beneficial Interests in Trusts Held by Others (continued)

Charitable Remainder Trusts Held by Others (continued)

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.

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.

Revenue Recognition

Revenue Accounted for in Accordance with Contribution Accounting

Grants and contributions that are nonreciprocal are recognized as revenue when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Defenders reports gifts of cash and other assets as restricted support if they are received or promised with donor stipulations that limit the use of the donated funds to one of Defenders' programs or to a future year.

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Revenue Accounted for in Accordance with Contribution Accounting (continued)

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 return is spent on current restricted or unrestricted programs as specified by the donor.

Defenders receives certain promises to give, collected over multiple accounting periods, and classifies the portion receivable in future accounting periods as restricted revenue. Defenders discounts the promises to give using an appropriate discount rate over the contribution period.

Bequests are recognized as revenue 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.

Donated services that meet the criteria for recognition are recognized at fair value at the time of donation. Donated services consist of pro-bono legal services and advertising, and are reported as in-kind contributions in the accompanying consolidated statement of activities. The value of these donated services is included in the consolidated financial statements as both revenue and expense in the amounts of \$5,299,220 and \$5,145,841 for the years ended September 30, 2020 and 2019, respectively.

Revenue Accounted for as Contracts with Customers

Revenue is recognized when Defenders satisfies a performance obligation by transferring a promised good to, or performing a service for, a customer. The amount of revenue recognized reflects the consideration Defenders expects to receive in exchange for satisfying distinct performance obligations. If a performance obligation does not meet the criteria to be considered distinct, Defenders combines it with other performance obligations until a distinct bundle of goods or services exists.

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Revenue Accounted for as Contracts with Customers (continued)

Fees or amounts received in advance of satisfying contractual performance obligations are reflected as deferred revenue in the consolidated statements of financial position. Revenue is recognized either over time or at the point in time that contractual obligations are met.

Defenders recognizes rental revenue in the accounting period for which the performance obligation is satisfied. Any rental revenue payments received in advance are deferred until earned.

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 FASB 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 legal, advertising, and other professional services.

Advertising Costs

Defenders expenses advertising costs as incurred. Advertising expenses were \$921,968 and \$714,963 for the years ended September 30, 2020 and 2019, respectively.

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

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.

Recently Issued Accounting Pronouncement

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 2023.

Subsequent Events

In preparing these consolidated financial statements, Defenders has evaluated events and transactions for potential recognition or disclosure through February 18, 2021, the date the consolidated financial statements were available to be issued.

The COVID-19 outbreak in the United States and around the world has caused business disruption due to mandatory lockdowns implemented in most states in order to slow down the spread of the virus. Defenders' management has been monitoring the situation and implementing certain changes in its operations and upcoming events in order to mitigate the impact of this pandemic. While the disruption is currently expected to be temporary, there is considerable uncertainty around its duration, and the full financial impact cannot be reasonably estimated at this time.

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

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 statements of financial position date, comprise the following at September 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 10,079,917	\$ 4,938,654
Short-term investments	6,325,590	5,646,095
Bequests and trusts receivable	497,513	1,418,920
Grants and contributions receivable – due within one year	393,774	1,833,751
Accounts receivable	<u>266,067</u>	<u>296,097</u>
Total available for general expenditures	<u>\$ 17,562,861</u>	<u>\$ 14,133,517</u>

Defenders considers net assets with donor restrictions for use in current programs that are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. 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, 2020 and 2019

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, 2020 and 2019

5. Investments and Fair Value Measurements (continued)

Fair Value Measurements (continued)

The following table presents Defenders' fair value hierarchy for those assets measured on a recurring basis as of September 30, 2020:

	Level 1	Level 2	Level 3	Total fair value
Investments:				
Money market funds	\$ 1,292,051	\$ -	\$ -	\$ 1,292,051
Short-term bonds	109,928	-	-	109,928
Mutual funds:				
Equity	8,865,048	-	-	8,865,048
Fixed income	8,289,874	-	-	8,289,874
Hedge funds	-	1,509,021	-	1,509,021
Tangible assets	150,552	-	-	150,552
Total investments	18,707,453	1,509,021	-	20,216,474
Annuity reserve fund:				
Money market funds	255,439	-	-	255,439
Fixed income	2,196,378	-	-	2,196,378
Equity	1,377,138	-	-	1,377,138
Total annuity reserve fund	3,828,955	-	-	3,828,955
Beneficial interests in trusts:				
Charitable remainder trusts	296,891	-	283,944	580,835
Pooled income fund	-	90,642	-	90,642
Perpetual trusts	-	-	1,343,670	1,343,670
Total beneficial interests in trusts	296,891	90,642	1,627,614	2,015,147
Deferred compensation:				
Mutual funds	122,181	-	-	122,181
Total assets at fair value	\$ 22,955,480	\$ 1,599,663	\$ 1,627,614	\$ 26,182,757

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

5. Investments and Fair Value Measurements (continued)

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
Investments:				
Money market funds	\$ 1,416,737	\$ -	\$ -	\$ 1,416,737
Short-term bonds	104,915	-	-	104,915
Mutual funds:				
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
Total investments	16,863,647	1,500,000	-	18,363,647
Annuity reserve fund:				
Money market funds	187,460	-	-	187,460
Fixed income	2,214,918	-	-	2,214,918
Equity	1,274,539	-	-	1,274,539
Total annuity reserve fund	3,676,917	-	-	3,676,917
Beneficial interests in trusts:				
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
Total beneficial interests in trusts	284,423	87,545	2,238,086	2,610,054
Deferred compensation:				
Mutual funds	90,385	-	-	90,385
Total assets at fair value	\$ 20,915,372	\$ 1,587,545	\$ 2,238,086	\$ 24,741,003

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

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, 2020 and 2019 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.

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

5. Investments and Fair Value Measurements (continued)

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.

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, 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
Remainder payout	(662,518)	-	(662,518)
Change in value	39,002	13,044	52,046
Value at September 30, 2020	\$ 283,944	\$ 1,343,670	\$ 1,627,614

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

6. Grants and Contributions Receivable

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

	2020	2019
Due in less than one year	\$ 393,774	\$ 1,833,751
Due in one to five years	190,000	25,000
Total grants and contributions receivable	583,774	1,858,751
Less: discount	(526)	(665)
Grants and contributions receivable, net	\$ 583,248	\$ 1,858,086

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:

	2020	2019
Investments – annuity reserve fund	\$ 3,828,955	\$ 3,676,917
Beneficial interests in trusts:		
Assets held by Defenders:		
Charitable remainder trusts	296,891	284,423
Pooled income fund	90,642	87,545
Assets held by a third party:		
Charitable remainder trusts	283,944	907,460
Perpetual trusts	1,343,670	1,330,626
Total beneficial interests in trusts	2,015,147	2,610,054
Total split-interest agreements	\$ 5,844,102	\$ 6,286,971

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

7. Split-Interest Agreements (continued)

During the year ended September 30, 2020, one of the charitable remainder trusts held by a third party was terminated, and Defenders received a final distribution of \$662,518 in cash.

Liabilities under split-interest agreements included in the accompanying consolidated statements of financial position were \$2,303,373 and \$2,248,109 at September 30, 2020 and 2019, respectively. Net contributions under split-interest agreements were approximately \$131,622 and \$85,430 for the years ended September 30, 2020 and 2019, respectively.

8. Property and Equipment

Defenders held the following property and equipment at September 30:

	2020	2019
Land	\$ 4,585,586	\$ 4,585,586
Buildings and improvements	9,468,311	9,270,738
Computer equipment	2,723,319	3,059,272
Furniture and equipment	1,112,003	1,106,191
Website	346,931	1,210,160
Total property and equipment	18,236,150	19,231,947
Less: accumulated depreciation	(9,095,762)	(9,723,768)
Property and equipment, net	<u>\$ 9,140,388</u>	<u>\$ 9,508,179</u>

9. Loan Payable – Paycheck Protection Program

Defenders applied for a loan under the Paycheck Protection Program (PPP) pursuant to Division A, Title 1 of the CARES Act, which was enacted on March 27, 2020. The PPP is a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll through the COVID-19 coronavirus, for which Defenders qualified.

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

9. Loan Payable – Paycheck Protection Program (continued)

After the loans are granted, the Small Business Administration (SBA) will forgive loans if all employee retention criteria are met, and the funds are used for eligible expenses (which primarily consist of payroll costs, costs used to continue group healthcare benefits, rent, and utilities).

The loan was granted to Defenders on May 5, 2020 in the amount of \$2,397,455, and it is management's intention to use the entire loan amount for qualifying expenses in order to apply for full forgiveness. Once the loan is, in part or wholly, forgiven and legal release is received, Defenders will reduce the liability by the amount forgiven and record a gain on extinguishment in the consolidated statement of activities, which is expected to occur in fiscal year 2021.

If Defenders is not approved for full forgiveness by the SBA, the loan would bear interest at a fixed rate of 1.00%, which is payable monthly commencing on November 5, 2020 and maturing on May 5, 2022. The proceeds from this loan may be repaid by Defenders at any time prior to maturity with no prepayment penalties should full forgiveness not be granted. At September 30, 2020, Defenders recorded \$2,397,455 as a loan payable and \$9,787 as interest expense, which are reflected in the accompanying consolidated statements of financial position and accompanying consolidated statement of activities, respectively.

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

2021	\$ 1,327,481
2022	<u>1,069,974</u>
Total principal payments	<u><u>\$ 2,397,455</u></u>

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

10. Net Assets

Net Assets Without Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Undesignated	\$ 19,546,039	\$ 17,248,906
Land and building	8,178,183	8,352,935
Property and equipment	<u>962,205</u>	<u>1,155,244</u>
Total net assets without donor restrictions	<u>\$ 28,686,427</u>	<u>\$ 26,757,085</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, pooled income funds, perpetual trusts, 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, 2020 and 2019

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:

	2020	2019
Subject to expenditure for specific purpose:		
Program grants	\$ 8,832,516	\$ 8,965,875
Subject to the passage of time:		
Charitable remainder and other trusts	400,496	1,015,337
Charitable gift annuities	1,705,920	1,605,354
Pooled income fund	90,642	87,545
Lloyd Symington Memorial Fund for Wildlife Education	162,512	162,512
Total subject to the passage of time	2,359,570	2,870,748
Endowments:		
Beneficial interest in perpetual trusts	1,343,670	1,330,626
Harding Educational and Charitable Foundation	162,080	157,436
Lloyd Symington Memorial Fund for Wildlife Education	41,027	39,852
Total endowments	1,546,777	1,527,914
Total net assets with donor restrictions	\$ 12,738,863	\$ 13,364,537

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

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, 2020 and 2019

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 Defenders 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, 2020 and 2019.

Composition of Endowment Net Assets

Endowment net asset composition was as follows at September 30:

	<u>2020</u>	<u>2019</u>
Donor-restricted endowment funds	<u>\$ 1,546,777</u>	<u>\$ 1,527,914</u>

Changes in Endowment Net Assets

Changes in endowment net assets were as follows for the years ended September 30:

	<u>2020</u>	<u>2019</u>
Endowment net assets, beginning of year	\$ 1,527,914	\$ 1,529,095
Investment return (loss)	<u>18,863</u>	<u>(1,181)</u>
Endowment net assets, end of year	<u>\$ 1,546,777</u>	<u>\$ 1,527,914</u>

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.

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

12. Deferred Compensation Plan (continued)

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, 2020 and 2019, the deferred compensation assets and a corresponding liability were \$122,181 and \$90,385, 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 \$669,111 and \$558,957 for the years ended September 30, 2020 and 2019, respectively.

14. Commitments

Operating Leases

Defenders is obligated under the terms of noncancellable operating leases for the rental of office space for several of its field locations. Rental expense for all leases for the years ended September 30, 2020 and 2019, using the straight-line method, amounted to \$403,915 and \$331,116, respectively.

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

2021	\$	309,288
2022		268,629
2023		216,137
2024		197,719
2025		122,312
		<hr/>
Total future minimum lease payments	\$	<u>1,114,085</u>

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

14. Commitments (continued)

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, 2020 and 2019, net of accumulated depreciation of \$71,458 and \$48,283 as of September 30, 2020 and 2019, respectively.

The interest expense associated with these leases for the years ended September 30, 2020 and 2019 was \$8,743 and \$9,672, respectively.

Payments under the capital leases are due as follows for the years ending September 30:

2021	\$	32,652
2022		<u>29,931</u>
 Total		 62,583
Less: amounts representing interest		<u>(8,184)</u>
 Capital lease obligations, net	 \$	 <u><u>54,399</u></u>

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, 2020 and 2019, 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:

	<u>2020</u>	<u>2019</u>
Constituency mobilization	\$ 4,323,169	\$ 3,760,102
Management and general	944,306	755,429
Fundraising	<u>870,074</u>	<u>634,283</u>
 Total allocated joint costs	 <u><u>\$ 6,137,549</u></u>	 <u><u>\$ 5,149,814</u></u>

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Notes to Consolidated Financial Statements
September 30, 2020 and 2019

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 \$18,529 and \$13,667 for the years ended September 30, 2020 and 2019, respectively.

There were no noncash investing and financing transactions for the years ended September 30, 2020 and 2019.

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 2020 and 2019. 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 years 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, 2020 and 2019.

SUPPLEMENTARY INFORMATION

Defenders of Wildlife and Affiliated Defenders of Wildlife Action Fund

Consolidating Schedule of Financial Position
September 30, 2020

	<u>DOW</u>	<u>Action Fund</u>	<u>Elimination</u>	<u>Total</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 9,799,417	\$ 280,500	\$ -	\$ 10,079,917
Short-term investments	6,325,590	-	-	6,325,590
Investments – annuity reserve fund	3,828,955	-	-	3,828,955
Bequests and trusts receivable	497,513	-	-	497,513
Grants and contributions receivable, current portion	393,774	-	-	393,774
Accounts receivable	266,024	43	-	266,067
Prepaid expenses	1,168,825	-	-	1,168,825
Inventory	699,400	-	-	699,400
Total current assets	<u>22,979,498</u>	<u>280,543</u>	<u>-</u>	<u>23,260,041</u>
Long-term investments	13,890,884	-	-	13,890,884
Grants and contributions receivable, long-term, net	189,474	-	-	189,474
Beneficial interests in trusts	2,015,147	-	-	2,015,147
Property and equipment, net	9,140,388	-	-	9,140,388
Deferred compensation	122,181	-	-	122,181
Total assets	<u>\$ 48,337,572</u>	<u>\$ 280,543</u>	<u>\$ -</u>	<u>\$ 48,618,115</u>
Liabilities and Net Assets				
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	\$ 2,313,865	\$ 242	\$ -	\$ 2,314,107
Annuity and other split-interest obligations, current portion	316,711	-	-	316,711
Capital lease obligation, current portion	26,519	-	-	26,519
Deferred revenue	1,310	-	-	1,310
Loan payable – Paycheck Protection Program	2,397,455	-	-	2,397,455
Total current liabilities	<u>5,055,860</u>	<u>242</u>	<u>-</u>	<u>5,056,102</u>
Annuity and other split-interest obligations, long-term	1,986,662	-	-	1,986,662
Deferred compensation	122,181	-	-	122,181
Capital lease obligation, net of current portion	27,880	-	-	27,880
Total liabilities	<u>7,192,583</u>	<u>242</u>	<u>-</u>	<u>7,192,825</u>
Net Assets				
Without donor restrictions	28,406,126	280,301	-	28,686,427
With donor restrictions	12,738,863	-	-	12,738,863
Total net assets	<u>41,144,989</u>	<u>280,301</u>	<u>-</u>	<u>41,425,290</u>
Total liabilities and net assets	<u>\$ 48,337,572</u>	<u>\$ 280,543</u>	<u>\$ -</u>	<u>\$ 48,618,115</u>

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>
Assets				
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>
Liabilities and Net Assets				
Liabilities				
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>
Net Assets				
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 Activities
For the Year Ended September 30, 2020

	DOW		Action Fund	Elimination	Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions		
Revenue and Support					
Grants and contributions	\$ 21,543,929	\$ 5,266,568	\$ 110,139	\$ -	\$ 26,920,636
Contributed goods and services	5,299,220	-	-	-	5,299,220
Bequests	6,071,424	68,690	-	-	6,140,114
Royalties	660,722	-	-	-	660,722
Investment return	1,354,694	6,458	858	-	1,362,010
Split-interest contributions	-	131,622	-	-	131,622
Change in value of split interests	155,014	11,541	-	-	166,555
Mailing list royalties	186,607	-	-	-	186,607
Rental income	15,568	-	-	-	15,568
Other income	1,096	-	-	(460)	636
Released from restrictions – programs	6,110,553	(6,110,553)	-	-	-
Total revenue and support	41,398,827	(625,674)	110,997	(460)	40,883,690
Expenses					
Program services:					
Biodiversity conservation	16,974,614	-	-	-	16,974,614
Constituency mobilization	16,151,176	-	-	-	16,151,176
Total program services	33,125,790	-	-	-	33,125,790
Supporting services:					
Management and general	5,247,952	-	4,676	(460)	5,252,168
Fundraising	1,202,064	-	-	-	1,202,064
Total supporting services	6,450,016	-	4,676	(460)	6,454,232
Total expenses	39,575,806	-	4,676	(460)	39,580,022
Change in Net Assets	1,823,021	(625,674)	106,321	-	1,303,668
Net Assets, beginning of year	26,583,105	13,364,537	173,980	-	40,121,622
Net Assets, end of year	\$ 28,406,126	\$ 12,738,863	\$ 280,301	\$ -	\$ 41,425,290

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		
Revenue and Support					
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 return	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)	-	-	-
Total revenue and support	38,550,904	366,420	20,911	(239)	38,937,996
Expenses					
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
Total program services	32,103,176	-	25,239	(239)	32,128,176
Supporting services:					
Management and general	4,753,898	-	4,080	-	4,757,978
Fundraising	1,094,957	-	-	-	1,094,957
Total supporting services	5,848,855	-	4,080	-	5,852,935
Total expenses	37,952,031	-	29,319	(239)	37,981,111
Change in Net Assets	598,873	366,420	(8,408)	-	956,885
Net Assets, beginning of year	25,984,232	12,998,117	182,388	-	39,164,737
Net Assets, end of year	\$ 26,583,105	\$ 13,364,537	\$ 173,980	\$ -	\$ 40,121,622