

Defenders of Wildlife

Financial Statements
and Independent Auditors' Report

September 30, 2014 and 2013

Defenders of Wildlife

Financial Statements
September 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Defenders of Wildlife

We have audited the accompanying financial statements of Defenders of Wildlife ("Defenders"), which comprise the statements of financial position as of September 30, 2014, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Defenders as of September 30, 2014, 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information included on page 29 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Defenders' September 30, 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 26, 2014. In our opinion, the summarized comparative information presented herein, as of and for the year ended September 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Vienna, Virginia
February 20, 2015

Defenders of Wildlife

Statements of Financial Position September 30, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,337,440	\$ 4,424,630
Short-term investments	1,392,916	541,903
Investments – annuity reserve fund	3,663,146	3,483,907
Certificates of deposit	884,863	1,314,663
Bequests and trusts receivable	1,129,906	780,705
Grants and pledges receivable	1,760,999	1,604,121
Accounts receivable	248,552	609,300
Prepaid expenses	765,226	417,466
Accrued interest and dividends	3,154	4,476
Inventory	588,131	588,291
Total current assets	16,774,333	13,769,462
Long-term investments	6,880,860	6,683,865
Grants and pledges receivable, long-term	426,111	1,464,657
Charitable remainder and other trusts	2,811,642	3,336,457
Property and equipment, net	10,255,545	10,515,667
Other assets	67,681	79,286
Total assets	\$ 37,216,172	\$ 35,849,394
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,416,802	\$ 1,576,394
Annuity and other split-interest obligations	317,843	301,641
Loan payable	232,988	227,887
Capital lease obligation, net	10,402	7,567
Deferred revenue	-	2,940
Total current liabilities	2,978,035	2,116,429
Loan payable, net of current portion	5,830,454	6,060,454
Annuity and other split-interest obligations, long-term	2,040,189	1,911,791
Capital lease obligation, net of current portion	46,378	61,400
Total liabilities	10,895,056	10,150,074
Net Assets		
Unrestricted:		
Undesignated	16,998,649	8,761,606
Defenders-designated	-	6,290,253
Total unrestricted	16,998,649	15,051,859
Temporarily restricted	7,824,759	9,200,271
Permanently restricted	1,497,708	1,447,190
Total net assets	26,321,116	25,699,320
Total liabilities and net assets	\$ 37,216,172	\$ 35,849,394

See accompanying notes.

Defenders of Wildlife

Statement of Activities
For the Year Ended September 30, 2014
(With Comparative Totals for the Year Ended September 30, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Totals
Revenue and Support					
Grants and contributions	\$ 20,886,827	\$ 2,240,203	\$ -	\$ 23,127,030	\$ 25,508,609
Contributed services	1,876,604	-	-	1,876,604	884,232
Bequests	5,585,863	25,796	-	5,611,659	4,919,763
Royalties	633,001	-	-	633,001	592,576
Investment income	279,611	-	901	280,512	642,550
Split-interest contributions	-	124,242	-	124,242	152,989
Change in value of split interests	361,642	(303,143)	49,617	108,116	402,799
Mailing list royalties	90,877	-	-	90,877	60,928
Other income	406,945	-	-	406,945	714,847
Released from restrictions	3,462,610	(3,462,610)	-	-	-
Total revenue and support	33,583,980	(1,375,512)	50,518	32,258,986	33,879,293
Expenses					
Program services:					
ESA	8,104,508	-	-	8,104,508	7,422,010
Key Species	12,386,682	-	-	12,386,682	11,696,775
Habitat	7,215,078	-	-	7,215,078	7,645,648
Total program services	27,706,268	-	-	27,706,268	26,764,433
Supporting services:					
Management and general	3,027,498	-	-	3,027,498	2,708,502
Fundraising	903,424	-	-	903,424	1,089,739
Total supporting services	3,930,922	-	-	3,930,922	3,798,241
Total expenses	31,637,190	-	-	31,637,190	30,562,674
Change in Net Assets	1,946,790	(1,375,512)	50,518	621,796	3,316,619
Net Assets , beginning of year	15,051,859	9,200,271	1,447,190	25,699,320	22,382,701
Net Assets , end of year	\$ 16,998,649	\$ 7,824,759	\$ 1,497,708	\$ 26,321,116	\$ 25,699,320

See accompanying notes.

Defenders of Wildlife

Statements of Cash Flows For the Years Ended September 30, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	\$ 621,796	\$ 3,316,619
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	572,562	587,848
Equipment acquired under capital lease	-	71,000
Discount on grants and pledges receivable	(1,734)	4,163
Amortization of cost of issuing bonds	11,605	154,690
Net realized and unrealized gain on investments	(112,755)	(216,080)
Unrealized gain on interest rate swap	-	(245,593)
Change in annuity reserve fund	(179,239)	(127,584)
Net loss on disposal of fixed assets	-	1,061
Change in value of charitable remainder and other trusts	524,815	(131,004)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Bequests and trusts receivable	(349,201)	451,367
Grants and pledges receivable	883,402	(1,745,448)
Accounts receivable	360,748	(127,597)
Prepaid expenses	(347,760)	(41,197)
Accrued interest and dividends	1,322	999
Inventory	160	31,148
Increase (decrease) in:		
Accounts payable and accrued expenses	840,408	557,909
Annuity and other split-interest obligations	144,600	(50,373)
Deferred revenue	(2,940)	(7,021)
Net cash provided by operating activities	2,967,789	2,484,907
Cash Flows from Investing Activities		
Proceeds from sale of investments	78,645	5,994,483
Proceeds from maturity of certificates of deposit	429,800	358,397
Purchase of investments	(1,013,898)	(6,484,792)
Purchase of property and equipment	(312,440)	(201,238)
Net cash used in investing activities	(817,893)	(333,150)
Cash Flows from Financing Activities		
Payments on bond principal	(224,899)	(223,031)
Cost of issuing long-term debt	-	(74,876)
Issuance of long-term debt	-	6,306,372
Redemption of long-term debt	-	(5,505,000)
Payments under capital lease	(12,187)	(2,033)
Termination of interest rate swap	-	(739,272)
Net cash used in financing activities	(237,086)	(237,840)
Net Increase in Cash and Cash Equivalents	1,912,810	1,913,917
Cash and Cash Equivalents, beginning of year	4,424,630	2,510,713
Cash and Cash Equivalents, end of year	\$ 6,337,440	\$ 4,424,630

See accompanying notes.

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

1. Nature of Operations

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

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

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

- *Unrestricted net assets* represent funds that are not subject to donor-imposed stipulations and are available for support of Defenders’ operations. These net assets included both internally designated and undesignated resources at September 30, 2013. During 2014, pursuant to a change in Defenders’ bylaws, all amounts became undesignated.
- *Temporarily restricted net assets* represent funds subject to donor-imposed restrictions that are met either by actions of Defenders or the passage of time.
- *Permanently restricted net assets* represent funds in which the principal must be held in perpetuity, while the earnings may be available for general operations or a restricted purpose imposed by the donors.

Cash Equivalents

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

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

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.

Certificates of Deposit

At September 30, 2014 and 2013, Defenders held certificates of deposit with original maturity dates greater than a period of ninety days that are carried at amortized cost. Interest earned on the certificates of deposit is included in investment income in the accompanying statement of activities. These certificates of deposit do not qualify as securities, as defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320, *Investments – Debt and Equity Securities*. Therefore, these investments are not included in the fair value disclosures required by FASB ASC 820, *Fair Value Measurements and Disclosures*.

Grants and Pledges Receivable

All grants and pledges receivable are deemed to be fully collectible and are reflected at either net realizable value or at net present value based on projected cash flows. Amounts receivable in more than one year initially recorded in fiscal years 2014 and 2013 were discounted at an average annual rate of 3.57% using a rate that considers market and credit risk.

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, 2014 and 2013, as all amounts are deemed fully collectible.

Inventory

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

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

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.

Revenue Recognition

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

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

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

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

Split-Interest Agreements

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

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

Split-Interest Agreements (continued)

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

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

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

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

Contributed Service

Donated services meeting the criteria for recognition under FASB ASC 958, *Revenue Recognition – Contributions Received*, are recognized at fair value at the time of receipt. These services benefit the general programs and consist primarily of advertising, and legal and professional services. The value of these donated services is included in the financial statements as both revenue and expense in the amounts of \$1,876,604 and \$884,232 for the years ended September 30, 2014 and 2013, respectively.

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of 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 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.

Functional Allocation of Expenses

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

Prior Year Information

Statement of Activities

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Defenders' financial statements for the year ended September 30, 2013, from which the summarized information was derived.

Program Classification

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

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

Prior Year Information (continued)

Program Classification (continued)

The three conservation goals and related ten-year benchmarks of success are defined as follows:

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

Subsequent Events

In preparing these financial statements, Defenders has evaluated events and transactions for potential recognition or disclosure through February 20, 2015, the date the financial statements were available to be issued.

3. Concentration of Credit Risk

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

Notes to Financial Statements
September 30, 2014 and 2013

4. Investments and Fair Value Measurements

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

	2014	2013
Net realized and unrealized gain	\$ 112,755	\$ 163,893
Unrealized gain on interest rate swap	-	245,593
Interest and dividends	167,757	233,064
Total investment income	<u>\$ 280,512</u>	<u>\$ 642,550</u>

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.

In addition, Defenders follows FASB ASC 2009-12, *Investments in Certain Entities That Calculate Net Assets Value per Share (or its Equivalent)*, which has amended the existing guidance in FASB ASC 820. This guidance permits, as a practical expedient, the fair value of investments that do not have a quoted market price to be estimated using net asset value (NAV) per share or its equivalent. At September 30, 2014 and 2013, Defenders' investments in pooled income funds were valued based on the NAV of each investment position, as provided by the respective fund manager.

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 general, and where applicable, Defenders uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.

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Notes to Financial Statements
September 30, 2014 and 2013

4. 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:

	Level 1	Level 2	Level 3	Total fair value
<u>2014:</u>				
Investments:				
Money market funds	\$ 2,524,136	\$ -	\$ -	\$ 2,524,136
Mutual funds:				
Equity	3,622,225	-	-	3,622,225
Fixed income	2,127,415	-	-	2,127,415
Annuity reserve fund	3,663,146	-	-	3,663,146
Charitable remainder and other trusts:				
Charitable remainder trusts and pooled income fund	248,194	-	1,249,536	1,497,730
Interest in perpetual trusts	-	-	1,313,912	1,313,912
Total assets	<u>\$ 12,185,116</u>	<u>\$ -</u>	<u>\$ 2,563,448</u>	<u>\$ 14,748,564</u>
<u>2013:</u>				
Investments:				
Money market funds	\$ 876,075	\$ -	\$ -	\$ 876,075
Mutual funds:				
Equity	3,668,763	-	-	3,668,763
Fixed income	2,651,066	-	-	2,651,066
Corporate bonds	29,864	-	-	29,864
Annuity reserve fund	3,483,907	-	-	3,483,907
Charitable remainder and other trusts:				
Charitable remainder trusts and pooled income fund	136,112	-	1,936,049	2,072,161
Interest in perpetual trusts	-	-	1,264,296	1,264,296
Total assets	<u>\$ 10,845,787</u>	<u>\$ -</u>	<u>\$ 3,200,345</u>	<u>\$ 14,046,132</u>

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

4. Investments and Fair Value Measurements (continued)

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

Investments and Annuity Reserve Fund

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

Charitable Remainder, Perpetual Trusts, and Pooled Income Fund

Level 1 Assets

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

Level 3 Assets

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

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

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

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

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

4. Investments and Fair Value Measurements (continued)

Interest Rate Swap

In connection with its prior tax-exempt bond financing, Defenders had entered into an interest rate swap to reduce the impact of changes in interest rates on its floating debt rate. The interest rate swap agreement was terminated on August 1, 2013, and is presented below for comparative purposes. The estimated fair value was determined using a model based on forward looking assumptions of interest rates and the effect on the underlying cash flows. Since the valuation model utilizes significant inputs that are unobservable, it was classified within Level 3.

The following table is a rollforward of the fair value measurements using unobservable inputs (Level 3) as of September 30, 2014:

	Fair value at September 30, 2013	Change in value	Fair value at September 30, 2014
Assets			
Charitable remainder trusts and pooled income fund	\$ 1,936,049	\$ (686,513)	\$ 1,249,536
Interest in perpetual trusts	1,264,296	49,616	1,313,912
Total assets	<u>\$ 3,200,345</u>	<u>\$ (636,897)</u>	<u>\$ 2,563,448</u>

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

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

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

5. Grants and Pledges Receivable

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

	<u>2014</u>	<u>2013</u>
Due in less than one year	\$ 1,760,999	\$ 1,604,121
Due in one to five years	428,540	1,468,820
Total	2,189,539	3,072,941
Less: discount	(2,429)	(4,163)
Total grants and pledges receivable, net	<u>\$ 2,187,110</u>	<u>\$ 3,068,778</u>

6. Split-Interest Agreements

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

	<u>2014</u>	<u>2013</u>
Investments – annuity reserve fund	\$ 3,663,146	\$ 3,483,907
Charitable remainder and other trusts:		
Charitable remainder trusts	248,194	136,112
Receivables from charitable remainder and charitable lead trusts	1,171,223	1,859,701
Beneficial interest in perpetual trusts	1,313,912	1,264,296
Pooled income fund	78,313	76,348
Total charitable remainder and other trusts	<u>2,811,642</u>	<u>3,336,457</u>
Total split-interest agreements	<u>\$ 6,474,788</u>	<u>\$ 6,820,364</u>

Liabilities under split-interest agreements included in the accompanying statements of financial position were \$2,358,032 and \$2,213,432 at September 30, 2014 and 2013, respectively. Net contributions under split-interest agreements were approximately \$124,242 and \$152,989 for the years ended September 30, 2014 and 2013, respectively.

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

7. Property and Equipment

Defenders held the following property and equipment at September 30:

	2014	2013
Land	\$ 4,585,586	\$ 4,585,586
Buildings and improvements	8,681,319	8,681,319
Computer equipment	1,684,795	1,631,184
Furniture and equipment	934,021	739,625
Website	856,518	792,084
Total property and equipment	16,742,239	16,429,798
Less: accumulated depreciation and amortization	(6,486,694)	(5,914,131)
Property and equipment, net	<u>\$ 10,255,545</u>	<u>\$ 10,515,667</u>

8. Bonds and Loan Payable

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

Defenders also entered into an interest rate swap agreement to manage the interest cost and risk associated with its outstanding bond debt. The interest rate swap agreement was not entered into for trading or speculative purposes. Under the terms of this agreement, Defenders paid a fixed rate of 4.335% and received a variable rate on the respective notional principal amount. The initial maturity of the agreement was July 1, 2017, and it was collateralized by a first deed of trust on the building.

On August 1, 2013, in connection with obtaining refinancing on its building, Defenders satisfied the outstanding bond balance and terminated the interest rate swap agreement. The cost to terminate the swap agreement was \$984,865.

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

8. Bonds and Loan Payable (continued)

The refinanced mortgage on the building was executed through a new loan agreement in the amount of \$6,306,672, which included redemption of the outstanding bond balance of \$5,505,000 at the date of refinance of August 1, 2013. The new loan expires on August 1, 2020, and requires monthly payments of \$35,898 with an interest rate of 3.29%. The outstanding principal balance on the loan at September 30, 2014 was \$6,063,442.

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

2015	\$	234,903
2016		242,749
2017		250,857
2018		259,236
2019		267,894
Thereafter		<u>4,807,803</u>
Total principal payments	\$	<u><u>6,063,442</u></u>

There are a number of financial and operating covenants associated with the loan and with the Bank's participation in the project, including a requirement for maintaining \$2,000,000 in unsecured liquid assets. Defenders was in compliance with all terms and conditions of the debt instruments at September 30, 2014 and 2013. Interest expense on the loan for the year ended September 30, 2014 was \$210,491. Interest expense on the bonds and loan for the year ended September 30, 2013 was \$250,447.

9. Line of Credit Payable

In 2004, Defenders arranged a line of credit with the Bank for cash flow management purposes. The total amount available is \$1,000,000, with interest at the LIBOR daily floating rate and a fee of 0.4% applied quarterly to the unused loan amount. There were no outstanding balances on the line of credit at September 30, 2014 and 2013.

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

10. Net Assets

At September 30, 2014, the unrestricted, temporarily restricted, and permanently restricted net assets are dedicated to the following purposes:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Undesignated	\$ 12,799,827	\$ -	\$ -	\$ 12,799,827
Land and building	3,475,490	-	-	3,475,490
Property and equipment	716,613	-	-	716,613
Program grants	6,719	4,104,150	-	4,110,869
Charitable remainder and other trusts	-	1,419,417	-	1,419,417
Charitable gift annuities	-	2,060,368	-	2,060,368
Beneficial interest in perpetual trusts	-	-	1,313,912	1,313,912
Other endowment	-	-	146,670	146,670
Pooled income fund	-	78,312	-	78,312
Lloyd Symington Memorial Fund for Wildlife Education	-	162,512	37,126	199,638
Total net assets	<u>\$ 16,998,649</u>	<u>\$ 7,824,759</u>	<u>\$ 1,497,708</u>	<u>\$ 26,321,116</u>

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

10. Net Assets (continued)

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

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total
	Undesignated	Defenders- Designated			
Undesignated	\$ 4,600,547	\$ -	\$ -	\$ -	\$ 4,600,547
Land and building	3,597,163	-	-	-	3,597,163
Property and equipment	563,896	-	-	-	563,896
Program grants	-	6,719	5,176,520	-	5,183,239
Board-designated endowment	-	6,283,534	-	-	6,283,534
Charitable remainder and other trusts	-	-	1,911,326	-	1,911,326
Charitable gift annuities	-	-	1,873,563	-	1,873,563
Beneficial interest in perpetual trusts	-	-	-	1,264,295	1,264,295
Other endowment	-	-	-	145,951	145,951
Pooled income fund	-	-	76,350	-	76,350
Lloyd Symington Memorial Fund for Wildlife Education	-	-	162,512	36,944	199,456
Total net assets	\$ 8,761,606	\$ 6,290,253	\$ 9,200,271	\$ 1,447,190	\$ 25,699,320

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

10. Net Assets (continued)

Program Grants

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

Board-Designated Endowment

Prior to 2014, Defenders maintained a Board-designated endowment fund to provide for the long-term needs of the organization. Income from the fund may be used for operating costs and unrestricted Board-designated activities. During 2014, the Board of Directors resolved to discontinue the Board-designated endowment.

Split-Interest Agreements

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

Lloyd Symington Memorial Fund for Wildlife Education

The Board of Directors designated this separate fund to strengthen Defenders' ability to respond to requests for wildlife information from school children, teachers, and the general public, and to enable Defenders to expand its other educational activities. The balance was \$199,638 at September 30, 2014, which included both temporarily and permanently restricted amounts of \$162,512 and \$37,126, respectively. The balance was \$199,456 at September 30, 2013, which included temporarily and permanently restricted amounts of \$162,512 and \$36,944, respectively.

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

10. Net Assets (continued)

Unrestricted Funds

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

11. Endowment

Defenders' endowment (permanently restricted net assets) has been funded by donor-restricted contributions to be held in perpetuity, the earnings of which can be used to fund either specific programs or general operations. In addition, Defenders maintained a Board-designated endowment fund prior to 2014 to provide for the long-term needs of the organization. During 2014, the Board of Directors resolved to discontinue the Board-designated endowment. Under accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

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

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

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

11. Endowment (continued)

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.

Composition of Endowment Net Assets

Endowment net asset composition was as follows at September 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 1,497,708	\$ 1,497,708
Total endowment funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,497,708</u>	<u>\$ 1,497,708</u>

Endowment net asset composition was as follows at September 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 1,447,190	\$ 1,447,190
Board-designated endowment funds	6,283,534	-	-	6,283,534
Total endowment funds	<u>\$ 6,283,534</u>	<u>\$ -</u>	<u>\$ 1,447,190</u>	<u>\$ 7,730,724</u>

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

11. Endowment (continued)

Changes in Endowment Net Assets

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>2014:</u>				
Endowment net assets, beginning	\$ 6,283,534	\$ -	\$ 1,447,190	\$ 7,730,724
Investment return:				
Net appreciation	-	-	901	901
Change in value in split interest agreements	-	-	49,617	49,617
Total investment return	-	-	50,518	50,518
Appropriations	(6,283,534)	-	-	(6,283,534)
Endowment net assets, ending	\$ -	\$ -	\$ 1,497,708	\$ 1,497,708
<u>2013:</u>				
Endowment net assets, beginning	\$ 6,020,012	\$ -	\$ 1,418,196	\$ 7,438,208
Investment return:				
Net appreciation	263,522	-	102	263,624
Change in value in split interest agreements	-	-	28,892	28,892
Total investment return	263,522	-	28,994	292,516
Endowment net assets, ending	\$ 6,283,534	\$ -	\$ 1,447,190	\$ 7,730,724

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

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 unrestricted net assets. There were no fund deficiencies for the years ended September 30, 2014 and 2013.

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.

12. Related Parties

Defenders is affiliated with a related 501(c)(4) organization, the Defenders of Wildlife Action Fund ("the Fund"). The Fund is also a District of Columbia nonprofit and was incorporated in 2001 to carry on public policy, social welfare, and advocacy work. Its mission is to educate people of all ages about wildlife, habitats, and other environmental activities. Defenders and the Fund have common staff, facilities, and overhead costs, with the appropriate shares of these expenses assigned to each organization under a formal cost-sharing agreement. During the years ended September 30, 2014 and 2013, the Fund's full portion of shared costs was \$22,647 and \$27,167, respectively. The Fund contributed \$0 and \$306,000 to Defenders during the years ended September 30, 2014 and 2013, respectively.

The Fund rented Defenders' membership list for educational and fundraising purposes. The total income to Defenders for these rentals was \$405,844 and \$412,110 for the years ended September 30, 2014 and 2013, respectively. In addition, Defenders rented the Fund's e-subscriber list for education, advocacy, and fundraising purposes. The total income to the Fund for these rentals was \$301,740 and \$959,496 for the years ended September 30, 2014 and 2013, respectively. Included in accounts payable is \$4,032 and \$244,883 due from the Fund at September 30, 2014 and 2013, respectively, and these payments were paid subsequent to year-end.

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

12. Related Parties (continued)

During the years ended September 30, 2014 and 2013, Defenders retained a public-service law firm affiliated with a member of Defenders' Board of Directors. The firm specializes in endangered species litigation and provides legal services at significantly discounted rates. The value of the work performed for Defenders in fiscal years 2014 and 2013 amounted to \$121,842 and \$74,305, respectively, of which \$75,000 and \$70,000 are represented as contributed services for the years then ended.

13. Retirement Plan

Money Purchase Pension 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 \$457,152 and \$439,726 for the years ended September 30, 2014 and 2013, respectively.

14. Commitments

Operating Lease

Defenders is obligated under the terms of non-cancellable operating leases for the rental of office and storage space for several of its field locations. Rental expense for all leases for the years ended September 30, 2014 and 2013, using the straight-line method, amounted to \$214,227 and \$187,105, respectively.

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

2015	\$	94,901
2016		51,011
2017		7,441
		<hr/>
Total future minimum lease payments	\$	<u>153,353</u>

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

14. Commitments (continued)

Capital Leases

Defenders leases office equipment under capital leases, which extend through 2018. The assets and liabilities under capital leases were recorded at the lower of their present value of the minimum lease payments or the fair value of the asset. The assets are being depreciated over the related lease terms. This leased equipment is included in property and equipment in the accompanying statements of financial position at a capitalized cost of \$71,000 at both September 30, 2014 and 2013, net of accumulated depreciation of \$18,933 and \$4,733 as of September 30, 2014 and 2013, respectively.

The interest expense associated with these leases for the year ended September 30, 2014 and 2013 was \$21,185 and \$7,551, respectively. Payments under the capital leases are due as follows for the years ending September 30:

2015	\$	28,752
2016		28,752
2017		28,752
2018		19,168
		<hr/>
Total		105,424
Less: amounts representing interest		(48,644)
		<hr/>
Total capital lease obligations	\$	<u>56,780</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. In the years ended September 30, 2014 and 2013, Defenders incurred joint costs for its direct response programs of \$5,081,547 and \$5,230,773, respectively, including information materials and fundraising appeals.

Defenders of Wildlife

Notes to Financial Statements
September 30, 2014 and 2013

15. Allocation of Joint Costs (continued)

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

	<u>2014</u>	<u>2013</u>
ESA	\$ 119,869	\$ 369,697
Key Species	3,224,656	3,073,301
Habitat	205,311	156,846
Management and general	723,646	621,594
Fundraising	<u>808,065</u>	<u>1,009,335</u>
Total allocated joint costs	<u>\$ 5,081,547</u>	<u>\$ 5,230,773</u>

16. Supplemental Disclosure of Cash Flow Information

Total cash payments for interest were \$210,491 and \$250,447 for the years ended September 30, 2014 and 2013, respectively.

Noncash investing and financing transactions were as follows for September 30:

	<u>2014</u>	<u>2013</u>
Lease of equipment:		
Equipment acquired	\$ -	\$ 71,000
Capital lease obligation	<u>\$ -</u>	<u>\$ (71,000)</u>

17. Income Taxes

Under §501(c)(3) of the IRC, Defenders is exempt from the payment of taxes on income other than net unrelated business income. Defenders was granted non-private foundation status under IRC §509(a)(1) and IRC §170(b)(1)(A)(vi). No provision for taxes has been made as there were no significant taxes resulting from unrelated business activities during fiscal years 2014 and 2013. Defenders has elected to be subject to the lobbying limitations under IRC §501(h). Defenders had no significant uncertain tax positions at September 30, 2014 and 2013.

SUPPLEMENTAL INFORMATION

Defenders of Wildlife

Schedule of Functional Expenses
For the Year Ended September 30, 2014
(With Comparative Totals for the Year Ended September 30, 2013)

	Program Services				Supporting Services			2014 Total	2013 Total
	ESA	Key Species	Habitat	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Salaries and wages	\$ 2,961,195	\$ 2,789,298	\$ 2,561,407	\$ 8,311,900	\$ 856,300	\$ 118,428	\$ 974,728	\$ 9,286,628	\$ 8,725,978
Payroll taxes and benefits	798,865	753,517	691,944	2,244,326	223,065	32,311	255,376	2,499,702	2,312,214
Professional fundraising fees	296,607	1,065,872	296,657	1,659,136	105,460	111,420	216,880	1,876,016	1,675,459
Other professional fees	494,329	614,522	417,203	1,526,054	163,911	30,531	194,442	1,720,496	1,787,995
Grants and contributions	293,936	232,462	257,894	784,292	2,091	2,238	4,329	788,621	1,211,736
Computer services	168,802	427,126	149,393	745,321	294,942	37,709	332,651	1,077,972	939,569
Conference fees	12,712	15,830	10,930	39,472	2,569	960	3,529	43,001	34,720
Advertising	70,920	149,192	66,445	286,557	15,343	13,173	28,516	315,073	130,276
Membership incentives and fulfillment	131,107	493,812	132,029	756,948	49,584	52,143	101,727	858,675	768,455
Supplies	31,089	25,771	26,956	83,816	7,467	699	8,166	91,982	120,054
Telephone	47,338	36,601	40,649	124,588	24,204	731	24,935	149,523	223,298
Postage and shipping	667,187	2,452,685	664,619	3,784,491	277,395	257,884	535,279	4,319,770	3,878,557
Occupancy and other	216,056	175,138	185,152	576,346	185,954	4,217	190,171	766,517	697,336
Equipment rental and maintenance	9,332	8,423	7,905	25,660	4,339	284	4,623	30,283	58,245
Printing and publications	397,298	1,377,824	389,489	2,164,611	160,173	143,145	303,318	2,467,929	2,881,480
Travel	171,323	133,543	145,570	450,436	55,662	3,124	58,786	509,222	404,254
Conferences, conventions, and meetings	34,901	38,630	26,398	99,929	56,005	2,345	58,350	158,279	337,304
Training	3,769	3,458	3,238	10,465	1,332	100	1,432	11,897	10,448
Bond interest	63,083	59,144	53,191	175,418	32,892	2,181	35,073	210,491	250,447
Depreciation and amortization	175,070	164,141	147,619	486,830	79,678	6,054	85,732	572,562	587,848
Cost of issuing long term debt	-	-	-	-	11,606	-	11,606	11,606	154,690
Loss on asset disposal	-	-	-	-	-	-	-	-	1,061
Bad debt	248	233	209	690	437	9	446	1,136	-
Honoraria	618	1,714	597	2,929	157	168	325	3,254	-
Miscellaneous	19,761	8,776	19,707	48,244	49,331	-	49,331	97,575	-
List rentals	97,543	369,157	98,484	565,184	36,450	39,010	75,460	640,644	1,238,385
Insurance	26,850	25,168	22,640	74,658	13,988	928	14,916	89,574	65,363
Royalties	3,595	11,004	3,396	17,995	1,475	1,112	2,587	20,582	28,411
Taxes, fees, and licenses	74,145	71,467	62,324	207,936	53,262	2,731	55,993	263,929	287,585
Dues and subscriptions	36,303	26,860	31,602	94,765	9,582	425	10,007	104,772	106,768
Proactive projects	27,916	23,975	24,676	76,567	707	757	1,464	78,031	37,880
Compensation payments	4,683	3,025	4,096	11,804	-	-	-	11,804	41,957
DR transaction fees/bank fees	105,757	257,220	87,947	450,924	118,699	20,414	139,113	590,037	588,404
Temporary help	4,489	5,781	3,659	13,929	78,791	283	79,074	93,003	92,265
Contributed services	657,681	565,313	581,053	1,804,047	54,647	17,910	72,557	1,876,604	884,232
Total Expenses	\$ 8,104,508	\$ 12,386,682	\$ 7,215,078	\$ 27,706,268	\$ 3,027,498	\$ 903,424	\$ 3,930,922	\$ 31,637,190	\$ 30,562,674