

**Defenders of Wildlife**

Financial Statements  
and Independent Auditors' Report

September 30, 2012 and 2011

# Defenders of Wildlife

Financial Statements  
September 30, 2012 and 2011

## Contents

Independent Auditors' Report.....	1
<i>Audited Financial Statements</i>	
Statements of Financial Position.....	2
Statements of Activities.....	3-4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6-25

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Defenders of Wildlife

We have audited the accompanying statements of financial position of Defenders of Wildlife ("Defenders") as of September 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Defenders' management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Defenders at September 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Rogers + Company PLLC". The signature is written in a cursive, slightly stylized font.

Vienna, Virginia  
February 7, 2013

## Defenders of Wildlife

### Statements of Financial Position September 30, 2012 and 2011

	2012	2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,510,713	\$ 3,280,166
Short-term investments	1,785,957	1,692,286
Investments - annuity reserve fund	3,356,323	4,653,852
Bequests and trusts receivable	1,232,072	1,714,975
Grants and pledges receivable	1,327,493	1,982,349
Accounts receivable	481,703	1,043,796
Prepaid expenses	376,269	683,793
Accrued interest and dividends	5,475	5,525
Inventory	619,439	432,344
Total current assets	11,695,444	15,489,086
Long-term investments	6,406,482	5,244,402
Grants and pledges receivable, long-term	-	348,263
Charitable remainder and other trusts	3,205,453	2,798,351
Property and equipment, net	10,903,338	11,250,956
Other assets	159,100	161,880
Total assets	\$ 32,369,817	\$ 35,292,938
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,018,485	\$ 1,340,013
Annuity and other split-interest obligations	317,451	400,490
Bonds payable	205,000	195,000
Deferred revenue	9,961	12,243
Total current liabilities	1,550,897	1,947,746
Bonds payable, net of current portion	5,505,000	5,710,000
Annuity and other split-interest obligations, long-term	1,946,354	2,741,183
Interest rate swap	984,865	1,054,655
Total liabilities	9,987,116	11,453,584
<b>Net Assets</b>		
Unrestricted:		
Undesignated	7,784,969	8,841,181
Board designated	6,226,559	5,270,669
Total unrestricted	14,011,528	14,111,850
Temporarily restricted	6,952,977	8,435,258
Permanently restricted	1,418,196	1,292,246
Total net assets	22,382,701	23,839,354
Total liabilities and net assets	\$ 32,369,817	\$ 35,292,938

See accompanying notes.

## Defenders of Wildlife

### Statement of Activities For the Year Ended September 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue</b>				
Grants and contributions	\$ 18,200,738	\$ 2,197,781	\$ -	\$ 20,398,519
Contributed services	422,500	-	-	422,500
Bequests	2,699,189	50,000	-	2,749,189
Royalties	812,145	-	-	812,145
Investment income	1,128,097	-	2,102	1,130,199
Split-interest contributions	-	101,408	-	101,408
Change in value of split interests	(251,633)	281,363	123,848	153,578
Mailing list royalties	50,313	-	-	50,313
Other income	480,812	-	-	480,812
Released from restrictions	4,112,833	(4,112,833)	-	-
<b>Total revenue and support</b>	<b>27,654,994</b>	<b>(1,482,281)</b>	<b>125,950</b>	<b>26,298,663</b>
<b>Expenses</b>				
Program services:				
Wildlife action	8,635,636	-	-	8,635,636
Media and education	9,521,079	-	-	9,521,079
Constituency outreach	2,647,208	-	-	2,647,208
Law and legislation	2,249,148	-	-	2,249,148
Publications	626,039	-	-	626,039
<b>Total program services</b>	<b>23,679,110</b>	<b>-</b>	<b>-</b>	<b>23,679,110</b>
Supporting services:				
Management and general	3,173,246	-	-	3,173,246
Fundraising	902,960	-	-	902,960
<b>Total supporting services</b>	<b>4,076,206</b>	<b>-</b>	<b>-</b>	<b>4,076,206</b>
<b>Total expenses</b>	<b>27,755,316</b>	<b>-</b>	<b>-</b>	<b>27,755,316</b>
<b>Change in Net Assets</b>	<b>(100,322)</b>	<b>(1,482,281)</b>	<b>125,950</b>	<b>(1,456,653)</b>
<b>Net Assets, beginning of year</b>	<b>14,111,850</b>	<b>8,435,258</b>	<b>1,292,246</b>	<b>23,839,354</b>
<b>Net Assets, end of year</b>	<b>\$ 14,011,528</b>	<b>\$ 6,952,977</b>	<b>\$ 1,418,196</b>	<b>\$ 22,382,701</b>

See accompanying notes.

## Defenders of Wildlife

### Statement of Activities For the Year Ended September 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue</b>				
Grants and contributions	\$ 21,548,045	\$ 3,020,241	\$ -	\$ 24,568,286
Contributed services	1,278,954	-	-	1,278,954
Bequests	2,688,983	-	-	2,688,983
Royalties	1,328,056	-	-	1,328,056
Investment income	192,691	-	1,785	194,476
Split-interest contributions	-	596,220	-	596,220
Change in value of split interests	41,712	(181,823)	(55,572)	(195,683)
Mailing list royalties	49,407	-	-	49,407
Other income	1,192,932	-	-	1,192,932
Reclassification due to change in restrictions	(6,916)	83,089	(76,173)	-
Released from restrictions	3,625,057	(3,625,057)	-	-
<b>Total revenue and support</b>	<b>31,938,921</b>	<b>(107,330)</b>	<b>(129,960)</b>	<b>31,701,631</b>
<b>Expenses</b>				
Program services:				
Wildlife action	9,154,706	-	-	9,154,706
Media and education	8,491,068	-	-	8,491,068
Constituency outreach	1,109,652	-	-	1,109,652
Law and legislation	3,346,605	-	-	3,346,605
Publications	1,128,431	-	-	1,128,431
<b>Total program services</b>	<b>23,230,462</b>	<b>-</b>	<b>-</b>	<b>23,230,462</b>
Supporting services:				
Management and general	5,474,345	-	-	5,474,345
Fundraising	2,832,793	-	-	2,832,793
<b>Total supporting services</b>	<b>8,307,138</b>	<b>-</b>	<b>-</b>	<b>8,307,138</b>
<b>Total expenses</b>	<b>31,537,600</b>	<b>-</b>	<b>-</b>	<b>31,537,600</b>
<b>Change in Net Assets</b>	<b>401,321</b>	<b>(107,330)</b>	<b>(129,960)</b>	<b>164,031</b>
<b>Net Assets, beginning of year</b>	<b>13,710,529</b>	<b>8,542,588</b>	<b>1,422,206</b>	<b>23,675,323</b>
<b>Net Assets, end of year</b>	<b>\$ 14,111,850</b>	<b>\$ 8,435,258</b>	<b>\$ 1,292,246</b>	<b>\$ 23,839,354</b>

See accompanying notes.

## Defenders of Wildlife

### Statements of Cash Flows For the Years Ended September 30, 2012 and 2011

	2012	2011
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (1,456,653)	\$ 164,031
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	614,316	614,322
Amortization of cost of issuing bonds	9,120	9,120
Net realized and unrealized (gain) loss on investments	(872,586)	50,731
Net unrealized gain on interest rate swap	(69,790)	(64,821)
Net loss on disposal of fixed assets	357	-
Change in value of perpetual, lead, and remainder trusts and pooled income fund	(407,102)	109,521
Change in operating assets and liabilities:		
(Increase) decrease in:		
Bequests and trusts receivable	482,903	286,438
Grants and pledges receivable	1,003,119	1,352,465
Accounts receivable	562,093	76,415
Prepaid expenses	307,524	(78,352)
Accrued interest and dividends	50	(1,140)
Inventory	(187,095)	368,973
Increase (decrease) in:		
Accounts payable and accrued expenses	(321,528)	(462,337)
Annuity and other split-interest obligations	(877,868)	1,022,922
Deferred revenue	(2,282)	7,608
Net cash (used in) provided by operating activities	(1,215,422)	3,455,896
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	184	76,970
Decrease (increase) in annuity reserve fund	1,297,529	(1,491,274)
Purchase of investments	(383,349)	(281,604)
Purchase of property and equipment	(267,055)	(446,584)
Net cash provided by (used in) investing activities	647,309	(2,142,492)
<b>Cash Flows from Financing Activities</b>		
Payments on bond principal	(195,000)	(185,000)
Cost of issuing long-term debt	(6,340)	-
Net cash used in financing activities	(201,340)	(185,000)
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(769,453)	1,128,404
<b>Cash and Cash Equivalents, beginning of year</b>	3,280,166	2,151,762
<b>Cash and Cash Equivalents, end of year</b>	\$ 2,510,713	\$ 3,280,166

See accompanying notes.

## Defenders of Wildlife

Notes to Financial Statements  
September 30, 2012 and 2011

### 1. Nature of Operations

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

### 2. Summary of Significant Accounting Policies

#### Basis of Accounting and Presentation

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

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

#### Cash and Cash Equivalents

Cash and 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.

#### Investments

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



## Defenders of Wildlife

Notes to Financial Statements  
September 30, 2012 and 2011

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

#### Accounts Receivable

Accounts receivable consist of royalty and other receivables, and are recorded at net realizable value. Defenders' policy is to charge off uncollectible accounts receivable when management determines the receivable will not be collected. No allowance for uncollectible accounts has been established at September 30, 2012 and 2011, as all amounts are deemed fully collectible.

#### Property and Equipment

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

#### Inventory

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

#### 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 statements 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.

## Defenders of Wildlife

Notes to Financial Statements  
September 30, 2012 and 2011

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

#### Revenue Recognition (continued)

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

#### Split-Interest Agreements

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

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

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.

## Defenders of Wildlife

Notes to Financial Statements  
September 30, 2012 and 2011

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

#### Fair Value Measurements

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

In addition, Defenders follows ASC 2009-12, *Investments in Certain Entities That Calculate Net Assets Value per Share (or its Equivalent)*, which has amended the existing guidance in ASC 820. This guidance permits, as a practical expedient, the fair value of investments that do not have a quoted market price to be estimated using net asset value (NAV) per share or its equivalent. At September 30, 2012 and 2011, Defenders did not have any investments required to be valued using NAV.

#### In-Kind Donations

Donated services meeting the criteria for recognition under ASC 958, *Revenue Recognition - Contributions Received*, are recognized at fair value at the time of receipt. These services benefit the general programs and consist primarily of advertising, and legal and professional services. The value of these donated services is included in the financial statements as both revenue and expense in the amounts of \$422,500 and \$1,278,954 for the years ended September 30, 2012 and 2011, respectively.

#### Use of Estimates

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

## Defenders of Wildlife

Notes to Financial Statements  
September 30, 2012 and 2011

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

#### Functional Allocation of Expenses

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

### 3. Investments

Investments consist of the following at September 30:

	<u>2012</u>	<u>2011</u>
Mutual funds	\$ 5,820,860	\$ 4,671,203
Money market funds	668,290	716,879
Certificates of deposit	1,673,060	1,518,120
Corporate bonds	<u>30,229</u>	<u>30,486</u>
Total investments	8,192,439	6,936,688
Less: long-term investments	<u>(6,406,482)</u>	<u>(5,244,402)</u>
Short-term investments	<u>\$ 1,785,957</u>	<u>\$ 1,692,286</u>

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

	<u>2012</u>	<u>2011</u>
Net realized and unrealized gain (loss)	\$ 870,008	\$ (50,731)
Unrealized gain on interest rate swap	69,790	64,821
Interest and dividends	<u>190,401</u>	<u>180,386</u>
Total investment income	<u>\$ 1,130,199</u>	<u>\$ 194,476</u>

## Defenders of Wildlife

Notes to Financial Statements  
September 30, 2012 and 2011

### 4. Fair Value Measurements

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

	Total fair value	Level 1	Level 2	Level 3
<b>2012:</b>				
<b>Assets</b>				
Mutual funds	\$ 5,820,860	\$ 5,820,860	\$ -	\$ -
Money market funds	668,290	668,290	-	-
Certificates of deposit	1,673,060	1,673,060	-	-
Corporate bonds	30,229	30,229	-	-
Annuity reserve fund	3,356,323	3,356,323	-	-
Charitable remainder trusts and pooled income fund	1,970,050	195,839	-	1,774,211
Interest in perpetual trusts	1,235,404	-	-	1,235,404
<b>Total assets</b>	<b>\$ 14,754,216</b>	<b>\$ 11,744,601</b>	<b>\$ -</b>	<b>\$ 3,009,615</b>
<b>Liabilities</b>				
Interest rate swap	\$ 984,865	\$ -	\$ -	\$ 984,865
<b>Total liabilities</b>	<b>\$ 984,865</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 984,865</b>
<b>2011:</b>				
<b>Assets</b>				
Mutual funds	\$ 4,671,203	\$ 4,671,203	\$ -	\$ -
Money market funds	716,879	716,879	-	-
Certificates of deposit	1,518,120	1,518,120	-	-
Government securities	30,486	30,486	-	-
Annuity reserve fund	4,653,852	4,653,852	-	-
Charitable remainder trusts and pooled income fund	1,686,795	67,341	-	1,619,454
Interest in perpetual trusts	1,111,556	-	-	1,111,556
<b>Total assets</b>	<b>\$ 14,388,891</b>	<b>\$ 11,657,881</b>	<b>\$ -</b>	<b>\$ 2,731,010</b>
<b>Liabilities</b>				
Interest rate swap	\$ 1,054,655	\$ -	\$ -	\$ 1,054,655
<b>Total liabilities</b>	<b>\$ 1,054,655</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,054,655</b>

## Defenders of Wildlife

Notes to Financial Statements  
September 30, 2012 and 2011

### 4. Fair Value Measurements (continued)

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

#### Investments and Annuity Reserve Fund

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 includes mutual funds, money market funds, certificates of deposit, U.S. Treasury 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, 2012 and 2011

### 4. Fair Value Measurements (continued)

#### Interest Rate Swap

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

The following table is a rollforward of the fair value measurements using unobservable inputs (Level 3) as of September 30, 2012:

	Charitable Remainder and Pooled Income Fund	Interest in Perpetual Trusts	Interest Rate Swap Obligation	Total
October 1, 2011	\$ 1,619,454	\$ 1,111,556	\$ 1,054,655	\$ 3,785,665
Change in value in split interest agreements	154,757	123,848	-	278,605
Total gains and losses (realized and unrealized)	-	-	(69,790)	(69,790)
September 30, 2012	<u>\$ 1,774,211</u>	<u>\$ 1,235,404</u>	<u>\$ 984,865</u>	<u>\$ 3,994,480</u>

### 5. 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 2012 and 2011 were discounted at an average annual rate of 3.57% using a rate that considers market and credit risk.

## Defenders of Wildlife

Notes to Financial Statements  
September 30, 2012 and 2011

### 5. Grants and Pledges Receivable (continued)

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

	<u>2012</u>	<u>2011</u>
Due in less than one year	\$ 1,327,493	\$ 1,982,349
Due in one to five years	-	351,000
Total	1,327,493	2,333,349
Less: discount	-	(2,737)
Total grants and pledges receivable, net	<u>\$ 1,327,493</u>	<u>\$ 2,330,612</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>2012</u>	<u>2011</u>
Investments - annuity reserve fund	\$ 3,356,323	\$ 4,653,852
Charitable remainder and other trusts:		
Charitable remainder trusts	195,839	67,341
Receivables from charitable remainder and charitable lead trusts	1,697,522	1,544,157
Beneficial interest in perpetual trusts	1,235,404	1,111,556
Pooled income fund	76,688	75,297
Total charitable remainder and other trusts	<u>3,205,453</u>	<u>2,798,351</u>
Total split-interest agreements	<u>\$ 6,561,776</u>	<u>\$ 7,452,203</u>

Liabilities under split-interest agreements included in the accompanying statements of financial position were \$2,263,805 and \$3,141,673 at September 30, 2012 and 2011, respectively. Net contributions under split-interest agreements were approximately \$101,408 and \$596,220 for the years ended September 30, 2012 and 2011, respectively.



## Defenders of Wildlife

Notes to Financial Statements  
September 30, 2012 and 2011

### 7. Property and Equipment

Defenders held the following property and equipment at September 30:

	2012	2011
Land	\$ 4,585,586	\$ 4,585,586
Buildings and improvements	8,681,319	8,621,785
Computer equipment	1,618,458	1,586,877
Furniture and equipment	636,416	631,261
Website	730,561	590,664
Total property and equipment	16,252,340	16,016,173
Less: accumulated depreciation	(5,349,002)	(4,765,217)
Property and equipment, net	<u>\$ 10,903,338</u>	<u>\$ 11,250,956</u>

### 8. Bonds 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 is 27 years, with interest-only for the first 2 years. Annual principal payments commenced July 1, 2005.

Defenders entered into an interest rate swap agreement to manage the interest cost and risk associated with its outstanding debt. The interest rate swap agreement was not entered into for trading or speculative purposes. Under the terms of this agreement, Defenders pays a fixed rate of 4.335% and receives a variable rate on the respective notional principal amount, which was \$5,710,000 and \$5,905,000 at September 30, 2012 and 2011, respectively. The agreement matures July 1, 2017 and is collateralized by a first deed of trust on the building. The estimated cost to terminate this agreement was \$984,865 and \$1,054,655 at September 30, 2012 and 2011, respectively.

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

## Defenders of Wildlife

Notes to Financial Statements  
September 30, 2012 and 2011

### 8. Bonds Payable (continued)

Maturities on the bond obligations are as follows for the years ending September 30:

2013	\$	205,000
2014		220,000
2015		230,000
2016		245,000
2017		255,000
Thereafter		<u>4,555,000</u>
Total maturities	\$	<u><u>5,710,000</u></u>

There are a number of financial and operating covenants associated with the bonds 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, 2012 and 2011. Interest expense on the bonds for the years ended September 30, 2012 and 2011 was \$262,943 and \$275,497, respectively.

### 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, 2012 and 2011.

### 10. Concentration of Credit Risk

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

## Defenders of Wildlife

Notes to Financial Statements  
September 30, 2012 and 2011

### 11. Net Assets

At September 30, 2012, 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	\$ 2,593,599	\$ -	\$ -	\$ -	\$ 2,593,599
Land and building	4,522,076	-	-	-	4,522,076
Property and equipment	669,294	-	-	-	669,294
Program grants	-	6,719	3,371,603	-	3,378,322
Board-designated endowment	-	6,020,012	-	-	6,020,012
Charitable remainder and other trusts	-	-	1,806,754	-	1,806,754
Charitable gift annuities	-	-	1,697,929	-	1,697,929
Beneficial interest in perpetual trusts	-	-	-	1,235,404	1,235,404
Other endowment	-	-	-	145,868	145,868
Pooled income fund	-	-	76,691	-	76,691
Lloyd Symington Memorial Fund for Wildlife Education	-	162,512	-	36,924	199,436
Walter Kuhlmann Memorial Fund for Wildlife Litigation	-	37,316	-	-	37,316
<b>Total net assets</b>	<b>\$ 7,784,969</b>	<b>\$ 6,226,559</b>	<b>\$ 6,952,977</b>	<b>\$ 1,418,196</b>	<b>\$ 22,382,701</b>

## Defenders of Wildlife

Notes to Financial Statements  
September 30, 2012 and 2011

### 11. Net Assets (continued)

At September 30, 2011, 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	\$ 3,495,225	\$ -	\$ -	\$ -	\$ 3,495,225
Land and building	4,612,297	-	-	-	4,612,297
Property and equipment	733,659	-	-	-	733,659
Program grants	-	6,719	5,236,655	-	5,243,374
Board-designated endowment	-	5,063,712	-	-	5,063,712
Charitable remainder and other trusts	-	-	1,608,070	-	1,608,070
Charitable gift annuities	-	-	1,515,609	-	1,515,609
Beneficial interest in perpetual trusts	-	-	-	1,111,556	1,111,556
Other endowment	-	-	-	144,191	144,191
Pooled income fund	-	-	74,924	-	74,924
Lloyd Symington Memorial Fund for Wildlife Education	-	162,512	-	36,499	199,011
Walter Kuhlmann Memorial Fund for Wildlife Litigation	-	37,726	-	-	37,726
Total net assets	\$ 8,841,181	\$ 5,270,669	\$ 8,435,258	\$ 1,292,246	\$ 23,839,354

## Defenders of Wildlife

Notes to Financial Statements  
September 30, 2012 and 2011

### 11. Net Assets (continued)

#### Board Designated Endowment

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

#### Program Grants

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

#### Split-Interest Agreements

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

#### Lloyd Symington Memorial Fund for Wildlife Education

The Board of Directors designated this separate fund to strengthen Defenders' ability to respond to requests for wildlife information from school children, teachers, and the general public, and to enable Defenders to expand its other educational activities. The balance, including amounts that are permanently restricted, was \$199,436 and \$199,011 for the years ended September 30, 2012 and 2011, respectively.

#### Walter Kuhlmann Memorial Fund for Wildlife Litigation

Defenders established the Walter Kuhlmann Memorial Fund for Wildlife Litigation in 1998. Income generated by the fund is used to supplement Defenders' litigation program on behalf of threatened or endangered wildlife species and their habitats. During fiscal year 2011, it was determined that the amounts originally recorded as permanently restricted were actually intended to be temporarily restricted for use in the litigation program. Therefore, the amounts were reclassified from permanently restricted to designated unrestricted funds. The balance was \$37,316 and \$37,726 for the years ended September 30, 2012 and 2011, respectively.

## Defenders of Wildlife

Notes to Financial Statements  
September 30, 2012 and 2011

### 11. Net Assets (continued)

#### Undesignated and Other Funds

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

### 12. Endowment

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

#### Interpretation of Relevant Law

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

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

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

## Defenders of Wildlife

Notes to Financial Statements  
September 30, 2012 and 2011

### 12. Endowment (continued)

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

#### Composition of Endowment Net Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>2012:</u>				
Donor-restricted endowment funds	\$ -	\$ -	\$ 1,418,196	\$ 1,418,196
Board designated endowment funds	6,020,012	-	-	6,020,012
<b>Total endowment funds</b>	<b>\$ 6,020,012</b>	<b>\$ -</b>	<b>\$ 1,418,196</b>	<b>\$ 7,438,208</b>
<u>2011:</u>				
Donor-restricted endowment funds	\$ -	\$ -	\$ 1,292,246	\$ 1,292,246
Board designated endowment funds	5,063,712	-	-	5,063,712
<b>Total endowment funds</b>	<b>\$ 5,063,712</b>	<b>\$ -</b>	<b>\$ 1,292,246</b>	<b>\$ 6,355,958</b>

#### Changes in Endowment Net Assets

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

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

## Defenders of Wildlife

Notes to Financial Statements  
September 30, 2012 and 2011

### 12. Endowment (continued)

#### Changes in Endowment Net Assets (continued)

Changes in endowment net assets were as follows for the year ended September 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning	\$ 5,029,135	\$ -	\$ 1,422,206	\$ 6,451,341
Investment return:				
Net appreciation	34,577	-	1,785	36,362
Change in value in split interest agreements	-	-	(55,572)	(55,572)
Total investment return	34,577	-	(53,787)	(19,210)
Contributions	-	-	-	-
Reclassification	-	-	(76,173)	(76,173)
Endowment net assets, ending	<u>\$ 5,063,712</u>	<u>\$ -</u>	<u>\$ 1,292,246</u>	<u>\$ 6,355,958</u>

#### 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, 2012 and 2011.

#### 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

Notes to Financial Statements  
September 30, 2012 and 2011

### 13. Related Parties

Defenders is affiliated with a related 501(c)(4) organization, the Defenders of Wildlife Action Fund (“the Fund”). The Fund is also a District of Columbia nonprofit and was incorporated in 2001 to carry on public policy, social welfare, and advocacy work. Its mission is to educate people of all ages about wildlife, habitats, and other environmental activities. Defenders and the Fund have common staff, facilities, and overhead costs, with the appropriate shares of these expenses assigned to each organization under a formal cost-sharing agreement. During the years ended September 30, 2012 and 2011, the Fund’s full portion of shared costs was \$30,249 and \$197,574, respectively. The Fund contributed \$25,000 and \$95,000 to Defenders during the years ended September 30, 2012 and 2011, respectively.

The Fund rented Defenders’ membership list for educational and fundraising purposes. The total income to Defenders for these rentals was \$0 and \$14,860 for the years ended September 30, 2012 and 2011, 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 \$260,962 and \$674,569 for the years ended September 30, 2012 and 2011, respectively. Included in accounts receivable is \$2,972 due from the Fund at September 30, 2012, which was received subsequent to year-end. Included in accounts payable at September 30, 2011 is \$147,839 of amounts due to the Fund, which was paid subsequent to year end.

During the years ended September 30, 2012 and 2011, 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 2012 and 2011 amounted to \$117,706 and \$141,674, respectively, of which \$89,475 and \$99,723 are represented as in-kind donation for the years then ended.

### 14. 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 \$588,789 and \$486,131 for the years ended September 30, 2012 and 2011, respectively.

## Defenders of Wildlife

Notes to Financial Statements  
September 30, 2012 and 2011

### 14. Retirement Plan (continued)

#### Deferred Compensation Plan

Defenders maintained a non-qualified deferred compensation plan for the former President as a means of providing a supplemental benefit. During 2012, the President retired and the plan assets were paid out. Accordingly, the deferred compensation assets and corresponding liability were \$0 and \$27,064 at September 30, 2012 and 2011, respectively.

### 15. Commitments

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, 2012 and 2011, using the straight-line method, amounted to \$176,132 and \$166,974, respectively.

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

2013	\$	135,773
2014		103,238
2015		94,901
2016		51,011
2017		7,441
		<hr/>
Total future minimum payments	\$	<u>392,364</u>

### 16. Allocation of Joint Costs

Defenders achieves some of its programmatic, management, and general goals through direct response and similar campaigns that include requests for contributions. In the years ended September 30, 2012 and 2011, Defenders incurred joint costs for its direct response programs of \$5,964,773 and \$10,005,154, respectively, including information materials and fundraising appeals.

## Defenders of Wildlife

Notes to Financial Statements  
September 30, 2012 and 2011

### 16. Allocation of Joint Costs (continued)

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

	2012	2011
Wildlife action	\$ 255,399	\$ 480,822
Media and education	1,245,689	4,797,465
Law and legislation	181,792	214,036
Publications	52,433	66,530
Constituency outreach	2,572,736	822,846
Management and general	889,849	2,790,145
Fundraising	766,875	833,310
Total allocated joint costs	<u>\$ 5,964,773</u>	<u>\$ 10,005,154</u>

### 17. Supplemental Disclosure of Cash Flow Information

Total cash payments for interest were \$262,943 and \$275,497 for the years ended September 30, 2012 and 2011, respectively.

### 18. Income Taxes

Under §501(c)(3) of the IRC, Defenders is exempt from the payment of taxes on income other than net unrelated business income. Defenders was granted non-private foundation status under IRC §509(a)(1) and IRC §170(b)(1)(A)(vi). No provision for taxes has been made as there were no significant taxes resulting from unrelated business activities during fiscal years 2012 and 2011. Defenders has elected to be subject to the lobbying limitations under IRC §501(h). Defenders had no significant uncertain tax positions at September 30, 2012 and 2011.

### 19. Subsequent Events

Defenders follows the guidance of FASB ASC 855, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the statement of financial position date but before the financial statements are issued. FASB ASC 855 also requires disclosure of the date through which an entity has evaluated subsequent events. In preparing these financial statements, Defenders has evaluated events and transactions for potential recognition or disclosure through February 7, 2013, the date the financial statements were issued.