NATIONAL WILDLIFE FEDERATION
AND RELATED ORGANIZATION
CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED AUGUST 31, 2014 AND 2013
WITH REPORT OF INDEPENDENT AUDITORS

NATIONAL WILDLIFE FEDERATION
AND RELATED ORGANIZATION
CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Auditors

To the Board of Directors
National Wildlife Federation
Reston, Virginia

We have audited the accompanying consolidated financial statements of **National Wildlife Federation and related organization** (the "Federation"), which comprise the consolidated statements of financial position as of August 31, 2014 and 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **National Wildlife Federation and related organization** as of August 31, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

Bethesda, Maryland
December 22, 2014

NATIONAL WILDLIFE FEDERATION
AND RELATED ORGANIZATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands)

	August 31, 2014	August 31, 2013
ASSETS		
Cash and cash equivalents	$ 271	$ 230
Investments	57,918	56,248
Grants and other restricted receivable, net	12,413	8,165
Other contributions receivable, net	2,429	3,505
Accounts receivable, net of allowance for doubtful accounts of $45 and $346	1,457	1,301
Inventory, Nature Education Materials	892	861
Prepaid expenses	2,105	2,933
Charitable gift annuities and other trusts	12,420	11,837
Property, plant and equipment, net	21,898	21,329
Other assets	1,185	1,179
Permanently restricted investments	5,458	5,430
Total assets	$ 118,446	$ 113,018
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 3,575	$ 6,143
Accrued payroll and related costs	3,221	2,335
Current portion of notes payable and line of credit	9,046	5,133
Deferred revenue	8,971	9,041
Notes payable, net of current portion	20,028	20,936
Accrued pension and post-retirement benefits	18,453	19,683
Other liabilities	3,570	3,810
Total liabilities	66,864	67,081
Commitments and Contingencies		
Net Assets		
Unrestricted net assets		
Undesignated	13,123	7,132
Designated	4,707	7,047
Total unrestricted net assets	17,830	14,179
Temporarily restricted net assets	24,054	22,480
Permanently restricted net assets	9,698	9,278
Total net assets	51,582	45,937
Total liabilities and net assets	$ 118,446	$ 113,018

See accompanying notes.

NATIONAL WILDLIFE FEDERATION
AND RELATED ORGANIZATION
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2014
(in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Revenue				
Contributions from individuals	$ 28,062	$ 4,958	$	$ 33,020
Contributions from governments, foundations and corporations	1,234	18,046		19,280
Publications	11,729			11,729
Nature education materials	9,016			9,016
Investment return	9,654			9,654
Royalties	904			904
Other	2,250	22	420	2,692
	62,849	23,026	420	86,295
Net assets released from restrictions				
Satisfaction of program restrictions	18,000	(18,000)		
Expiration of time restrictions	3,452	(3,452)		
Total net assets released from restrictions	21,452	(21,452)		
Total revenue	84,301	1,574	420	86,295
Expenses				
Programs				
Conservation advocacy programs	25,201			25,201
Education outreach and publications	16,950			16,950
Other nature education programs	11,026			11,026
Membership education programs	8,921			8,921
Total programs	62,098			62,098
Support services				
Fund raising	10,344			10,344
General and administrative	9,549			9,549
Total support services	19,893			19,893
Total program and support service expenses	81,991			81,991
Increase in net assets before changes in pension and post retirement benefits	2,310	1,574	420	4,304
Pension and post retirement benefits	1,341			1,341
Increase in net assets	3,651	1,574	420	5,645
Net assets, beginning of year	14,179	22,480	9,278	45,937
Net assets, end of year	$ 17,830	$ 24,054	$ 9,698	$ 51,582

See accompanying notes.

NATIONAL WILDLIFE FEDERATION
AND RELATED ORGANIZATION
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2013
(in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Revenue				
Contributions from individuals	$ 24,381	$ 10,962	$	$ 35,343
Contributions from governments, foundations and corporations	6,064	11,740		17,804
Publications	13,851			13,851
Nature education materials	9,463			9,463
Investment return	6,972			6,972
Royalties	1,032			1,032
Other	1,356	(521)	131	966
	63,119	22,181	131	85,431
Net assets released from restrictions				
Satisfaction of program restrictions	15,831	(15,831)		
Expiration of time restrictions	4,310	(4,310)		
Total net assets released from restrictions	20,141	(20,141)		
Total revenue	83,260	2,040	131	85,431
Expenses				
Programs				
Conservation advocacy programs	26,640			26,640
Education outreach and publications	18,493			18,493
Other nature education programs	11,335			11,335
Membership education programs	9,857			9,857
Total programs	66,325			66,325
Support services				
Fund raising	9,804			9,804
General and administrative	8,675			8,675
Total support services	18,479			18,479
Total program and support service expenses	84,804			84,804
(Decrease) increase in net assets before changes in pension and post retirement benefits.	(1,544)	2,040	131	627
Pension and post retirement benefits	2,736			2,736
Increase in net assets	1,192	2,040	131	3,363
Net assets, beginning of year	12,987	20,440	9,147	42,574
Net assets, end of year	$ 14,179	$ 22,480	$ 9,278	$ 45,937

See accompanying notes.

NATIONAL WILDLIFE FEDERATION
AND RELATED ORGANIZATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2014
(in thousands)

	Programs				Support Services		
	Conservation Advocacy Programs	Education Outreach and Publications	Other Nature Education Programs	Membership Education Programs	Fund Raising	General and Administrative	Total
Salaries and benefits	$ 14,245	$ 5,825	$ 1,618	$ 784	$ 2,703	$ 5,536	$ 30,711
Consultants and contractors	3,462	1,780	2,721	1,311	1,473	959	11,706
Cost of goods sold		7	2,576			21	2,604
Postage and shipping	30	3,181	1,076	2,685	2,212	600	9,784
Printing and production	156	3,869	1,378	3,087	2,321	678	11,489
Travel	1,035	112	92		84	135	1,458
Conservation assistance	2,398	43					2,441
Occupancy and depreciation	1,599	579	172	71	194	542	3,157
Information systems	1,129	760	494	400	463	411	3,657
Other	1,147	794	899	583	894	667	4,984
Total expenses	$ 25,201	$ 16,950	$ 11,026	$ 8,921	$ 10,344	$ 9,549	$ 81,991

See accompanying notes.

NATIONAL WILDLIFE FEDERATION
AND RELATED ORGANIZATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2013
(in thousands)

	Programs				Support Services		
	Conservation Advocacy Programs	Education Outreach and Publications	Other Nature Education Programs	Membership Education Programs	Fund Raising	General and Administrative	Total
Salaries and benefits	$ 15,792	$ 5,493	$ 1,931	$ 930	$ 2,413	$ 3,907	$ 30,466
Consultants and contractors	2,893	2,116	2,889	1,934	1,674	713	12,219
Cost of goods sold		6	2,352	5			2,363
Postage and shipping	34	3,567	1,196	2,506	1,817	651	9,771
Printing and production	121	4,401	1,437	3,302	1,679	848	11,788
Donated services	500	1	3		10		514
Travel	1,085	157	65	4	90	141	1,542
Conservation assistance	2,028	79	2		1		2,110
Occupancy and depreciation	1,530	667	239	117	198	822	3,573
Information systems	1,337	919	564	490	487	400	4,197
Other	1,320	1,087	657	569	1,435	1,193	6,261
Total expenses	$ 26,640	$ 18,493	$ 11,335	$ 9,857	$ 9,804	$ 8,675	$ 84,804

See accompanying notes.

NATIONAL WILDLIFE FEDERATION
AND RELATED ORGANIZATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended August 31, 2014	Year Ended August 31, 2013
Cash flows from operating activities:		
Change in net assets	$ 5,645	$ 3,363
Adjustments to reconcile change in net assets		
to net cash used in operating activities:		
Bad debt expense	363	264
Depreciation and amortization	1,021	1,220
Amortization of financing costs and debt discount	(32)	416
Realized and unrealized gains on investments and annuities	(8,145)	(5,679)
Gain on pension assets	(1,230)	(2,348)
Changes in assets and liabilities:		
Grants and other contributions receivable	(3,172)	(995)
Accounts receivable	(519)	(17)
Inventory, Nature Education Materials	(31)	48
Prepaid expenses	828	(497)
Other assets	214	1,140
Accounts payable and accrued expenses	(2,568)	(1,440)
Accrued payroll and related costs	886	(353)
Deferred revenue	(70)	(1,583)
Other liabilities	(240)	(438)
Net cash used in operating activities	(7,050)	(6,899)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,590)	(606)
Proceeds from sale of property, plant and equipment		40
Purchases of investments	(9,711)	(17,964)
Sales and maturities of investments	15,387	23,093
Net cash provided by investing activities	4,086	4,563
Cash flows from financing activities:		
Principal payments on bonds and notes payable and line of credit	(22,593)	(47,653)
Borrowings under notes payable and line of credit	25,598	49,521
Net cash provided by financing activities	3,005	1,868
Net change in cash and cash equivalents	41	(468)
Cash and cash equivalents, beginning of year	230	698
Cash and cash equivalents, end of year	271	230

See accompanying notes.

(in thousands)

NOTE 1 – ORGANIZATION AND PURPOSE

National Wildlife Federation (NWF) and National Wildlife Federation Endowment, Inc. (the Endowment) are not-for-profit organizations that were formed in the District of Columbia for the purpose of promoting the wise use and proper management of our natural resources. Founded in 1936, NWF, its member supporters and a national network of affiliated organizations work to inspire Americans to protect wildlife for our children's future. Support is provided primarily by individuals, foundations and corporations, along with some federal and state grants. Other major revenue sources are memberships, subscriptions to magazines published by NWF, sales of nature educational materials and royalties. The Endowment provides long-term stability by investing and preserving NWF assets. By investing in a manner consistent with NWF's mission and values, the Endowment returns a stream of income to NWF to support conservation education programs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the assets, liabilities, net assets and financial activities of NWF and the Endowment (collectively, the Federation). All significant inter-entity balances and transactions have been eliminated in the accompanying consolidated financial statements.

State affiliates, who are members of NWF, are independent and autonomous organizations. As NWF has no economic interest or control of state affiliates, their financial activities are not included in the accompanying consolidated financial statements of the Federation.

The Federation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Temporarily restricted net assets consist of contributions where the use by the Federation is limited by donor-imposed stipulations that expire by the passage of time or can be fulfilled and removed by actions of the Federation related to those stipulations. Permanently restricted net assets consist of contributions where the use by the Federation is limited by donor-imposed stipulations that the assets be maintained permanently.

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 reported amounts of assets and liabilities and the 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. Actual results could differ from those estimates.

(in thousands)

Cash and Cash Equivalents

The Federation maintains its cash balances at several financial institutions which, at times, may exceed federally insured limits. The Federation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Investments

Investments are stated at fair value. Unrealized and realized gains and losses are included in the consolidated statements of activities.

Investments in common and preferred stock are stated at quoted market values. Mutual funds are stated at fair value as established by outside parties. Realized gains or losses are reported in the accompanying consolidated statements of activities. Changes in fair values are included in investment return in the accompanying consolidated statements of activities.

Institutional commingled funds have no readily determined market value and are valued at fair value as estimated by the fund. Because of the inherent uncertainty of valuation, it is reasonably possible that estimated values may differ from the values that would have been used had a ready market for the securities existed. In addition, the funds may also have risk associated with their concentrations of investments in certain industries and one geographic region.

Grants and Other Contributions Receivable

Unconditional promises to give, including grants, that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows using a discount rate of 5%. Amortization of the discounts is included in contribution revenue. The allowance method is used to determine the uncollectible amounts. The Federation records an allowance for doubtful accounts on its outstanding receivables based on its collection history, analysis of subsequent collections, and specific identification of uncollectible accounts. No allowance was deemed necessary as of August 31, 2014 and 2013. Credit risk with respect to grants and other contributions receivable is limited because the Federation deals with a large number of foundations, grant makers and donors with a wide range of awards and geographic area.

(in thousands)

At August 31, 2014 and 2013, grants and other restricted receivable include the following unconditional promises to give:

	2014	2013
Grants and other restricted receivable		
Amount due in less than one year	$ 8,304	$ 6,126
One to five years	4,367	2,141
Subtotal	12,671	8,267
Less: Discount	(258)	(102)
Total grants and other restricted receivable	$ 12,413	$ 8,165

At August 31, 2014 and 2013, other contributions receivable include the following unconditional promises to give:

	2014	2013
Other contributions receivable		
Amount due in less than one year	$ 1,459	$ 2,219
One to five years	298	624
More than five years	698	693
Subtotal	2,455	3,536
Less: Discount	(26)	(31)
Total other contributions receivable	$ 2,429	$ 3,505

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consists primarily of amounts due from third parties for the Federation's publications, advertising, and royalties. The allowance method is used to determine the uncollectible amounts. The Federation records an allowance for doubtful accounts on its outstanding receivables based on its collection history, analysis of subsequent collections, and specific identification of uncollectible accounts. Amounts determined to be uncollectible are recorded as bad debt expense. The publications' allowance is determined based on a 12 month average of receivables written off applied to the total receivable balance. The allowance for doubtful accounts was $45 and $346 for the years ended August 31, 2014 and 2013, respectively. Of this, $0 and $300 was designated as a reserve for children's publications in August 31, 2014 and 2013, respectively.

(in thousands)

Charitable Gift Annuities and Other Trusts

The Federation has been named as beneficiary in several split income gifts that include charitable gift annuities, charitable remainder and lead trusts, and perpetual trusts. The split interest gifts have been valued based on discount rates approved by the Internal Revenue Service (IRS) on the date of the gift, which range from 1.2% to 9.6%.

The Federation serves as the administrator for all charitable gift annuities and certain remainder trusts received. A third party holds amounts received and makes specified payments to annuitants. The excess in fair value of assets received over the liability assumed is recorded as either unrestricted or temporarily restricted revenue. The liabilities are included in other liabilities in the accompanying consolidated statements of financial position. The assets are adjusted each year based on the fair value of the investments held by the third party. The liability is adjusted each year based on the adjusted life expectancies of the annuitants. Changes in assets and liabilities are recorded in the accompanying consolidated statements of activities in temporarily restricted other revenue.

Charitable remainder and lead trusts for which the Federation is not the trustee are recorded as temporarily restricted revenues when the trusts are established. The receivable associated with the charitable remainder and lead trusts are adjusted each year based upon the present value of future cash flows. This change is recorded in the accompanying consolidated statements of activities in temporarily restricted net assets as other revenue.

The beneficial interests in perpetual trusts are recorded at fair market value and the change in fair value of the trusts is recorded in the accompanying consolidated statements of activities in permanently restricted net assets as other revenue.

Contributed Property

Contributed property, equipment and other noncash assets are recorded at their fair value at the date of donation. If donors stipulate how the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Property, Plant and Equipment

The Federation capitalizes all purchases of capital assets that are greater than $1,000. Building and improvements are recorded at cost and depreciated using the straight-line method over their estimated useful lives of 20 to 50 years. Equipment, furniture and vehicles are recorded at cost and depreciated using the straight-line method over their estimated useful lives of 3 to 8 years. Leasehold improvements are amortized over the lesser of 10 years or the life of the lease. Maintenance and repairs are charged to expense as incurred. Effective September 1, 2013, the Federation changed the useful life of Computer equipment from three years to four years. This

(in thousands)

was done to recognize the actual period of use of computer equipment for NWF. This change resulted in an immaterial reduction in depreciation expense for the year ended August 31, 2014.

Conservation Properties

Conservation properties are recorded at estimated market value at date of donation and are included in property, plant and equipment in the accompanying consolidated statements of financial position. The carrying value is adjusted if the market value is less than the recorded value. Covenants on certain properties restrict their future use to conservation activities.

Impairment of Long Lived Assets

The Federation reviews the carrying amounts of assets whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the asset is reduced, by a charge to the consolidated statements of activities, to its current fair value.

Restricted and Unrestricted Revenue

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted revenue, depending on the existence and/or nature of any donor stipulations. Donor restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the stipulation. When a 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 accompanying consolidated statements of activities as net assets released from restrictions.

Revenue Recognition

NWF's contribution program promotes subscriptions to *National Wildlife®* magazine as a benefit of membership in NWF. Therefore, a portion of the membership revenue is considered to be a contribution and a portion is considered to be an exchange transaction for the magazine. The amount of the contribution less the value to fulfill the magazine benefit is recognized as contribution revenue in these financial statements. The remaining amount is recorded as deferred revenue and recognized ratably over one year. Subscription revenue for *Ranger Rick®* and *Ranger Rick Junior®* is recognized ratably over the subscription period, with the unearned portion classified as deferred revenue in the accompanying consolidated statements of financial position.

Donations, bequests, grants and federal and state grant awards are recorded in the period they are received at the expected realizable value. Unconditional promises to give are recognized as revenues and assets in the period the promise is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

(in thousands)

The Federation received $2,412 and $2,331 in the years ended August 31, 2014 and 2013, respectively, from a monthly donor program. The pledges from this program are deemed to be conditional because donors can cancel their participation at any time. Therefore, the pledges are recognized as revenue only when payment is received.

Federal and State Grant Awards

Amounts received and expended by the Federation under various federal and state grant awards are subject to audit by government agencies. Management believes that adjustments, if any, which might result from such audits would not have a material impact on the consolidated financial position of the Federation.

Donated Services and In-Kind Contributions

The Federation recognizes contribution revenue for certain goods or services received at the fair value of those goods and services. In the years ended August 31, 2014 and 2013, the Federation received $228 and $514, respectively, in donated professional legal, actuarial, training and program advertising services and goods used in program and fund raising activities that are recorded in the accompanying consolidated statements of activities. However, many individuals volunteer their time and perform a variety of tasks that assist the Federation with its conservation education programs that do not meet the criteria for recording contributed services in the consolidated financial statements.

Functional Allocation of Expenses

The cost of providing the various conservation education programs and support services has been accounted for on a functional basis in the accompanying consolidated statements of activities. Accordingly, certain costs have been allocated among program and support services based on total direct expenses or total salaries, benefits and related expenses.

Conservation education programs consist of conservation advocacy, education outreach, publications, other nature education and membership education programs. These activities result in goods and services being distributed to beneficiaries, customers and members that fulfill the purposes and mission for which the Federation exists.

Support services include fund raising and general and administrative expenses. Fund raising activities include publicizing and conducting fund raising campaigns, maintaining donor mailing lists, preparing and distributing fund raising materials and conducting other activities involved with soliciting contributions. General and administrative activities include oversight, business management, general record keeping, budgeting, finance and related administrative activities, and all management and administration except for direct conduct of program services and fund raising activities.

(in thousands)

The Federation accounts for joint costs incurred for informational materials and activities that are included in fund raising appeals in accordance with Accounting Standards Codification (ASC) 958-720-45, *Accounting for Costs of Activities that Include Fundraising,* in determining costs to be allocated. For the years ended August 31, 2014 and 2013, the Federation incurred joint costs of $17,133 and $16,176, respectively. Of those costs, $6,839 and $5,824 were allocated to fund raising expense, $8,419 and $8,208 were allocated to other conservation programs and $1,875 and $2,144 were allocated to general and administrative expense in 2014 and 2013, respectively. Other direct and allocated operating expenses of $3,505 and $3,980 were also incurred for fund raising activities during 2014 and 2013, respectively.

Direct-Response Promotional Costs

For the membership education programs, the costs of direct-response promotions are deferred and amortized to expense as mailings are done in the accompanying consolidated statements of activities. Promotional costs of children's publications and the NWF catalog are deferred and amortized to expense over the period during which future benefits are expected to be received (generally one to four months). As of August 31, 2014 and 2013, promotional costs of $859 and $1,701, respectively, were recorded as prepaid expenses. Promotional expenses for the years ended August 31, 2014 and 2013 were $20,126 and $20,572, respectively.

Fair Value Measurements

The Federation follows the provisions of ASC 820, *Fair Value Measurements*, in accounting for fair value measurements. ASC 820 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. ASC 820 applies only to fair value measurements already required or permitted by existing standards. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the nature of the inputs used in the valuation of an asset or liability as of the measurement date.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

The levels of the fair value hierarchy are defined as follows in ASC 820:

(in thousands)

Level 1 – Valuation based on quoted market prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 – Valuation based on quoted market prices of investments that are not actively traded or for which certain significant inputs are not observable, either directly or indirectly.

Level 3 – Valuation based on inputs that are unobservable and reflect management's best estimate of what market participants would use as fair value. The fair value of investments in the institutional commingled funds is derived from other valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and are not based on market exchange, dealer, or broker-traded transactions.

Recent Accounting Pronouncements

In April 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-06, *Services Received from Personnel of an Affiliate* (ASU 2013-06). The amendments in ASU 2013-06 require a recipient not-for-profit (NFP) to recognize all services from personnel of an affiliate that directly benefit the recipient NFP entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. The amendment is effective prospectively for fiscal years beginning after June 15, 2014. The Federation is currently evaluating the effect the provisions of ASU 2013-06 will have on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 requires a NFP entity to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. Five key steps will be required to assess revenue recognition along with enhanced disclosures. The amendment is effective for fiscal years beginning after December 15, 2017. The Federation is currently evaluating the effect the provisions of ASU 2014-09 will have on the consolidated financial statements.

Reclassifications

Certain prior year amounts have been reclassified for comparative purposes to conform to current year presentation.

(in thousands)

NOTE 3 – INVESTMENTS AND PERMANENTLY RESTRICTED INVESTMENTS

Investments, at market, consist of the following at August 31, 2014 and 2013:

	2014	2013
Common and preferred stock	$ 13,664	$ 12,063
Institutional commingled funds	21,915	17,348
Mutual funds – bond funds	8,197	11,665
Mutual funds – stock	14,142	15,172
Total unrestricted investments	57,918	56,248
Institutional commingled funds – permanently restricted	5,458	5,430
Total investments	$ 63,376	$ 61,678

Investment return consists of the following for the years ended August 31, 2014 and 2013:

	2014	2013
Dividends and interest income	$ 1,492	$ 1,293
Net realized gains on investments	1,962	2,381
Net unrealized gains	6,183	3,298
Total	$ 9,637	$ 6,972

Investment expenses were $373 and $338 for the years ended August 31, 2014 and 2013, respectively, and are included in total program and support services expenses on the accompanying consolidated statements of activities.

NOTE 4 – CHARITABLE GIFT ANNUITIES AND OTHER TRUSTS

At August 31, 2014 and 2013, charitable gift annuities and other trusts consist of the following:

	2014	2013
Charitable gift annuities	$ 6,161	$ 5,973
Charitable remainder trusts	1,991	1,988
Perpetual trusts	4,240	3,848
Charitable lead trusts	28	28
Total	$ 12,420	$ 11,837

(in thousands)

At August 31, 2014 and 2013, the estimated reserves and deferred income for the above charitable gift annuities and other trusts, included in other liabilities, consist of the following:

		2014	2013
Charitable gift annuities		$ 3,490	$ 3,755
Charitable remainder trusts		58	52
	Total	$ 3,548	$ 3,807

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

At August 31, 2014 and 2013, property, plant and equipment consist of:

		2014	2013
Land		$ 4,456	$ 4,456
Building and improvements		21,168	21,146
Equipment, furniture and vehicles		9,908	9,490
Conservation properties		692	692
		36,224	35,784
Less: accumulated depreciation and amortization		(14,326)	(14,455)
	Total	$ 21,898	$ 21,329

The Federation recorded depreciation and amortization expense on its property, plant and equipment of $1,021 and $1,220 during the years ended August 31, 2014 and 2013, respectively.

(in thousands)

NOTE 6 –NOTES PAYABLE AND LINE OF CREDIT

The Federation has the following debt obligations as of August 31:

	2014	**2013**
Term loan of $14,976 with the Bank of America, terms are described below.	$ 14,321	$ 14,976
Long-term debt originally at $8,085, is a loan payable to Bank of America, N.A., maturing June 1, 2016. The unpaid principal bears interest at the BBA LIBOR Daily Floating Rate plus sixty-five one-hundredths of one percent (0.65%) per annum, which was .805% at August 31, 2014 and .83% at August 31, 2013, respectively.	6,614	6,836
Operating line of credit, terms are described below.	8,139	4,257
Subtotal	29,074	26,069
Current portion	(9,046)	(5,133)
Total	$ 20,028	$ 20,936

In July 2013, NWF and Bank of America, N.A., ("BOA") entered into a term loan in the amount of $14,976. This loan has a five year term with interest at LIBOR daily floating rate plus 1.55% with principle being amortized over a twenty year period. A balloon payment in the amount of the remaining principal balance of $11,586 is due at the end of the five year term. Under the most restrictive covenants associated with the new term loan, the Federation is required to maintain: (1) a debt service coverage ratio of at least 1.10 to 1.0, measured annually as of the last day of each fiscal year, commencing with the fiscal year ending August 31, 2013, and (2) a Liquidity Coverage Ratio of at least 0.75 to 1.0, measured semi-annually as of the last day of the second and fourth fiscal quarters in each fiscal year, commencing with the fiscal quarter ending August 31, 2013. At August 31, 2014, the Federation was in compliance with its covenants. Costs associated with the new term loan issuance have been capitalized under 'other assets' and are being amortized over the five year term.

In June 2006, NWF and Bank of America, N.A., ("BOA") entered into a term loan of $8,085. The proceeds were used by NWF to acquire the Winchester Wildlife Trust (the Trust) interest and to fulfill obligations to the Trust under a Put/Call Agreement dated June 1996. Commencing July 1, 2006, and continuing on the first day of each month thereafter, principal on the term loan is due and payable in amounts set forth on a schedule provided by BOA. Unless sooner paid, the unpaid principal, together with interest accrued and unpaid thereon, is due and payable in full on June 1, 2016. Under the most restrictive covenant, the Federation must maintain a liquidity coverage ratio, as defined in the agreement, of at least 0.5 to 1.0. At August 31, 2014 and 2013, the Federation was in compliance with this covenant.

(in thousands)

NWF has an unsecured operating line of credit of up to $12,000 that expires April 30, 2015. As of August 31, 2014 and 2013, $8,139 and $4,257 were drawn on the line of credit, respectively. The line of credit bears interest at the LIBOR daily floating rate plus 1 percentage point, which was 1.51% and 1.67% at August 31, 2014 and 2013, respectively. Under the most restrictive covenant, the Federation must maintain a liquidity ratio of at least 0.33 to 1.0. At August 31, 2014 and 2013, the Federation was in compliance with this covenant.

For the years ended August 31, 2014 and 2013, the Federation recorded interest expense of $732 and $1,039, respectively. On the consolidated statements of functional expenses, interest expense of $640 and $928 is included in occupancy and depreciation, $92 and $111 is included in other for the years ended August 31, 2014 and 2013, respectively. Cash paid for interest was $402 and $1,391 for the years ending August 31, 2014 and 2013, respectively.

As of August 31, 2014, NWF was required to make the following minimum principal payments, net of discounts, in the years ending August 31:

2015	$ 9,046
2016	7,069
2017	708
2018	12,251
Total	$ 29,074

NOTE 7 – NET ASSETS

At August 31, 2014 and 2013, the restrictions on temporarily restricted net assets are as follows:

	2014	2013
Purpose -		
Conservation programs	$ 1,956	$ 2,548
Education outreach and publications	377	73
Time	3,933	5,301
Time and Purpose -		
Conservation advocacy programs	16,567	13,579
Education outreach and publications	1,221	979
Total	$ 24,054	$ 22,480

(in thousands)

At August 31, 2014 and 2013, permanently restricted net assets are restricted in perpetuity, the income from which is expendable to support:

	2014	2013
Conservation advocacy programs	$ 251	$ 249
Education outreach and publications	503	503
Any activities of the organization	4,704	4,678
	5,458	5,430
Perpetual trusts	4,240	3,848
Total	$ 9,698	$ 9,278

At August 31, 2014 and 2013, unrestricted net assets are as follows:

	2014	2013
Undesignated	$ 13,123	$ 7,132
NWF designated		2,770
Board designated -		
Beere Fund	1,086	1,086
Conservation Program Reserve Fund	3,621	3,191
Total	$ 17,830	$ 14,179

Board designated net assets represent amounts designated for specific uses. The Beere Fund was designated by the Board after receipt of a bequest in 1993 permitting the Board to determine the use for these funds. The funds can be used at the Board's discretion. The Conservation Program Reserve Fund, formerly known as the Endangered Species Fund, was established as a separate Board designated net asset in 1986 from the sale of property donated to the Federation in 1976. The Conservation Program Reserve Fund may be used to fund conservation programs. In the year ended August 31, 2014 NWF eliminated all designated funds other than the Beere Fund and Conservation Program Reserve Funds previously mentioned. The reserve balances are included as "NWF designated" at August 31, 2013 of NWF internally designated net assets of $266 for litigation fees recovery, $889 for the Winchester Facility Maintenance Fund, $450 for Compensation Reserve, $915 for gift planning Investment and $250 for future investments.

(in thousands)

Endowed Funds Net Asset Classifications

In August 2008, FASB issued ASC 958-205, *Reporting Endowment Funds*. ASC 958-205 provides guidance on the net asset classification of donor-restricted endowed funds for a not-for-profit organization. The Federation is subject to the Commonwealth of Virginia's Uniform Prudent Management of Institutional Funds Act (UPMIFA), and adopted ASC 958-205 as of September 1, 2008.

The Federation has interpreted the Commonwealth of Virginia's UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowed funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Federation classifies as permanently restricted net assets (a) the original value of gifts donated to a permanent endowed fund, and (b) the original value of subsequent gifts to the permanent endowed funds. The associated gains and income on donor-restricted endowed funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Federation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Federation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowed funds:

1. The duration and preservation of the fund
2. The purposes of the Federation and the donor-restricted endowed fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Federation
7. The investment policies of the Federation

From time to time, the fair value of assets associated with individual donor-restricted endowed funds may fall below the level that the donor requires the Federation to retain as a fund of perpetual duration. In this situation, the decline in market value of the funds is accounted for in "Unrestricted Net Assets" and not in the endowed funds under "Temporarily Restricted". As of August 31, 2014 and 2013, due to market conditions, unrestricted net assets had no deficiencies for the endowed funds.

Endowed Investment and Spending Policies

Endowed assets include those assets of donor-restricted funds that the Federation must hold in perpetuity or for a donor-specified period. The Federation has adopted investment and spending polices for endowed assets that attempt to provide a predictable stream of funding to programs supported by its endowment.

(in thousands)

The primary financial objective of the investment policy is to maintain intergenerational equity by preserving and enhancing real purchasing power, while at all times keeping in mind the utmost importance of protecting capital. The primary investment objective of the investment policy is to secure sufficient income and portfolio growth over time to meet the ongoing requirements of the Federation. The total return objective is an average annual real rate of return of 6% as measured over a full market cycle, generally three to five years. The Federation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

The Federation's spending policy governs the use of resources in the various endowed funds for program expenses and administrative costs. Endowed funds are used for the specified purpose, or over the specified time period, as indicated by the donor. Endowed funds for which there is some discretion in how the funds are expended are not used to cover operating deficits in specific units.

The annual amount made available for spending, also known as the annual "endowment draw", from endowed funds is determined as 4.5% to 6% of the 12-quarter trailing average market value of the endowment. Draws are used solely for the purposes set forth by the donor in the gift instrument, subject to the submission of a budget that has been reviewed and endorsed by executive management and approved by the Federation's Audit/Finance Committee.

The Federation's endowed funds consist of eighteen funds established for a variety of purposes. All funds are donor-restricted. Net assets associated with endowed funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The following table represents the changes in endowed net assets for the year ended August 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total
Endowed net assets, beginning of year	$	$ 154	$ 5,430	$ 5,584
Contributions			27	27
Investment return - unrealized	532	84		616
Investment return - realized	136	22	1	159
Appropriation of endowed assets for expenditure	(668)	(106)		(774)
Endowed net assets, end of year	$	$ 154	$ 5,458	$ 5,612

(in thousands)

The following table represents the changes in endowed net assets for the year ended August 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total
Endowed net assets, beginning of year	$	$ 154	$ 5,430	$ 5,584
Contributions				
Investment return - unrealized	327	52		379
Investment return - realized	169	27		196
Appropriation of endowed assets for expenditure	(496)	(79)		(575)
Endowed net assets, end of year	$	$ 154	$ 5,430	$ 5,584

NOTE 8 – EMPLOYEE BENEFIT PLANS

Retirement Plan

The National Wildlife Federation Retirement Income Plan (the Plan) is a noncontributory, defined-benefit plan for Federation employees. All employees who reach age and length-of-service requirements and whose employment began prior to January 1, 2003, automatically became participants in the Plan. The Plan is subject to the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

During October 2008, NWF announced that effective January 1, 2009, for employees currently 55 years old and older, the Plan will continue to exist as it is. For employees in the Plan who are under age 55, the Plan will freeze their individual earned pension benefit as of December 31, 2008, and give them enhanced benefits under the Tax Deferred Annuity Plan (TDA Plan). This preserves all the benefits they have earned to date and guarantees them a monthly pension for life, as they have expected.

In March, 2013, the Plan agreement was amended and the accrued benefits of all participants were frozen effective June 30, 2013, and no participant will earn any additional pension amounts after that date. No employment with NWF on or after July 1, 2013 shall be counted as Benefit Service under the Plan. The final average earnings of all participants were frozen effective June 30, 2013, and shall not change after that date.

(in thousands)

The changes in the funded status of the Federation's retirement plan for the years ended August 31, 2014 and 2013, were as follows:

	2014	2013
Change in benefit obligation:		
Benefit obligation at beginning of year	$ (37,761)	$ (38,802)
Service cost	(336)	(442)
Interest cost	(1,664)	(1,624)
Actuarial (losses) gains	(2,414)	823
Curtailment		263
Benefits paid	2,078	2,021
Benefit obligation at end of year	$ (40,097)	$ (37,761)
Change in plan assets:		
Fair value of plan assets at beginning of year	23,844	23,487
Employer contribution	810	386
Actual return on plan assets	4,747	1,992
Benefits paid	(2,078)	(2,021)
Fair value of plan assets at end of year	27,323	23,844
Funded status (Accrued pension liability)	$ (12,774)	$ (13,917)

The accrued pension liability for the retirement plan is included in accrued pension and post-retirement benefits in the accompanying consolidated statements of financial position.

In determining the benefit obligation, discount rates at August 31, 2014 and 2013 of 4.00% and 4.50%, respectively, were assumed. The rate of increase in future compensation levels assumed was 3% at August 31, 2014 and 2013.

In determining the benefit obligation at August 31, 2014 and 2013, a long-term rate of return on long-term assets of 8% was assumed. This assumption is based on historical returns and is adjusted from time to time to reflect actual plan asset experience.

(in thousands)

The components of the Federation's pension benefit for the years ended August 31, 2014 and 2013 consist of the following:

	2014	2013
Employee service cost	$ 336	$ 442
Interest cost	1,664	1,624
Expected return on plan assets	(1,821)	(1,797)
Net amortization and deferral:		
Unrecognized net actuarial loss	773	969
Unrecognized prior service cost	(22)	(24)
Net periodic pension cost	$ 930	$ 1,214

Items not yet recognized as a component of the net periodic pension cost for the years ended August 31, 2014 and 2013 consist of the following:

	2014	2013
Transition obligation	$	$
Prior service cost	(120)	(142)
Net actuarial loss	9,599	10,884
Total	$ 9,479	$ 10,742

The Plan also follows ASC 820 (see Note 2). Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2014 and 2013.

Money Market Funds
The carrying value is considered to be a reasonable estimate of the fair value.

Mutual Funds
The fair value is based on quoted net asset values (NAV) of the shares held by the Plan at year end.

Guaranteed Investment Contracts
The fair value of the guaranteed investment contracts is determined by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

(in thousands)

The preceding methods described may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investments of the Plan consist of deposits in an Immediate Participation Guarantee Contract with Prudential Retirement Insurance & Annuity Co., investments in Vanguard Institutional Investments, and funds from NWF's operations that are comingled with Endowment investments in Vanguard 500 Index Fund Signal. In order to achieve a dependable income stream for the payment of benefits and expenses of the Plan, as well as growth in the investments, the trustees of the Plan have adopted an investment strategy which includes the following weighted average target asset allocation for investments in Vanguard: equity and money market funds 50%, bond and other fixed income funds 40%, and other investments 10%, net of insurance contracts comprising 3% of the total allocation. From time to time the investment managers will buy and sell funds to achieve this target allocation.

The Plan's weighted average asset allocation at August 31, 2014 and 2013 by asset category are as follows:

	2014	2013
Mutual Funds:		
Equity & Money Market Funds	59 %	62 %
Fixed Income	39	37
Guaranteed Investment Contracts	2	1
Total	100 %	100 %

(in thousands)

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of August 31, 2014 and 2013:

Description	Level 1	Level 2	Level 3	Balances as of August 31, 2014
Vanguard Prime Money Market Fund	$ 137	$	$	$ 137
Vanguard Investments Mutual Funds:				
Fixed income	10,773			10,773
Domestic stock funds	11,322			11,322
International stock funds	4,723			4,723
Immediate Participation Guarantee Contracts, at contract value:				
Prudential Experience Rating Fund			368	368
Total	$ 26,955	$	$ 368	$ 27,323

Description	Level 1	Level 2	Level 3	Balances as of August 31,2013
Vanguard Prime Money Market Fund	$ 135	$	$	$ 135
Vanguard Investments Mutual Funds:				
Fixed income	8,776			8,776
Domestic stock funds	10,214			10,214
International stock funds	4,331			4,331
Immediate Participation Guarantee Contracts, at contract value:				
Prudential Experience Rating Fund			388	388
Total	$ 23,456	$	$ 388	$ 23,844

(in thousands)

The following table sets forth the reconciliation of beginning and ending balances related to fair value measurements using significant unobservable inputs (Level 3):

	Prudential Experience Rating Fund
Balance as of August 31, 2012	$ 430
Realized gains (losses)	
Unrealized gains (losses) relating to units held at reporting date	
Purchases, issuances, sales, and settlements (net)	(42)
Balance as of August 31, 2013	388
Realized gains (losses)	
Unrealized gains (losses) relating to units held at reporting date	
Purchases, issuances, sales, and settlements (net)	(20)
Balance as of August 31, 2014	$ 368

Post-Retirement Benefits

The Federation sponsors a self-insured, post-retirement medical plan that covers its employees who retire with a minimum of ten (10) years employment and are age 55 or older, and have been in the group medical plan for the continuous 12 months prior to retirement. The plan is contributory and retiree contributions have been established as a percentage of premiums. For fiscal year 2013 and after the retiree contribution was increased, resulting in a decrease in total future benefit obligation. In addition, the Federation sponsors a post-retirement life insurance plan that covers all retirees whose benefits commencement date was January 1, 1987 or after and who retire with a minimum of ten (10) years employment and are age 55 or older. These plans are unfunded.

(in thousands)

Components of the net periodic post-retirement benefit cost for the years ended August 31, 2014 and 2013, include the following:

	2014	2013
Service cost	$ 237	$ 222
Interest cost	266	289
Amortization of unrecognized loss	135	152
Amortization of prior service costs	(493)	(419)
Net periodic post-retirement benefit cost	$ 145	$ 244

A national 9% annual rate of increase in the per capita costs of covered health care benefits was assumed, gradually decreasing to 4.0% by the year 2029. At August 31, 2014 and 2013, a discount rate of 4.0% and 4.5%, respectively, was used to determine the accumulated benefit obligation. In 2014, the effective discount rate was developed using the midpoint between both the August 31, 2014 and 2013 yield curves listed in the Citigroup Pension Liability Index.

The following sets forth the plan's changes in benefit obligation and accrued benefit costs reported in the accompanying consolidated statements of financial position at August 31, 2014 and 2013:

	2014	2013
Benefit obligation at beginning of year	$(5,766)	$(6,716)
Service cost	(237)	(222)
Interest cost	(266)	(289)
Actuarial gains	414	987
Benefits paid	176	474
Benefit obligation at end of year	(5,679)	(5,766)
Plan assets at end of year	--	--
Funded status (accrued benefit liability)	$ (5,679)	$ (5,766)

The accrued benefit liability for post-retirement benefits is included in accrued pension and post-retirement benefits in the accompanying consolidated statements of financial position.

(in thousands)

Increasing or decreasing the assumed health care cost trend rates by one percentage point in 2014 would have the following effect:

	1% Increase	1% Decrease
Effect on total service and interest cost	$ 64	$ (49)
Effect on benefit obligation	$ 1,001	$ (784)

Items not yet recognized as a component of the net periodic postretirement benefit cost for the years ended August 31, 2014 and 2013 consist of the following:

	2014	2013
Transition obligation	$	$
Prior service cost	(5,728)	(6,221)
Net actuarial loss	1,997	2,546
Total	$ (3,731)	$ (3,675)

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits	Other Benefits
2015	1,979	148
2016	1,958	140
2017	1,984	161
2018	2,051	181
2019	2,094	194
2020 to 2024	11,111	1,184

Employee Tax Deferred Annuity Plan

The Federation has a defined contribution plan for the benefit of its employees who have reached one (1) year of service of a minimum of 1,000 hours. The Federation matches one dollar for each dollar contributed by the employee up to a maximum of 3% and 50 cents for each dollar above 3% contributed up to a maximum of 5% of the employee's base compensation based on length of

(in thousands)

service. The Federation contributed approximately $1,171 and $1,250 for the years ended August 31, 2014 and 2013, respectively.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Operating Leases

The Federation leases office space, vehicles and equipment under operating leases, the last of which expires in 2018. Total rental expense for operating leases was approximately $1,062 and $1,473 for the years ended August 31, 2014 and 2013, respectively. Future minimum rental payments on noncancelable operating leases at August 31, 2014 are as follows:

Years ending August 31,	
2015	$ 630
2016	203
2017	154
2018	119
2019	91
Total	$ 1,197

Other

The Federation may also be party to various legal actions and claims arising in the ordinary course of business. However, as of August 31, 2014, management is not aware of any such actions or claims.

NOTE 10 – INCOME TAXES

NWF and the Endowment have received determination letters from the IRS that they have been granted an exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), except for tax on any income that may be a result of unrelated business transactions. Additionally, the IRS has classified NWF and the Endowment as public charities under IRC section 509(a)(1). NWF and the Endowment believe that their operations are consistent with the nature of their exemptions granted by the IRS. NWF is required to report unrelated business income to the IRS. NWF's unrelated business income consists of advertising income in publications and income from the Winchester warehouse lease. NWF has not incurred tax expense of federal and state taxes for the years ended August 31, 2014 and 2013, as expenses offset revenue.

(in thousands)

The Federation's management believes it has no material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits. For the years ended August 31, 2014 and 2013, the Federation did not recognize any interest or penalties.

NOTE 11 – NATIONAL WILDLIFE FEDERATION ACTION FUND

National Wildlife Federation Action Fund (NWF Action Fund) is a not-for-profit organization that was formed in Colorado in 1989 for the purpose of conducting conservation advocacy programs as National Wildlife Action. In August 2008, National Wildlife Action was renamed National Wildlife Federation Action Fund. NWF Action Fund advocates for the conservation interests of hunters, anglers and outdoor enthusiasts from all walks of life and political stripes. Through grassroots action and focused legislative campaigns, NWF Action Fund works to give wildlife and wildlife enthusiasts a voice in the democratic process and raises the visibility of key conservation issues like global warming with voters and elected officials.

Although certain NWF employees serve on NWF Action Fund's Board of Directors, NWF officers and employees represent less than 50% of the total officers and Directors for NWF Action Fund and NWF does not control a majority of the appointments to NWF Action Fund's Board of Directors. As such, NWF does not consolidate the activities of NWF Action Fund.

NWF provided $245 and $216 in grants to NWF Action Fund in the years ended August 31, 2014 and 2013, respectively. As of August 31, 2014 and 2013, NWF recorded a payable to NWF Action Fund for grants of $0 and $66, respectively. In addition, NWF Action Fund reimburses NWF for certain costs such as leased staff, benefits, miscellaneous expenses and overhead costs. As of August 31, 2014 and 2013, NWF Action Fund owed NWF $393 and $126, respectively, for such costs.

(in thousands)

NOTE 12 – FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

The estimated fair values of the financial instruments of the Federation are as follows at August 31:

	2014		2013	
Description	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	$ 271	$ 271	$ 230	$ 230
Other contributions receivable, net	2,429	2,429	3,505	3,505
Charitable gift annuities and other trusts	12,420	12,420	11,837	11,837
Investments	57,918	57,918	56,248	56,248
Permanently restricted investments	5,458	5,458	5,430	5,430
Liabilities:				
Notes payable and line of credit	29,074	31,018	26,069	28,546
Other liabilities (trusts and annuity obligations)	$ 3,548	$ 3,548	$ 3,807	$ 3,807

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents: The carrying value is considered to be a reasonable estimate of the fair value.

Other contributions receivable, net: Contributions receivable are recorded at fair value when the notice of intent is received. The fair value of contributions receivable is estimated by discounting the estimated future cash flows to their present values, using the risk free rates of interest at the date of the consolidated statements of financial position.

Charitable gift annuities and other trusts: The Federation has interests in two irrevocable charitable remainder trusts for which it does not act as trustee. The fair values of these trust assets, which are reported at the market value of the investments reported by the trustees, have been identified as Level 3 in the fair value hierarchy due to the uncertainty of the timing of receipt.

The fair value of investments, other than investments related to beneficial interest in perpetual trusts, is based on quoted market prices, dealer quotes or prices obtained from independent pricing services. These investments which have values based on quoted prices in active markets for identical assets have been identified as Level 1 in the fair value hierarchy. Investments also include a number of charitable reminder trusts (CRT's) that are owned and managed by the Federation. The fair values of these CRT's are based on quoted prices in active markets for identical assets.

The Federation has received various interests in irrevocable perpetual trusts for which it does not act as the trustee. These assets have been identified as Level 3 in the fair value hierarchy since the market values of these investments is only a representation of the future expected cash flows related to these investments. Some of the Federation's beneficial interest in perpetual trusts are considered an alternative investment for which a readily determinable fair value does not exist. These have also been identified as Level 3 in the fair value hierarchy.

<u>Investments and permanently restricted investments:</u> Investments in marketable securities are stated at quoted market values. Other investments are stated at fair value as established by outside parties or at cost when cost approximates fair value. The cost of donated investments is considered to be the fair market value at the date of receipt.

<u>Notes payable and line of credit:</u> The fair value of the Federation's notes payable and line of credit has been estimated based on comparative debts with similar terms and remaining maturities.

<u>Trusts and annuity obligations:</u> The Federation has entered into agreements with various donors, to maintain custody of assets received in the form of gift annuities, and to make payments to annuitants in accordance with the terms of the gift annuity contracts. The estimated discounted liability to donors for these charitable gift annuities are included in trust and annuity obligations and the fair values of these liabilities closely approximates the net present value of cumulative estimated future cash payments.

(in thousands)

The following tables set forth the fair values of financial assets that are measured at fair value on a recurring basis:

Description	Level 1	Level 2	Level 3	Balances as of August 31, 2014
Charitable remainder and perpetual trusts	$	$	$ 6,259	$ 6,259
Investments and permanently restricted investments:				
Common and preferred stock				
- Large cap	12,900			12,900
- International equities	767			767
Government securities				
- Fixed income	644			644
Institutional commingled funds				
- Cash and money market		365		365
- Large cap		3,232	2,521	5,753
- International equities		7,013		7,013
- Specialty	688	5,098		5,786
- Partnership investments (international)		2,679	12,153	14,832
Mutual funds – bond funds				
- Fixed income	9,009			9,009
Mutual funds – stock				
- Cash and money market	200			200
- Large blend	1,628	8,451		10,079
- Small and mid blend	943			943
- International equities	1,246			1,246
Total	$ 28,025	$ 26,838	$ 20,933	$ 75,796

At August 31, 2014, the fair value of level 3 financial assets represented 18% of total assets.

(in thousands)

Description	Level 1	Level 2	Level 3	Balances as of August 31, 2013
Charitable remainder and perpetual trusts	$	$	$ 5,771	$ 5,771
Investments and permanently restricted investments:				
Common and preferred stock				
- Large cap	11,228			11,228
- International equities	835			835
Government securities				
- Fixed income	639			639
Institutional commingled funds				
- Cash and money market		399		399
- Large cap		3,741		3,741
- International equities		1,714		1,714
- Specialty	716	4,625		5,341
- Partnership investments (international)		8,084	9,769	17,853
Mutual funds – bond funds				
- Fixed income	10,552	1,929		12,481
Mutual funds – stock				
- Cash and money market	228			228
- Large blend	1,550	6,793		8,343
- Small and mid blend	908			908
- International equities	4,034			4,034
Total	$ 30,690	$ 27,285	$ 15,540	$ 73,515

At August 31, 2013 the fair value of level 3 financial assets represented 14% of total assets.

(in thousands)

The following table sets forth the reconciliation of beginning and ending balances related to fair value measurements using significant unobservable inputs (Level 3):

	Charitable gift annuities and other trusts	Institutional commingled funds	Total
Balance as of August 31, 2012	$ 6,121	$ 11,964	$ 18,085
Unrealized gains during 2013	236	354	590
Realized gains during 2013		633	633
Purchases during 2013	52	8,139	8,191
Sales during 2013	(638)	(11,321)	(11,959)
Transfers in			
Transfers out			
Balance as of August 31, 2013	$ 5,771	$ 9,769	$ 15,540
Unrealized gains during 2014	496	874	1,370
Realized gains during 2014		112	112
Purchases during 2014	164	3,919	4,083
Sales during 2014	(172)	-	(172)
Transfers in			
Transfers out			
Balance as of August 31, 2014	$ 6,259	$ 14,674	$ 20,933

The balance of the Federation's financial assets as of August 31, 2014 and 2013, are classified in the consolidated statements of financial position as follows:

	2014	2013
Charitable gift annuities and other trusts	$ 12,420	$ 11,837
Investments	57,918	56,248
Permanently restricted investments	5,458	5,430
Total	$ 75,796	$ 73,515

In accordance with ASU 2009-12, *Fair Value Measurements and Disclosures (Topic 820) – Investment in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*, the Federation expanded disclosures to include the category, fair value, redemption frequency, and redemption notice period for those assets whose fair value is estimated using the net asset value per share or its equivalent for which fair value is not readily determinable, as of August 31, 2014. For the Federation, such investments include partnership investments.

(in thousands)

The following table sets forth a summary of the Federation's investments with a reported NAV as of August 31, 2014:

Investment type	Fair value	Redemption Frequency	Notice period (days)
Long-Short Equity Portfolio Funds (a)	$ 5,371	Annually	90
Fund partnerships - international (b)	5,355	Annually	65
Fund partnerships - international (c)	1,427	Annually	15
Floating Rate Income Offshore Fund (d)	2,521	Monthly	30
	$ 14,674		

The following table sets forth a summary of the Federation's investments with a reported NAV as of August 31, 2013:

Investment type	Fair value	Redemption Frequency	Notice period (days)
Long-Short Equity Portfolio Funds (a)	$ 4,906	Annually	90
Fund partnerships - international (b)	4,863	Annually	65
	$ 9,769		

(a) The strategies of the long-short equity portfolio funds are to provide shareholders with maximum appreciation of capital while incurring reasonable risk by investing primarily with a diversified group of long/short equity and absolute return investment managers.

(b) The strategies of the international fund partnerships are to provide shareholders with equity-like returns over a market cycle with minimal correlation and bond-like volatility by investing primarily with a diversified group of long/short equity investment managers.

(c) The strategies of the Fund partnerships - international are to achieve sustainable returns over the longer term by investing globally in companies active in the growing resource optimization market.

(d) The strategies of the Floating Rate Income Offshore Fund are to provide investors with current income and capital appreciation by investing in primarily senior secured loans.

There are no unfunded commitments at August 31, 2014 or 2013.

(in thousands)

Quantitative information as of August 31, 2014, with respect to assets measured and carried at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) follows:

Description	Fair Value	Principle Valuation Techniques	Unobservable Inputs	Weighted Average
Long-Short Equity Portfolio Funds	$5,371	The Funds values its investments at fair value on a trade date basis and uses a specific identification methodology	Income and Market Approach Other generally recognized valuation principles	N/A
Fund partnerships - international	$5,355	Inputs are net asset values reported by portfolio funds and are not redeemable as of the measurement date and/or within a near-term period of three months	Unobservable input for each underlying funds' investment less any liabilities of the fund and allocations payable to investment advisors of the portfolio.	N/A
Fund partnerships - international	$1,427	The Fund values its investments at fair value on a trade date basis at its last traded price on the relevant valuation day	Will be valued on the basis of the latest available valuation provided by the relevant counterparty and by other similar counterparties that deal in such assets	N/A
Floating Rate Income Offshore Fund	$2,521	The Funds values its investments at fair value based on the last sale price on the securities exchange or national securities market or by using a pricing service provider which yields or prices securities based on values from comparable dealers	Other generally recognized valuation principles	N/A

(in thousands)

Quantitative information as of August 31, 2013, with respect to assets measured and carried at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) follows:

Description	Fair Value	Principle Valuation Techniques	Unobservable Inputs	Weighted Average
Long-Short Equity Portfolio Funds	$4,906	The Funds values its investments at fair value on a trade date basis and uses a specific identification methodology	Income and Market Approach Other generally recognized valuation principles	N/A
Fund partnerships - international	$4,863	Inputs are net asset values reported by portfolio funds and are not redeemable as of the measurement date and/or within a near-term period of three months	Unobservable input for each underlying funds' investment less any liabilities of the fund and allocations payable to investment advisors of the portfolio	N/A

Level 3 Valuation Process

The Federation performs ongoing due diligence of the funds which include reviewing and comparing monthly statements to the underlying annual reports for reliance on stated monthly values, and the analysis of fund factsheets and financial supplemental disclosures. The other processes used utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Federation primarily applies the market approach for measurements and endeavors to utilize the best available information. Accordingly, the Federation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. There were no changes in valuation techniques for 2014 and 2013.

Level 3 Sensitivity of Fair Value Measurements and Changes in Significant Unobservable Inputs

The significant unobservable inputs used in the fair value measurement of the Federation's alternative investments are subject to market risks resulting from changes in the market value of its investments.

(in thousands)

NOTE 13: SUBSEQUENT EVENTS

The Federation evaluated subsequent events through December 22, 2014, which is the date the consolidated financial statements were available to be issued. There were no events noted that required adjustment to or disclosure in these consolidated financial statements.