



In Defense of Animals

IN DEFENSE OF ANIMALS

Financial Statements

*For the years ended
December 31, 2009 and 2008*

IN DEFENSE OF ANIMALS

(A California Not-For-Profit Corporation)
December 31, 2009

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INDEPENDENT AUDITORS' REPORT

**The Board of Directors
In Defense of Animals**

We have audited the accompanying statements of financial position of In Defense of Animals (a non-profit organization) as of December 31, 2009 and 2008 and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of In Defense of Animal's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized information on the statement of functional expenses has been derived from In Defense of Animal's December 31, 2008 financial statements, and in our report dated May 11, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 In Defense of Animals as of December 31, 2009 and 2008, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Regalia & Associates

*March 30, 2010
Danville, California*

Opinion

IN DEFENSE OF ANIMALS

Statements of Financial Position December 31, 2009 and 2008

ASSETS

	2009	2008
Current assets:		
Cash and cash equivalents	\$ 1,170,725	986,867
Investments (short-term portion)	530,867	413,524
Accounts and grants receivable	36,562	40,329
Inventory	5,912	10,200
Prepaid expenses and other current assets	47,792	47,596
Total current assets	<u>1,791,858</u>	<u>1,498,516</u>
Investments (long-term portion)	817,395	1,012,000
Property, equipment and leasehold improvements, net	<u>2,251,142</u>	<u>2,288,849</u>
	<u>\$ 4,860,395</u>	<u>4,799,365</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued liabilities	\$ 55,690	69,366
Accrued payroll liabilities	65,755	45,048
Note payable - current portion	28,404	19,310
Total current liabilities	<u>149,849</u>	<u>133,724</u>
Long-term liabilities:		
Note payable - noncurrent portion	<u>438,389</u>	666,610
Total long-term liabilities	<u>438,389</u>	<u>666,610</u>
Total liabilities	<u>588,238</u>	<u>800,334</u>
Net assets:		
Unrestricted	4,229,151	3,959,548
Temporarily restricted	43,006	39,483
Total net assets	<u>4,272,157</u>	<u>3,999,031</u>
	<u>\$ 4,860,395</u>	<u>4,799,365</u>

IN DEFENSE OF ANIMALS

Statements of Activities and Changes in Net Assets Years Ended December 31, 2009 and 2008

<i>Changes in unrestricted net assets:</i>	<u>2009</u>	<u>2008</u>
Revenue and support:		
Donations and grants	\$ 1,854,189	1,987,980
Bequests and legacies	1,152,653	990,925
In-kind donations	302,327	3,360
Mailing list rental	48,145	65,296
Merchandise sales	17,362	31,698
Interest and dividends	84,618	116,551
Rents, royalties and annuities	172,577	92,304
Unrealized gains (losses) on investments	32,114	(74,188)
Realized gains (losses) on investments	-	4,831
Other miscellaneous income	14,334	28,273
	<u>3,678,319</u>	<u>3,247,030</u>
Net assets released from restrictions:		
Satisfaction of program restrictions	66,669	43,000
Total revenue and support	<u>3,744,988</u>	<u>3,290,030</u>
Operating expenses:		
Program	2,946,826	2,981,929
General and administrative	209,524	244,604
Fund raising	319,035	367,039
Total operating expenses	<u>3,475,385</u>	<u>3,593,572</u>
Increase (decrease) in unrestricted net assets	<u>269,603</u>	<u>(303,542)</u>
<i>Changes in temporarily restricted net assets:</i>		
Grants and contributions	70,192	33,000
Net assets released from restrictions	(66,669)	(43,000)
Increase (decrease) in temporarily restricted net assets	<u>3,523</u>	<u>(10,000)</u>
Increase (decrease) in net assets	273,126	(313,542)
Net assets at beginning of year	<u>3,999,031</u>	<u>4,312,573</u>
Net assets at end of year	<u>\$ 4,272,157</u>	<u>3,999,031</u>

IN DEFENSE OF ANIMALS

Statements of Cash Flows Years Ended December 31, 2009 and 2008

	2009	2008
<i>Operating activities:</i>		
Increase (decrease) in net assets	\$ 273,126	(313,542)
Adjustments to reconcile to cash provided by operating activities:		
Depreciation and amortization	97,946	95,783
Unrealized (gains) losses on investments	(32,114)	74,188
Bad debt expense	35,000	50,000
Changes in:		
Accounts and grants receivable	3,767	15,538
Inventory	4,288	(2,008)
Prepaid expenses and other current assets	(196)	9,348
Accounts payable and accrued liabilities	(13,676)	5,036
Accrued payroll liabilities	20,707	14,920
Cash provided by (used for) operating activities	388,848	(50,737)
<i>Investing activities:</i>		
Acquisition of investments	114,425	(2,027)
Disposition of investments	(40,049)	58,834
Purchase of property and equipment	(60,239)	(88,314)
Cash provided by (used for) investing activities	14,137	(31,507)
<i>Financing activities:</i>		
Principal payments under note payable	(219,127)	(15,606)
Cash used for financing activities	(219,127)	(15,606)
Increase (decrease) in cash and cash equivalents	183,858	(97,850)
Cash and cash equivalents at beginning of year	986,867	1,084,717
Cash and cash equivalents at end of year	\$ 1,170,725	986,867
<i>Additional cash flow information:</i>		
Interest paid	\$ 36,218	42,219
Taxes	\$ 150	150

IN DEFENSE OF ANIMALS

**Statement of Functional Expenses
Year Ended December 31, 2009**

(with Summarized Financial Information for the Year Ended December 31, 2008)

	General & Admini- strative Programs	Fund Raising	2009 Totals	2008 Totals
Advertising and promotion	\$ 29,834	-	29,834	111,725
Bad debt expense	35,000	-	35,000	50,000
Computer on-line service and supplies	31,558	6,312	4,208	58,426
Cost of goods sold	10,584	-	10,584	12,993
Demonstrations	4,181	-	4,181	4,434
Depreciation and amortization	83,254	6,856	7,836	95,783
Direct Mail	399,763	-	192,202	688,562
Donations and grants	144,966	-	144,966	77,521
Dues and subscriptions	2,503	-	2,503	528
Equipment rental and maintenance	6,890	567	648	11,416
Events	4,313	-	1,078	20,797
Event sponsor	305	-	305	9,873
Fees and bank charges	4,050	34,615	-	38,665
Fiscal sponsor	-	-	-	10,046
Insurance	19,811	1,631	1,865	22,236
Interest	36,218	-	-	42,219
Miscellaneous	790	16,399	-	30,388
Office and supplies	27,697	1,932	2,577	30,902
Postage and shipping	91,548	6,387	8,516	70,875
Printing	44,193	-	21,248	68,276
Professional fees and outside services	251,079	42,388	-	293,467
Professional fees provided pro-bono	177,049	-	-	-
Rent and utilities	87,950	6,136	8,181	94,221
Repairs and maintenance	14,979	1,233	1,410	27,198
Rescue	138,648	-	-	182,931
Salaries, payroll taxes and benefits	1,201,025	80,968	67,473	1,432,914
Telephone and telecommunications	31,909	2,151	1,793	52,427
Travel	66,729	1,949	-	68,678
Totals	\$ 2,946,826	209,524	319,035	3,593,572

**Notes to Financial Statements
December 31, 2009**

1. Organization

In Defense of Animals (the Agency) was established in 1983 as a nonprofit association. The Agency is a national organization dedicated to ending the institutionalized abuse of animals by protecting their rights, welfare and habitat.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Agency have been prepared on the accrual basis of accounting in accordance with Statement of Financial Accounting Standards (SFAS) No. 117 *Financial Statements of Not-for-Profit Organizations*.

Support and Revenue Recognition

Contributions, donations and grants restricted by the donor for particular purposes are deemed to be earned and are reported as revenue and support when the Agency has incurred expenditures in compliance with the specific restrictions. Such amounts received or receivable but not yet earned are included as temporarily restricted net assets on the statements of financial position in accordance with the provisions of SFAS No. 116 *Contributions Made and Contributions Received*.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash and investments that have a maturity of less than three months when purchased.

Investments

Investments include cash, certificates of deposit, stocks, and mutual funds. Purchased investments are initially stated at cost. Investments received by gift are recorded at market value at the date of contribution. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included on the statement of activities and changes in net assets.

The Agency follows the provisions of SFAS No. 157, *Fair Value Measurements*, and has estimated the fair value of its investments using available market information and other valuation methodologies. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Agency could realize in a current market exchange. The use of different assumptions and/or estimation methods may have a material effect on the estimated fair value amounts. The estimates are based on pertinent information available to management as of December 31, 2009. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, current estimates of fair value may differ significantly from the statements presented.

Inventories

Inventories are carried at lower of cost or market and consist of various branded merchandise, such as T-shirts, tote bags, license plate frames and coffee mugs.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Property, Equipment and Leasehold Improvements

Property and equipment purchased by the Agency is stated at cost. Property and equipment donated to the Agency is recorded at estimated fair value as of the date of the gift. Maintenance and repairs are charged to expense as incurred. Building is depreciated using the straight-line method over 30 years. Furnishings, equipment and leasehold improvements are depreciated using the straight-line method over the estimated useful lives of the assets of between four and fifteen years.

Income Taxes

Financial statement presentation follows the recommendations of the FASB in its Interpretation Number 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. Under FIN 48, the Agency is required to report information regarding its exposure to various tax positions taken by the Agency and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that the Agency has adequately addressed all tax positions and that there are no unrecorded tax liabilities.

The Agency has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 27301d of the California Revenue and Taxation Code. The exemptions are subject to periodic review by the federal and state taxing authorities and management is confident that the Agency continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status. The Agency may periodically receive unrelated business income (such as sublease rental income) requiring the Agency to file separate tax returns under federal and state statutes. Under such conditions, the Agency calculates and accrues the applicable taxes.

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 certain reported amounts 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 reported period. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses

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

Reclassifications

Certain reclassifications have been made to the 2008 financial statements in order to conform to the presentation used in 2009.

IN DEFENSE OF ANIMALS

Notes to Financial Statements

3. Investments

Investments consist of mutual funds and stocks. Cost basis and market value of investments are as follows at December 31, 2009 and 2008:

	December 31, 2009		December 31, 2008	
	Cost Basis	Market Value	Cost Basis	Market Value
Short-term portion:				
Money market funds	424,419	424,419	338,062	338,062
Mutual funds	38,874	55,670	82,811	41,758
Stocks	33,024	47,293	63,579	32,060
Other	2,434	3,485	3,260	1,644
Subtotal	487,712	530,867	487,712	413,524
Long-term portion:				
Loans receivable, net of \$50,000 reserve	817,395	817,395	1,012,000	1,012,000
\$	1,305,107	1,348,262	1,499,712	1,425,524

During the years ended December 31, 2009 and 2008, there were unrealized gains (losses) of \$32,114 and (\$74,188), respectively, related to the Agency's investments. Such unrealized gains resulted from periodic market value adjustments in various investment instruments. During the year ended December 31, 2009 there were no realized gains or losses. During the year ended December 31, 2008, there were realized gains of \$4,831. Loans receivable represent funds invested in first deeds of trust which are collateralized by real estate properties and bear interest at 12% per annum. The Agency has established a reserve of \$50,000 for estimated uncollectible balances.

Composition of investments utilizing fair value measurements at July 31, 2009 is as follows:

	Totals	Level 1	Level 2	Level 3
Money market funds	\$ 424,419	424,419	-	-
Mutual funds	55,670	55,670		
Stocks	47,293	47,293		
Other	3,485	-	3,485	-
Loans receivable	817,395	-	-	817,395
Totals	\$ 1,348,262	527,382	3,485	817,395

Level 1 measurement reflects the value of the investments at quoted prices in active markets for identical assets. Level 2 measurement reflects the value of the investments using significant other observable inputs. Level 3 measurement reflects the value of the investments using significant unobservable inputs.

The Agency has a Finance Committee which has the responsibility for establishing the Agency's return objectives (generally lower rates of return associated with more stable and safer investments) and to define the risk parameters (generally low risk securities, certificates of deposit and mutual funds). The committee routinely oversees investment performances and reviews cash flows necessary to sustain the Agency's operating activities.

Notes to Financial Statements

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following at December 31, 2009 and 2008:

	2009	2008
Prepaid insurance	\$ 15,825	19,512
Prepaid expense	31,967	28,084
	\$ 47,792	47,596

5. Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements consist of the following at December 31, 2009 and 2008:

	2009	2008
Land	\$ 759,954	759,954
Building	1,240,240	1,240,240
Computers, office equipment and furniture	380,622	354,314
Leasehold improvements	407,888	373,956
Vehicles	108,755	108,755
Less: accumulated depreciation and amortization	(646,317)	(548,371)
	\$ 2,251,142	2,288,849

In August 2005, the Agency expended \$1,806,979 and purchased land and an office building in San Rafael, California. In connection with this purchase, the Agency relocated its corporate office facilities from Mill Valley, California to San Rafael, California in April 2006. Total depreciation and amortization expense amounted to \$97,946 and \$95,783 for the years ended December 31, 2009 and 2008, respectively.

6. Related Party Transactions

The Agency employed one of the Board members as president. The President earned \$70,958 and \$70,967 in compensation during the years ended December 31, 2009 and 2008, respectively.

7. Retirement Plan

The Company offers employees the opportunity for participation in a salary reduction retirement plan qualified under Internal Revenue Code Section 401(k). Distributions from the 401(k) plan are made only pursuant to all applicable laws and regulations. There is no obligation for the Company to contribute to this plan, and management elected to not contribute to the plan for the fiscal years ended December 31, 2009 and 2008.

Notes to Financial Statements

8. Leases

Under a long-term operating lease, the Agency leases office space in Portland, Oregon requiring monthly lease payments of \$776 as of December 31, 2009. The Agency is also committed to two long-term equipment leases, one which requires a monthly payment of \$428 and another which requires a monthly payment of \$184. Future minimum payments under the Agency's long-term lease agreements are as follows:

<u>Year Ending December 31,</u>	
2010	\$ 15,422
2011	13,168
2012	5,134
2013	5,134
2014 and thereafter	1,283

Total rent expense for all leasing arrangements amounted to \$36,383 and \$35,111 for the years ended December 31, 2009 and 2008, respectively, and is included in rent and utilities on the statement of functional expenses.

9. Allocation of Joint Costs

Beginning in 1999, the Agency implemented the provisions of Statement of Position 98-2 (SOP 98-2) *Accounting for costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal*. Under SOP 98-2 for the year ended December 31, 2009, the Agency incurred allocable joint costs of \$657,406 for the informational materials and activities that included fund-raising appeals. Of those costs, \$213,450 was allocated to fund-raising expense and \$443,956 was allocated to program expense. Under SOP 98-2 for the year ended December 31, 2008, the Agency incurred allocable joint costs of \$756,837 for the informational materials and activities that included fund-raising appeals. Of those costs, \$245,734 was allocated to fund-raising expense and \$511,103 was allocated to program expense.

10. Note Payable

In connection with the purchase of its corporate office facility in San Rafael, California, the Agency secured long-term financing with a financial institution in the original amount of \$1,260,000. The mortgage loan is fully amortizing over 25 years with a balloon payment due in 10 years. The unpaid loan balance was \$466,793 and \$685,920 at December 31, 2009 and 2008, respectively, and bears interest at the variable rate of the 5-year Treasury Constant Maturity Index plus a margin of 2% (currently 5.720% at December 31, 2009). During the year ended December 31, 2009, the Agency made additional principal payments totaling \$200,000. Monthly principal and interest payments in the amount of \$4,666 are due at beginning of each month. Minimum estimated principal payments over the next five years are as follows: **\$28,404 due in 2010; \$30,970 due in 2011; \$32,742 due in 2012; \$34,615 due in 2013; \$36,595 due in 2013; and \$303,467 thereafter.** Interest expense amounted to \$36,218 and \$42,219 for the years ended December 31, 2009 and 2008, respectively.

Notes to Financial Statements

11. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31, 2009 and 2008:

	2009	2008
Arcus Foundation	\$ -	33,000
Free Billy Fund	5,185	-
Katrina Relief Effort	6,483	6,483
Wild Horse Fund	6,638	-
Others	24,700	6,483
	\$ 43,006	39,483

During the years ended December 31, 2009 and 2008, the Agency released \$66,669 and \$43,000, respectively, in restricted contributions from temporarily restricted net assets to unrestricted net assets.

12. Sanaga-Yong Chimpanzee Rescue Center

During the year ended December 31, 1999, the Agency established the Sanaga-Yong Chimpanzee Rescue Center (“Rescue Center”) in Cameroon, West Central Africa. The Rescue Center was developed in order to provide a home for chimpanzees in a natural environment and to save wild chimpanzees and gorillas from continued slaughter and extinction. In Defense of Animals-Africa (a subsidiary created by the Agency) is under the control of an employee of the Agency. During the years ended December 31, 2009 and 2008, income pertaining to the Rescue Center consisted of donations and a fund raising event and expenditures related to the development of the Chimpanzee Rescue Center. The financial transactions of the Rescue Center have been combined with the financial statements of the Agency.

13. Vehicle Donations

The Agency is a participant in a vehicle donation program operated by a third-party agency which physically collects and subsequently sells donated vehicles and shares the proceeds with the organization. The net revenues earned from vehicle donations amounted to \$3,538 and \$2,857 for the years ended December 31, 2009 and 2008, respectively.

16. Compensated Absences (Accrued payroll and related benefits)

Financial statement presentation follows the recommendations of SFAS No. 43, *Accounting for Compensated Absences*. Under SFAS No. 43, the Agency is required to record a liability for the estimated amounts of compensation for future absences. Employees are permitted to accrue a specific number of hours of vacation which is payable upon termination of the employee. Sick leave is not paid upon termination. Annual leave accruals are recorded in the financial statements as an accrued liability on the Statements of Financial Position based on hourly rates in effect at the end of the fiscal year.

17. Subsequent Events

In compliance with SFAS No. 165, *Subsequent Events*, the Agency has evaluated subsequent events through March 30, 2010, the date the financial statements were available to be issued, and there are no subsequent events which need to be disclosed.