



IN DEFENSE OF ANIMALS

Financial Statements

For the years ended
December 31, 2010 and 2009

With Independent Auditors' Report

IN DEFENSE OF ANIMALS

(A California Not-For-Profit Corporation)
December 31, 2010

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IN DEFENSE OF ANIMALS

3010 Kerner Boulevard
San Rafael, California 94901
415-448-0048

Web Site Address: www.idausa.org

REGALIA & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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, 2010 and 2009 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, 2009 financial statements, and in our report dated March 30, 2010, 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, 2010 and 2009, 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

May 4, 2011
Danville, California

Opinion

IN DEFENSE OF ANIMALS

**Statements of Financial Position
December 31, 2010 and 2009**

ASSETS

	2010	2009
Current assets:		
Cash and cash equivalents	\$ 575,687	1,170,725
Investments (short-term portion)	546,153	530,867
Accounts and grants receivable	59,048	36,562
Inventories	4,691	5,912
Prepaid expenses and other current assets	38,942	47,792
Total current assets	<u>1,224,521</u>	<u>1,791,858</u>
Investments (long-term portion)	564,001	817,395
Property, equipment and leasehold improvements, net	<u>2,189,405</u>	<u>2,251,142</u>
	<u>\$ 3,977,927</u>	<u>4,860,395</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued liabilities	\$ 42,750	55,690
Accrued payroll liabilities	33,423	65,755
Note payable - current portion	15,430	28,404
Total current liabilities	<u>91,603</u>	<u>149,849</u>
Long-term liabilities:		
Note payable - noncurrent portion	<u>426,681</u>	438,389
Total long-term liabilities	<u>426,681</u>	<u>438,389</u>
Total liabilities	<u>518,284</u>	588,238
Net assets:		
Unrestricted	3,422,150	4,229,151
Temporarily restricted	37,493	43,006
Total net assets	<u>3,459,643</u>	<u>4,272,157</u>
	<u>\$ 3,977,927</u>	<u>4,860,395</u>

IN DEFENSE OF ANIMALS

Statements of Activities and Changes in Net Assets Years Ended December 31, 2010 and 2009

<i>Changes in unrestricted net assets:</i>	<u>2010</u>	<u>2009</u>
Revenue and support:		
Donations and grants	\$ 1,933,056	1,854,189
Bequests and legacies	490,099	1,152,653
In-kind donations	57,663	302,327
Mailing list rental	44,828	48,145
Merchandise sales	27,355	17,362
Interest and dividends	25,374	84,618
Rents, lawsuits, royalties and annuities	157,958	172,577
Unrealized gains (losses) on investments	23,580	32,114
Events and fundraising income	17,033	-
Other miscellaneous income	3,224	14,334
	<u>2,780,170</u>	<u>3,678,319</u>
Net assets released from restrictions:		
Satisfaction of program restrictions	69,225	66,669
Total revenue and support	<u>2,849,395</u>	<u>3,744,988</u>
Operating expenses:		
Program	3,136,108	2,946,826
General and administrative	241,291	209,524
Fund raising	278,997	319,035
Total operating expenses	<u>3,656,396</u>	<u>3,475,385</u>
Increase (decrease) in unrestricted net assets	<u>(807,001)</u>	269,603
<i>Changes in temporarily restricted net assets:</i>		
Grants and contributions	63,712	70,192
Net assets released from restrictions	(69,225)	(66,669)
Increase (decrease) in temporarily restricted net assets	<u>(5,513)</u>	<u>3,523</u>
Increase (decrease) in net assets	<u>(812,514)</u>	273,126
Net assets at beginning of year	<u>4,272,157</u>	<u>3,999,031</u>
Net assets at end of year	<u>\$ 3,459,643</u>	<u>4,272,157</u>

IN DEFENSE OF ANIMALS

Statements of Cash Flows Years Ended December 31, 2010 and 2009

	2010	2009
<i>Operating activities:</i>		
Increase (decrease) in net assets	\$ (812,514)	273,126
Adjustments to reconcile to cash provided by operating activities:		
Depreciation and amortization	101,450	97,946
Unrealized (gains) losses on investments	(23,580)	(32,114)
Bad debt expense	229,762	35,000
Changes in:		
Accounts and grants receivable	(22,486)	3,767
Inventory	1,221	4,288
Prepaid expenses and other current assets	8,850	(196)
Accounts payable and accrued liabilities	(12,940)	(13,676)
Accrued payroll liabilities	(32,332)	20,707
Cash provided by (used for) operating activities	(562,569)	388,848
<i>Investing activities:</i>		
Acquisition of investments	114,425	114,425
Disposition of investments	(82,499)	(40,049)
Purchase of property and equipment	(39,713)	(60,239)
Cash provided by (used for) investing activities	(7,787)	14,137
<i>Financing activities:</i>		
Principal payments under note payable	(24,682)	(219,127)
Cash used for financing activities	(24,682)	(219,127)
Increase (decrease) in cash and cash equivalents	(595,038)	183,858
Cash and cash equivalents at beginning of year	1,170,725	986,867
Cash and cash equivalents at end of year	\$ 575,687	1,170,725
<i>Additional cash flow information:</i>		
Interest paid	\$ 23,166	36,218
Taxes	\$ 150	150

IN DEFENSE OF ANIMALS

Statement of Functional Expenses Year Ended December 31, 2010

(with Summarized Financial Information for the Year Ended December 31, 2009)

		General & Admini- strative	Fund Raising	2010 Totals	2009 Totals
Advertising and promotion	\$	38,524	-	38,524	29,834
Bad debt expense		229,762	-	229,762	35,000
Computer on-line service and supplies		43,483	8,698	57,979	42,078
Cost of goods sold		16,952	-	16,952	10,584
Demonstrations		2,428	-	2,428	4,181
Depreciation and amortization		86,233	7,101	101,450	97,946
Direct Mail		313,499	-	150,727	464,226
Donations and grants		111,416	-	-	111,416
Dues and subscriptions		4,422	-	-	4,422
Equipment rental and maintenance		7,475	616	703	8,794
Events		5,185	-	1,296	6,481
Event sponsor		46,165	-	-	46,165
Fees and bank charges		9,311	39,013	-	48,324
Fiscal sponsor		3,088	-	-	3,088
Insurance		22,824	1,880	2,148	26,852
Interest		23,166	-	-	23,166
Miscellaneous		21,290	20,448	-	41,738
Office and supplies		24,582	1,715	2,287	28,584
Postage and shipping		56,852	3,966	5,288	66,106
Printing		33,423	-	16,069	49,492
Professional fees and outside services		275,845	50,387	-	326,232
Professional fees provided pro-bono		33,698	-	-	33,698
Rent and utilities		76,514	5,338	7,117	88,969
Repairs and maintenance		16,224	1,336	1,527	19,087
Rescue		145,015	-	-	145,015
Salaries, payroll taxes and benefits		1,350,839	91,068	75,890	1,517,797
Telephone and telecommunications		36,147	2,437	2,031	40,615
Travel		101,746	7,288	-	109,034
Totals	\$	3,136,108	241,291	278,997	3,656,396
					3,475,385

**Notes to Financial Statements
December 31, 2010**

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 and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958.205, *Presentation of Financial Statements of Not-for-Profit Entities*. Under ASC 958.205, the Agency is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Support and Revenue Recognition

The Agency records contributions in accordance with the recommendations of ASC 958.605, *Revenue Recognition of Not-for-Profit Entities*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily restricted net assets, depending on the nature of the restriction. 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 on the statement of activities and changes in net assets as net assets released from restrictions. The Agency had no permanently restricted net assets at December 31, 2010 or 2009.

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 fair 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 ASC 958.320, *Investments of Not-for-Profit Entities*, 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, 2010. 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.

Notes to Financial Statements

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

Cash and Cash Equivalents

Cash and cash equivalents include deposits which have a maturity of 90 days or less when acquired.

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.

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 ASC 740, *Income Taxes*. Under ASC 740, 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

In accordance with ASC 958.720.45-2 *Functional Classification 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 2009 financial statements in order to conform to the presentation used in 2010.

IN DEFENSE OF ANIMALS

Notes to Financial Statements

3. Investments

Investments consist primarily of securities, mutual funds, and stocks. Cost basis and market value of investments are as follows at December 31, 2010 and 2009:

		December 31, 2010		December 31, 2009	
		Cost Basis	Market Value	Cost Basis	Market Value
Short-term portion:					
U.S. Treasury Securities	\$	410,602	410,602	424,419	424,419
Mutual funds		55,406	67,678	38,874	55,670
Stocks		51,049	62,357	33,024	47,293
Partnerships		4,248	4,248	-	-
Cash and other		1,268	1,268	2,434	3,485
Subtotal		522,573	546,153	487,712	530,867
Long-term portion:					
Loans receivable, net of \$314,761 reserve		878,762	564,001	817,395	817,395
	\$	1,401,335	1,110,154	1,305,107	1,348,262

During the years ended December 31, 2010 and 2009, there were unrealized gains of \$23,580 and \$32,114, respectively, related to the Agency's investments. Such unrealized gains resulted from periodic market value adjustments in various investment instruments. During the years ended December 31, 2010 and 2009, there were no realized gains or losses. 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 \$314,761 for estimated uncollectible balances as of December 31, 2010.

Composition of investments utilizing fair value measurements at December 31, 2010 is as follows:

		Totals	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$	410,602	410,602	-	-
Mutual funds		67,678	67,678	-	-
Stocks		62,357	62,357	-	-
Partnerships		4,248	-	-	4,248
Other		1,268	1,268	-	-
Loans receivable		564,001	-	-	564,001
Totals		\$ 1,110,154	541,905	-	568,249

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.

IN DEFENSE OF ANIMALS

Notes to Financial Statements

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following at December 31, 2010 and 2009:

	2010	2009
Prepaid insurance	\$ 20,657	15,825
Prepaid expenses	18,285	31,967
	<u>\$ 38,942</u>	<u>47,792</u>

5. Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements consist of the following at December 31, 2010 and 2009:

	2010	2009
Land	\$ 759,954	759,954
Building	1,240,240	1,240,240
Computers, office equipment and furniture	404,268	380,622
Leasehold improvements	423,955	407,888
Vehicles	108,755	108,755
Less: accumulated depreciation and amortization	<u>(747,767)</u>	<u>(646,317)</u>
	<u>\$ 2,189,405</u>	<u>2,251,142</u>

Total depreciation and amortization expense amounted to \$101,450 and \$97,946 for the years ended December 31, 2010 and 2009, respectively.

6. Related Party Transactions

The Agency employed one of the Board members as president. The President earned \$66,566 and \$70,958 in compensation during the years ended December 31, 2010 and 2009, respectively.

7. Retirement Plan

The Company offers the opportunity for eligible employees to participate in a salary reduction retirement plan qualified under Internal Revenue Code Section 401(k). Contribution to and 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, 2010 and 2009.

Notes to Financial Statements

8. Leases

Under a long-term operating lease expiring July 31, 2015, the Agency leases office space in Portland, Oregon requiring monthly lease payments of \$258 as of December 31, 2010. The lease provides for contractual increases in the monthly rent during the term of the agreement. 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 \$264. Future minimum payments under the Agency's long-term lease agreements are as follows:

<u>Year Ending December 31,</u>	
2011	\$ 13,938
2012	13,714
2013	13,779
2014	10,019
2015 and thereafter	5,096

Total rent expense for all leasing arrangements amounted to \$33,092 and \$36,383 for the years ended December 31, 2010 and 2009, 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, 2010, the Agency incurred allocable joint costs of \$513,718 for the informational materials and activities that included fund-raising appeals. Of those costs, \$166,797 was allocated to fund-raising expense and \$346,921 was allocated to program expense. 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.

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 \$442,111 and \$466,793 at December 31, 2010 and 2009, 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, 2010). Monthly principal and interest payments in the amount of \$4,837 are due at beginning of each month. Minimum estimated principal payments over the next five years are as follows: **\$30,970 due in 2011**; **\$32,742 due in 2012**; **\$34,615 due in 2013**; **\$36,595 due in 2014**; **\$38,685 due in 2015**; and **\$268,504 thereafter**. Interest expense amounted to \$23,166 and \$36,218 for the years ended December 31, 2010 and 2009, respectively.

Notes to Financial Statements

11. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31, 2010 and 2009:

	2010	2009
Free Billy Fund	\$ 2,885	5,185
Korean Dogs	24,863	-
Wild Horse Fund	-	6,638
Worldwide Disasters (Haiti, Chile, Katrina)	9,745	6,483
Others	-	24,700
	\$ 37,493	43,006

During the years ended December 31, 2010 and 2009, the Agency released \$69,225 and \$66,669, 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, 2010 and 2009, 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 \$6,613 and \$3,538 for the years ended December 31, 2010 and 2009, respectively.

16. Compensated Absences (Accrued Payroll and Related Benefits)

Financial statement presentation follows the recommendations of ASC 710.25, *Compensated Absences*. Under ASC 710.25, 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 ASC 855, *Subsequent Events*, the Agency has evaluated subsequent events through May 4, 2011, the date the financial statements were available to be issued, and, in the opinion of management, there are no subsequent events which need to be disclosed.