



IN DEFENSE OF ANIMALS

Financial Statements

*For the years ended
December 31, 2008 and 2007*

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, 2008 and 2007 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.

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, 2008 and 2007, 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 11, 2009
Danville, California*

IN DEFENSE OF ANIMALS

Statements of Financial Position December 31, 2008 and 2007

ASSETS

	2008	2007
Current assets:		
Cash and cash equivalents	\$ 986,867	1,084,717
Investments (short-term portion)	413,524	544,519
Accounts and grants receivable	40,329	55,867
Inventory	10,200	8,192
Prepaid expenses and other current assets	45,896	56,944
Total current assets	<u>1,496,816</u>	<u>1,750,239</u>
Investments (long-term portion)	1,012,000	1,062,000
Property, equipment and leasehold improvements, net	<u>2,288,849</u>	<u>2,296,318</u>
	<u>\$ 4,797,665</u>	<u>5,108,557</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued liabilities	\$ 69,366	64,330
Accrued payroll liabilities	45,048	30,128
Note payable - current portion	19,310	15,509
Total current liabilities	<u>133,724</u>	<u>109,967</u>
Long-term liabilities:		
Note payable - noncurrent portion	<u>666,610</u>	<u>686,017</u>
Total long-term liabilities	<u>666,610</u>	<u>686,017</u>
Total liabilities	<u>800,334</u>	<u>795,984</u>
Net assets:		
Unrestricted	3,957,848	4,263,090
Temporarily restricted	39,483	49,483
Total net assets	<u>3,997,331</u>	<u>4,312,573</u>
	<u>\$ 4,797,665</u>	<u>5,108,557</u>

See accompanying auditors' report and notes to financial statements.

IN DEFENSE OF ANIMALS

Statements of Activities and Changes in Net Assets Years Ended December 31, 2008 and 2007

<i>Changes in unrestricted net assets:</i>	<u>2008</u>	<u>2007</u>
Revenue and support:		
Donations and grants	\$ 1,987,980	2,188,653
Bequests and legacies	990,925	1,643,776
In-kind donations	3,360	5,000
Mailing list rental	65,296	60,594
Merchandise sales	31,698	8,830
Interest and dividends	116,551	195,933
Rents, royalties and annuities	92,304	101,569
Unrealized gains (losses) on investments	(74,188)	45,612
Realized gains (losses) on investments	4,831	(2,869)
Other miscellaneous income	28,273	52,858
	<u>3,247,030</u>	<u>4,299,956</u>
Net assets released from restrictions:		
Satisfaction of program restrictions	43,000	75,570
Total revenue and support	<u>3,290,030</u>	<u>4,375,526</u>
Operating expenses:		
Program	2,983,391	3,071,343
General and administrative	244,706	194,009
Fund raising	367,175	390,455
Total operating expenses	<u>3,595,272</u>	<u>3,655,807</u>
Increase (decrease) in unrestricted net assets	<u>(305,242)</u>	<u>719,719</u>
<i>Changes in temporarily restricted net assets:</i>		
Grants and contributions	33,000	33,000
Net assets released from restrictions	(43,000)	(75,570)
Decrease in temporarily restricted net assets	<u>(10,000)</u>	<u>(42,570)</u>
Increase (decrease) in net assets	<u>(315,242)</u>	<u>677,149</u>
Net assets at beginning of year	<u>4,312,573</u>	<u>3,635,424</u>
Net assets at end of year	<u>\$ 3,997,331</u>	<u>4,312,573</u>

See accompanying auditors' report and notes to financial statements.

IN DEFENSE OF ANIMALS

Statements of Cash Flows Years Ended December 31, 2008 and 2007

	2008	2007
<i>Operating activities:</i>		
Increase (decrease) in net assets	\$ (315,242)	677,149
Adjustments to reconcile to cash provided by operating activities:		
Depreciation and amortization	95,783	91,817
Unrealized gains on investments	74,188	(45,612)
Bad debt expense	50,000	51,500
Changes in:		
Accounts and grants receivable	15,538	58,940
Inventory	(2,008)	(1,831)
Prepaid expenses and other current assets	11,048	(25,969)
Accounts payable and accrued liabilities	5,036	25,967
Accrued payroll liabilities	14,920	9,135
Deferred revenue	-	(17,215)
Cash provided by (used for) operating activities	(50,737)	823,881
<i>Investing activities:</i>		
Acquisition of investments	(2,027)	(15,000)
Disposition of investments	58,834	272,636
Purchase of property and equipment	(88,314)	(129,342)
Cash provided by (used for) investing activities	(31,507)	128,294
<i>Financing activities:</i>		
Principal payments under note payable	(15,606)	(525,283)
Cash used for financing activities	(15,606)	(525,283)
Increase (decrease) in cash and cash equivalents	(97,850)	426,892
Cash and cash equivalents, beginning of year	1,084,717	657,825
Cash and cash equivalents, end of year	\$ 986,867	1,084,717
<i>Additional cash flow information:</i>		
Interest paid	\$ 42,219	68,394
Taxes	\$ 150	150

See accompanying auditors' report and notes to financial statements.

IN DEFENSE OF ANIMALS

Statement of Functional Expenses Year Ended December 31, 2008

(with Summarized Financial Information for the Year Ended December 31, 2007)

	General & Admini- strative Programs	Fund Raising	2008 Totals	2007 Totals
Advertising and promotion	\$ 111,725	-	111,725	35,956
Bad debt expense	50,000	-	50,000	51,500
Computer on-line service and supplies	43,819	8,764	5,843	58,426
Cost of goods sold	12,993	-	12,993	9,318
Demonstrations	4,434	-	4,434	5,614
Depreciation and amortization	81,415	6,705	7,663	95,783
Direct Mail	464,996	-	223,566	688,562
Donations and grants	77,521	-	77,521	62,842
Dues and subscriptions	528	-	528	1,057
Equipment rental and maintenance	9,704	799	913	11,416
Events	16,637	-	4,160	20,797
Event sponsor	9,873	-	9,873	34,615
Fees and bank charges	8,129	33,363	-	41,492
Fiscal sponsor	10,046	-	-	10,046
Insurance	18,901	1,556	1,779	22,236
Interest	42,219	-	-	42,219
Miscellaneous	3,101	27,287	-	30,388
Office and supplies	121,436	8,472	11,296	141,204
Postage and shipping	60,953	4,252	5,670	70,875
Printing	46,108	-	22,168	68,276
Professional fees and outside services	207,317	53,996	-	261,313
Rent and utilities	81,030	5,653	7,538	94,221
Repairs and maintenance	23,118	1,904	2,176	27,198
Rescue	72,629	-	-	72,629
Salaries, payroll taxes and benefits	1,275,293	85,975	71,646	1,432,914
Telephone and telecommunications	46,660	3,146	2,621	52,427
Travel	81,344	2,732	-	84,076
Totals	\$ 2,981,929	244,604	367,039	3,593,572
			3,593,572	3,655,807

See accompanying auditors' report and notes to financial statements.

**Notes to Financial Statements
December 31, 2008**

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 Number 117 (Statement 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 Financial Accounting Standards Number 116 (Statement 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 mutual funds and marketable securities. Purchased investments are initially stated at cost. Investments received by gift are recorded at market value at the date of contribution. The recorded amounts of all investments are adjusted annually to reflect current market values. All unrealized gains and/or losses are recorded on the statements of activities and changes in net assets.

The Agency 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, 2008. 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.

IN DEFENSE OF ANIMALS

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.

Tax-exempt Status

The Agency has received a determination letter from the Internal Revenue Service notifying it that it meets the requirements necessary for it to be exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). In addition, the Agency is exempt from California state taxes under Section 23701d of the California Revenue and Taxation Code. Accordingly, no provision for federal or state income taxes has been recorded.

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.

3. Investments

Investments consist of mutual funds and stocks. Cost basis and market value of investments are as follows at December 31, 2008 and 2007:

		December 31, 2008		December 31, 2007	
		Cost Basis	Market Value	Cost Basis	Market Value
Short-term portion:					
Money market funds	\$	338,062	338,062	325,907	325,907
Mutual funds		82,811	41,758	98,003	123,842
Stocks		63,579	32,060	72,455	91,558
Other		3,260	1,644	2,542	3,212
Subtotal		487,712	413,524	498,907	544,519
Long-term portion:					
Loans receivable, net of \$50,000 reserve		1,012,000	1,012,000	1,062,000	1,062,000
	\$	1,499,712	1,425,524	1,560,907	1,606,519

During the years ended December 31, 2008 and 2007, there were unrealized gains (losses) of \$(74,188) and \$45,612, 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, 2008 and 2007, there were realized gains (losses) of \$4,831 and (\$2,869), respectively. The Agency follows the provisions of Financial Accounting Standards Number 124 *Accounting for Investments Held by Nonprofit Organizations*. Accordingly, the recorded amounts of all investments are adjusted to reflect realized and unrealized gains and 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 \$50,000 for estimated uncollectible balances.

Notes to Financial Statements

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following at December 31, 2008 and 2007:

	2008	2007
Prepaid insurance	\$ 19,512	17,958
Prepaid expense	26,384	38,986
	\$ 45,896	56,944

5. Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements consist of the following at December 31, 2008 and 2007:

	2008	2007
Land	\$ 759,954	759,954
Building	1,240,240	1,233,975
Computers, office equipment and furniture	354,314	336,004
Leasehold improvements	373,956	345,018
Vehicles	108,755	73,955
Less: accumulated depreciation and amortization	(548,371)	(452,588)
	\$ 2,288,849	2,296,318

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 \$95,783 and \$91,817 for the years ended December 31, 2008 and 2007, respectively.

6. Related Party Transactions

The Agency employed one of the Board members as president. The President earned \$70,967 and \$70,097 in compensation during the years ended December 31, 2008 and 2007, 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 year ended December 31, 2008.

Notes to Financial Statements

8. Leases

Under other month-to-month operating leases, the Agency leases two offices in Portland, Oregon requiring combined monthly lease payments of \$750 as of December 31, 2008. The Agency is also committed to two long-term equipment leases, one which requires a quarterly payment of \$1,236 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>	
2009	\$ 16,391
2010	15,422
2011	13,168
2012	5,134
2013 and thereafter	6,417

Total rent expense for all leasing arrangements amounted to \$35,111 and \$27,728 for the years ended December 31, 2008 and 2007, 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, 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. Under SOP 98-2 for the year ended December 31, 2007, the Agency incurred allocable joint costs of \$794,026 for the informational materials and activities that included fund-raising appeals. Of those costs, \$257,809 was allocated to fund-raising expense and \$536,217 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 Greater Bay Bank 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 \$685,920 and \$701,525 at December 31, 2008 and 2007, 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, 2008). In October 2007, the Agency made an additional principal reduction in the amount of \$500,000. Monthly principal and interest payments in the amount of \$4,666 are due at beginning of each month. Minimum principal payments over the next five years are as follows: **\$19,310 due in 2009; \$20,444 due in 2010; \$21,644 due in 2011; \$22,915 due in 2012; \$24,261 due in 2013;** and **\$577,346 thereafter**. Interest expense amounted to \$42,219 and \$68,394 for the years ended December 31, 2008 and 2007, respectively.

Notes to Financial Statements

11. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Arcus Foundation	\$ 33,000	33,000
Hedinger Family	-	10,000
Katrina Relief Effort	6,483	6,483
	<u>\$ 39,483</u>	<u>49,483</u>

During the years ended December 31, 2008 and 2007, the Agency released \$43,000 and \$75,570, 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, 2008 and 2007, 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 \$2,857 and \$6,704 for the years ended December 31, 2008 and 2007, respectively.