

**People for the Ethical Treatment of Animals, Inc.
Financial Statements and
Supplementary Information
July 31, 2014**

With Independent Auditor's Report Thereon

People for the Ethical Treatment of Animals, Inc.

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Independent Auditor's Report

To the Board of Directors
People for the Ethical Treatment of Animals, Inc.

We have audited the accompanying statements of People for the Ethical Treatment of Animals, Inc. (a nonprofit organization), which comprise the statement of financial position as of July 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of People for the Ethical Treatment of Animals, Inc. as of July 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 18 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Rockville, Maryland
October 31, 2014

Saggar + Rosenberg, PC

People for the Ethical Treatment of Animals, Inc.
Statement of Financial Position
July 31, 2014

Assets

Current Assets		
Cash	\$	1,279,105
Short-term investments		2,377,541
Legacies receivable		1,169,502
Other receivables		2,143,377
Inventory		173,685
Prepaid expenses		362,117
Total Current Assets		7,505,327
Property and Equipment, Net		1,489,250
Other Assets		
Investments		11,807,990
Legacies receivable		137,260
Deposits		450
Total Other Assets		11,945,700
Total Assets	\$	20,940,277

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$	1,325,678
Accrued expenses		582,143
Deferred rent		248,250
Annuities payable, current portion		214,488
Total Current Liabilities		2,370,559
Long-term Liabilities		
Annuities payable, net of current portion		2,086,166
Total Liabilities		4,456,725
Net Assets		
Unrestricted		
Designated by Governing Board for legal matters	\$	1,000,000
Undesignated		10,139,586
Temporarily restricted		2,174,759
Permanently restricted		3,169,207
Total Net Assets		16,483,552
Total Liabilities and Net Assets	\$	20,940,277

See Independent Auditor's Report and Notes

People for the Ethical Treatment of Animals, Inc.
Statement of Activities
For the Year Ended July 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Public support				
Contributions and donations	\$ 38,156,751	\$ 1,630,608	\$ -	\$ 39,787,359
Legacies and bequests	9,649,788	19,783	-	9,669,571
Special event				
Contributions	855,880	-	-	855,880
Special event revenue	46,360	-	-	46,360
Less: costs of direct benefits to donors	<u>(267,917)</u>	<u>-</u>	<u>-</u>	<u>(267,917)</u>
Net revenue from special events	634,323	-	-	634,323
Federated and nonfederated campaigns	<u>357,770</u>	<u>-</u>	<u>-</u>	<u>357,770</u>
Total public support	<u>48,798,632</u>	<u>1,650,391</u>	<u>-</u>	<u>50,449,023</u>
Other revenue				
Merchandise sales	627,336	-	-	627,336
Investment and other income	<u>841,594</u>	<u>-</u>	<u>15,048</u>	<u>856,642</u>
Total other revenue	<u>1,468,930</u>	<u>-</u>	<u>15,048</u>	<u>1,483,978</u>
Net Assets Released from Restrictions				
Satisfaction of time restrictions	10,894	(10,894)	-	-
Satisfaction of program restrictions	<u>3,352,118</u>	<u>(3,352,118)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>53,630,574</u>	<u>(1,712,621)</u>	<u>15,048</u>	<u>51,933,001</u>
Expenses				
Program services				
Public Outreach and Education	19,455,622	-	-	19,455,622
International Grassroots Campaigns	8,691,235	-	-	8,691,235
Research, Investigations, and Rescue	12,993,951	-	-	12,993,951
Cruelty-Free Merchandise	<u>969,721</u>	<u>-</u>	<u>-</u>	<u>969,721</u>
Total program services	<u>42,110,529</u>	<u>-</u>	<u>-</u>	<u>42,110,529</u>
Supporting services				
Membership development	4,768,940	-	-	4,768,940
Management and general	<u>501,746</u>	<u>-</u>	<u>-</u>	<u>501,746</u>
Total supporting services	<u>5,270,686</u>	<u>-</u>	<u>-</u>	<u>5,270,686</u>
Total Expenses	<u>47,381,215</u>	<u>-</u>	<u>-</u>	<u>47,381,215</u>
Change in Net Assets	6,249,359	(1,712,621)	15,048	4,551,786
Net Assets at Beginning of Year	<u>4,890,227</u>	<u>3,887,380</u>	<u>3,154,159</u>	<u>11,931,766</u>
Net Assets at End of Year	<u>\$ 11,139,586</u>	<u>\$ 2,174,759</u>	<u>\$ 3,169,207</u>	<u>\$ 16,483,552</u>

See Independent Auditor's Report and Notes

People for the Ethical Treatment of Animals, Inc.
Statement of Cash Flows
For the Year Ended July 31, 2014

Cash Flows From Operating Activities:	
Change in net assets	\$ 4,551,786
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	581,548
Amortized interest	(69,217)
Accrued interest payable	11,238
Non-cash donations	(5,219,537)
Net realized and unrealized gains and losses	(100,395)
Deferred rent liability	(18,000)
Loss on disposal of property and equipment	140,010
Change in assets and liabilities:	
Increase in legacies receivable	(777,485)
Decrease in other receivables	174,014
Increase in inventory	(77,736)
Increase in prepaid expenses	(57,612)
Decrease in deposits	5,561
Increase in accounts payable	15,377
Increase in accrued expenses	102,502
Decrease in deferred revenue	(8,368)
Net Cash Used In Operating Activities	<u>(746,314)</u>
Cash Flows From Investing Activities:	
Reinvestment of matured securities and purchases of investments	(33,484,829)
Maturities and proceeds from sales of investments	35,130,679
Proceeds from sales of property and equipment	301,252
Purchase of property and equipment	(782,829)
Net Cash Provided By Investing Activities	<u>1,164,273</u>
Cash Flows From Financing Activities:	
Proceeds from annuity contracts	569,077
Net gain on permanently restricted assets	(15,048)
Principal payments on annuity contracts	(408,358)
Net Cash Provided By Financing Activities	<u>145,671</u>
Net Increase in Cash	563,630
Cash at Beginning of Year	<u>715,475</u>
Cash at End of Year	<u>\$ 1,279,105</u>
Supplemental Disclosure of Cash Flow Information:	
Interest paid during the year	<u>\$ 108,757</u>

See Independent Auditor's Report and Notes

People for the Ethical Treatment of Animals, Inc.
Notes to Financial Statements

Note 1: Organization

People for the Ethical Treatment of Animals, Inc. (PETA or the “Organization”), a nonprofit organization formed in 1980, disseminates information about animal abuse, animal protection, and related subjects to the public and encourages people to make compassionate choices. PETA is a charity exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation.

The following is a list of the various programs conducted by PETA.

- Public Outreach and Education – PETA conducts educational campaigns and publishes materials that are distributed to students, teachers, the general public, and supporters. These efforts include making materials available for younger children, high school and college students, and educators as well as publishing factsheets, booklets, fliers, posters, and PETA’s magazine, Animal Times. PETA’s campaigns, which reach millions of people and receive extensive media coverage, involve renowned celebrities, interactive social networking, website features, blog posts, and public service announcements, which are typically placed for free in high-exposure outlets. In fiscal year 2014, PETA logged more than 3,500 interactions with the media via letters, tweets, and radio, TV, and print interviews. PETA also had more than 74 million people visit its various websites. Total expenses incurred in this program were \$19,455,622.

- International Grassroots Campaigns – PETA organizes campaigns to inform the public about the abuse and slaughter of animals in the food, clothing, experimentation, and entertainment industries, among others. In 2014, PETA helped organize more than 120 demonstrations and sent out several million letters and e-mails to urge companies and individuals to make changes that benefit animals. Following PETA’s efforts to end “dehorning” (i.e., cutting or searing off calves’ horns with no pain relief) in the dairy industry, companies such as Chipotle, Peet’s Coffee & Tea, and Amy’s Kitchen are pressuring their suppliers to stop this cruel mutilation. PETA also persuaded Williams-Sonoma to stop offering foie gras in its catalogs and at its 250 retail locations; worked with several property owners to retrofit their spiked fences in order to prevent deer from becoming fatally impaled on them; helped enact bullhook bans in Los Angeles and Clatsop County, Ore.; and got Savings.com to remove all SeaWorld promotions and coupons from its website as well as outdoor retailer The Timberland Company, an official partner of the Macy’s Thanksgiving Day parade, to urge Macy’s to cancel the SeaWorld float. PETA’s youth division, peta2, interacted with more than 200,000 young people at colleges, various music festivals, and other events and took along the “Glass Walls” exhibit, which shows students what the meat industry is trying to hide and helps them find out what they can do to end the suffering of animals. PETA maintained pressure on the Canadian government to stop the annual seal slaughter by helping to persuade the World Trade Organization to uphold the EU’s ban on seal-fur imports. This

People for the Ethical Treatment of Animals, Inc.
Notes to Financial Statements

Note 1: Organization (continued)

decision was a big win for baby seals and a landmark step toward protecting animals under international trade law. After hearing from PETA, more than 30 retailers, including giants such as Gap Inc., Perry Ellis, French Connection, Calvin Klein, and Zappos, stopped selling angora, which involves painfully ripping the fur out of rabbits' skin. As a result of PETA's campaign against down—the first such campaign in the animal-protection movement—retailers Coleman, which distributes outdoor gear, and Sports Authority, a sporting goods company with more than 450 stores in 45 states, stopped selling products made with down feathers. PETA also got numerous events, including circuses, elephant rides, a kangaroo boxing match, goldfish and hermit crab giveaways, and live-animal exhibits canceled; convinced top advertising agency Dieste to pledge not to use great apes in advertising; and persuaded Volkswagen to pull an ad featuring a capuchin monkey and pledge not to use primates in future ads. Among other things, PETA also succeeded in getting six self-storage companies, including Public Storage, the number one company in the nation in this field, and U-Haul, the third largest, to stop using glue traps. Mid-America Apartment Communities, the seventh-largest apartment management company in the nation, also banned the use of glue traps after hearing from PETA. Total expenses incurred in this program were \$8,691,235.

- Research, Investigations, and Rescue – PETA receives complaints of cruelty to animals; works for the release of and obtains care for abused, neglected, and at-risk animals; investigates cruelty cases; conducts undercover investigations; gathers evidence of law violations; and takes action to ensure the enforcement of laws and regulations in an effort to protect the animals involved. PETA's first-ever investigation of commercial lobster and crab slaughter revealed that workers at Linda Bean's Maine Lobster rip the legs, heads, and shells off live and still-conscious lobsters and leave them to writhe as they are piled in bins. Workers slam live crabs onto spikes to break off their top shells and then press their exposed organs and flesh against stiff bristles, after which the lobsters are slowly lowered, still alive, into boiling water. As a result of this exposé, Delaware North, a leading foodservice and hospitality provider, pulled Linda Bean's Maine Lobster and is no longer allowing it to be served at such sports venues as the Boston Garden and the Minnesota Twins' Target Field. PETA pressured the U.S. Coast Guard (USCG) to reduce by more than 50 percent the agency's use of live animals in cruel and deadly medical training exercises and require that more personnel be trained with simulators. The USCG's decision comes on the heels of video footage released by PETA that shows USCG instructors cutting off semiconscious goats' legs with tree trimmers, stabbing the animals with scalpels, and pulling out their internal organs as they kicked and loudly moaned. PETA also donated 66 state-of-the-art surgical simulators to replace the deadly use of thousands of dogs, pigs, and other animals in advanced surgical training programs in nine countries, including Bolivia, Iran, and Mexico; spurred the U.S. Department of Agriculture (USDA) to fine the University of Wisconsin–Madison

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People for the Ethical Treatment of Animals, Inc.
Notes to Financial Statements

Note 1: Organization (continued)

more than \$35,000, one of the largest fines assessed against a laboratory in history, for the university's inhumane brain experiments on cats; persuaded numerous high schools and universities to stop animal dissection in biology classes; convinced the Michigan and New Hampshire state boards of education to implement dissection-choice policies; and donated virtual dissection programs to schools across the country. As a result of PETA's efforts, India is poised to add household products, such as cleaners and detergents, to the existing ban on all cosmetics testing on animals, and the Environmental Protection Agency's decision to drop a plan that would have required chemical manufacturers to conduct animal tests will spare 8,000 animals from being poisoned and killed. PETA also helped convince the Interstate Shellfish Sanitation Conference to approve the use of a method that uses tissue from one animal in place of 200 live animals to test for toxins, thereby sparing the lives of tens of thousands of mice each year; prompted New Zealand to enact a ban on all animal testing for recreational drugs; persuaded Lorillard Tobacco Company, the third-largest manufacturer of cigarettes in the U.S., to enact a ban on all animal testing, unless such tests become required by law in the future; and succeeded in getting the USDA to fine China Southern Airlines for illegally shipping 1,380 monkeys to the U.S. for use in experiments. After PETA and the American Civil Liberties Union sued the San Diego International Airport for refusing to run an anti-SeaWorld ad, the airport and ad vendor JCDecaux settled with PETA out of court and ran the ad for a month. PETA's undercover investigation revealed the seedy underworld of pigeon racing in Taiwan, and PETA worked with law-enforcement officials in Oklahoma to ensure that pigeon racers were charged with violations of Oklahoma's felony gambling laws. All three defendants pleaded no contest to charges of commercial gambling—the first time in history that anyone has been held responsible for illegal conduct associated with cruel pigeon races. PETA's international exposé of the wool industry in Australia and the U.S. documented workers viciously punching sheep in the face and beating and jabbing them with electric clippers and a hammer, and an investigation of leading Thoroughbred racehorse trainer Steve Asmussen captured the first-ever video evidence of the chronic misuse of drugs to enhance horses' performance and mask their injuries. The video led to the openings of numerous state and federal investigations and the removal of Asmussen as a nominee from the racing Hall of Fame. Other lifesaving reforms were made in the horse-racing industry, thanks to PETA, including The Jockey Club's resolution to back legislation for federal drug intervention; a ban on thyroid medication for racehorses and the adoption of new, stronger rules to eliminate electro-shock buzzers in California; and the decision of the Stronach Group, which owns a number of major racetracks, to initiate reforms. Because of PETA's efforts, a Virginia woman, whose pregnant and starving dog Angel was so emaciated and weak when she was rescued that she couldn't even stand up on her own, was found guilty of cruelty to animals and sentenced to 10 days in jail; a Virginia man was convicted of cruelty to animals for neglecting three dogs to the point of near-starvation; and two Louisiana residents were charged with 25 counts of cruelty to animals for abandoning 23

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People for the Ethical Treatment of Animals, Inc.
Notes to Financial Statements

Note 1: Organization (continued)

dogs without food, water, or shelter. Some had died and were being cannibalized by the desperate survivors. PETA was also responsible for obtaining punishment for a number of other individuals around the nation for abusing or neglecting animals. PETA's Community Animal Project, which provides animals in the Hampton Roads, Va., area with hands-on help, handled more than 2,000 calls for assistance; rescued more than 3,000 animals; built and delivered more than 350 free doghouses, which brings the total number of doghouses built since the program started to 6,000; and bagged 1,200 bales of straw, providing warm, dry shelter for dogs forced to live outdoors. PETA's Mobile Clinics Division spayed and neutered 11,037 cats and dogs in southeastern Virginia and northeastern North Carolina, including 621 feral cats and 886 pit bulls at a discounted rate or free of charge. PETA held its first-ever spay-a-thon, spaying and neutering more than 400 animals in 48 hours, and celebrated its 100,000th spay surgery in February 2014. Total expenses incurred in this program were \$12,993,951.

- Cruelty-Free Merchandise Program – PETA encourages and facilitates cruelty-free living by providing educational materials and consumer products, such as cosmetics and household cleaners that are not tested on animals, animal-care products, message T-shirts, educational videos and books, animal rescue equipment, and campaign materials that are used by concerned people around the world. These items are available online through the PETA Mall and the PETA Catalog. Total expenses incurred in this program were \$969,721.

Note 2: Operating Expenses

Of the total operating expenses incurred for the year, PETA incurred 88.87% for charitable program activities, 10.07% for membership development, and 1.06% for management and general.

Note 3: Summary of Significant Accounting Policies

Basis of Accounting

PETA maintains its records on the accrual basis of accounting.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statement of Financial Position. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in

People for the Ethical Treatment of Animals, Inc.
Notes to Financial Statements

Note 3: Summary of Significant Accounting Policies (continued)

which the income and gains are recognized. Short-term investments consist of money market funds. Long-term investments consist of marketable equity, debt securities, and certificates of deposit with original maturities greater than twelve months.

Property and Equipment

The Organization capitalizes property, equipment, and betterments over \$1,000 with a useful life greater than one year. Property and equipment are recorded at cost. Fixed assets donated to PETA are recorded at fair value at the date of donation. The cost of maintenance and repairs is recorded as an expense when incurred. Depreciation is calculated using the straight-line method over estimated lives of the assets as follows:

Mobile spay/neuter clinics and other vehicles	5-7 years
Office furniture and equipment	3-7 years
Software	3-10 years
Buildings and improvements	7-40 years

Inventory

Inventory is valued at the lower of cost or market. Cost is determined using the weighted average method.

Deferred Rent Liability

PETA received rent abatement under the terms of an office space lease. Accounting principles generally accepted in the United States of America require that rent expense be straight-lined over the life of the lease. The Organization is amortizing the abatement over the life of the lease. The deferred rent liability as of July 31, 2014 was \$248,250.

Revenue Recognition

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support which increases those net asset classes. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, PETA reports the support as unrestricted.

People for the Ethical Treatment of Animals, Inc.
Notes to Financial Statements

Note 3: Summary of Significant Accounting Policies (continued)

Unconditional promises to give 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. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Donated assets are recorded at fair value as of the date of gift. Cruelty-free merchandise sales revenue is recognized upon shipment of goods.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been either directly charged to the programs and supporting services as incurred or allocated based on usage for items such as occupancy and depreciation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect specific amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

For the year ended July 31, 2014, the Organization has evaluated subsequent events for potential recognition and disclosure through October 31, 2014, the date the financial statements were available to be issued.

Note 4: Legacies Receivable

PETA records legacies that are expected to be collected in future years at the present value of their estimated future cash flows using discount rates ranging from 3% to 8%.

Legacies receivable consisted of the following at July 31, 2014:

Receivable within one year	\$ 1,169,502
Receivable in one to five years	<u>160,735</u>
Total legacies receivable	1,330,237
Less: net present value discount	<u>(23,475)</u>
Net legacies receivable	1,306,762
Less: current portion	<u>(1,169,502)</u>
Legacies receivable, net of current portion	<u>\$ 137,260</u>

See Independent Auditor's Report

People for the Ethical Treatment of Animals, Inc.
Notes to Financial Statements

Note 5: Property and Equipment

Property and equipment at July 31, 2014 consisted of the following:

Mobile spay/neuter clinics and other vehicles	\$ 1,287,234
Office furniture and equipment	207,936
Software	1,255,957
Buildings and improvements	205,447
Land	<u>91,170</u>
	3,047,744
Less: accumulated depreciation and amortization	<u>(1,564,494)</u>
Property and equipment, net	\$ 1,483,250
Property and equipment held for resale	<u>6,000</u>
Total Property and equipment, net	<u>\$ 1,489,250</u>

Depreciation and amortization expense for the year ended July 31, 2014 was \$581,548.

Note 6: Investments and Fair Value Measurements

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

For all trading securities and, to the extent possible, for debt securities, fair value is determined by reference to the quoted market prices and other relevant information generated by market transactions. For certain debt securities, fair value is estimated as the present value of expected future cash inflows, taking into account (1) the type of security, its terms, and any underlying collateral, (2) the seniority level of the debt security, and (3) quotes received from brokers and pricing services. In applying the valuation model, significant inputs include the probability of default for debt securities, the estimated prepayment rate, and the projected yield based on estimated future market rates for similar securities. Certificates of deposit are valued at amortized cost.

People for the Ethical Treatment of Animals, Inc.
Notes to Financial Statements

Note 6: Investments and Fair Value Measurements (continued)

	<u>Investments at Fair Value as of July 31, 2014</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ --	\$ 250,914	\$ --	\$ 250,914
Corporate bonds	--	11,346,567	--	11,346,567
Equity securities	158,587	--	--	158,587
Money market funds	2,377,541	--	--	2,377,541
Mutual funds	<u>51,922</u>	<u>--</u>	<u>--</u>	<u>51,922</u>
Total investments, at fair value	<u>\$ 2,588,050</u>	<u>\$ 11,597,481</u>	<u>\$ --</u>	<u>\$ 14,185,531</u>

Realized and unrealized gains were approximately \$93,000 and \$7,000, respectively.

Note 7: Net Assets

Board Designated

The Board of Directors designated \$1 million to cover costs of legal matters. These matters would include the challenges brought by PETA to fight animal abuse, and could include defense against challenges made by opponents of animal rights. The Board of Directors wishes to be prepared to defend against future challenges without interrupting PETA programs.

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes:

Campaigns against animal testing, factory farming, and animal cruelty	\$ 2,037,499
For periods after July 31, 2014	<u>137,260</u>
Total temporarily restricted net assets	<u>\$ 2,174,759</u>

See Independent Auditor's Report

People for the Ethical Treatment of Animals, Inc.
Notes to Financial Statements

Note 7: Net Assets (continued)

Permanently Restricted

Permanently restricted net assets are comprised of four separate endowment funds with a total value of \$3,169,207 as of July 31, 2014. Under terms of the first endowment fund, 20% of the ordinary earnings from investments are permanently restricted while 35% are available for unrestricted use and the remaining 45% are donated to other organizations. Earnings on the second, third and fourth endowment fund are unrestricted.

Interpretation of Relevant Law

The Board of Directors of PETA has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, PETA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, PETA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of PETA and the donor-restricted endowment 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 PETA
- (7) The investment policies of PETA

People for the Ethical Treatment of Animals, Inc.
Notes to Financial Statements

Note 7: Net Assets (continued)

**Endowment Net Asset Composition by Type of Fund
As of July 31, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted				
endowment funds	\$ --	\$ --	\$ 3,169,207	\$ 3,169,207

**Changes in Endowment Net Assets
for the Fiscal Year Ended July 31, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets,				
beginning of year	\$ --	\$ --	\$ 3,154,159	\$ 3,154,159
Investment return:				
Investment income	--	--	15,048	15,048
Net appreciation (realized/unrealized)	--	--	--	--
Total investment				
return			15,048	15,048
Contributions	--	--	--	--
Appropriation of endowment assets for expenditure	--	--	--	--
Endowment net assets,				
end of year	\$ --	\$ --	\$ 3,169,207	\$ 3,169,207

Return Objectives and Risk Parameters

PETA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that PETA must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to preserve principal while earning as much income as possible assuming a low level of investing risk.

See Independent Auditor's Report

People for the Ethical Treatment of Animals, Inc.
Notes to Financial Statements

Note 8: Defined Contribution Retirement Plan

PETA is a participating employer in a defined contribution plan. To be an eligible participant of the plan, full time employees (working at least 1,000 hours during the plan year) must be 21 years of age and complete one year of service. Employer matching contributions to the plan are at the discretion of the Board of Directors of PETA. Employer contributions for the year ended July 31, 2014 were \$47,778.

Note 9: Related Party Transactions

The Foundation to Support Animal Protection (the “Foundation”) is a non-profit organization that supports the activities of various animal protection organizations, including PETA. The Foundation and PETA are related through a single common board member.

PETA has entered into agreements to lease office space, tangible and intangible assets from the Foundation as more fully described in Note 12. Rental payments to the Foundation during the fiscal year were \$1,120,200. In addition, the Foundation provided approximately \$11,400,000 in services to PETA.

A PETA director serves on the boards of directors of affiliated animal rights organizations in France, the Asia-Pacific region, India, Netherlands, The United Kingdom, Germany, and Australia to which during the fiscal year PETA donated approximately \$2,100,000 to assist in their operations.

Note 10: Concentration of Credit Risk

The Federal Deposit Insurance Corporation (FDIC) insures accounts up to \$250,000 at each financial institution. At July 31, 2014, the Organization exceeded insured levels by \$1,154,943.

Note 11: Allocation of Joint Costs

During the fiscal year, PETA incurred joint costs of \$10,150,103 for educational material and activities that included fund-raising appeals. Based on an analysis of the content of these mailings, \$151,460 was allocated to management and general, \$2,700,045 was allocated to membership development and \$7,298,598 was allocated to program expenses. Of the amount allocated to program expenses, \$2,261,364 was allocated to international grassroots campaigns, \$1,810,589 was allocated to public outreach and education, \$3,192,980 was allocated to research, investigations and rescue and \$33,665 was allocated to merchandise.

People for the Ethical Treatment of Animals, Inc.
Notes to Financial Statements

Note 12: Operating Leases

PETA leases office space and equipment from the Foundation. PETA also leases additional space from other landlords. The leases are non-cancelable and expire at various times through December 2021. Future minimum rental payments under the non-cancelable operating leases are:

Year ending July 31,	
2015	\$ 1,120,200
2016	1,120,200
2017	1,130,700
2018	978,950
2019	756,000
Thereafter	<u>913,500</u>
	<u>\$ 6,019,550</u>

Rent expense for the year ended July 31, 2014 was \$1,125,998.

People for the Ethical Treatment of Animals, Inc.
Schedule of Functional Expenses
For the Year Ended July 31, 2014

	<u>Program Services</u>					<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Public Outreach and Education</u>	<u>International Grassroots Campaigns</u>	<u>Research, Investigations and Rescue</u>	<u>Cruelty-Free Merchandise</u>	<u>Total</u>	<u>Membership Development</u>	<u>Management and General</u>	<u>Total</u>	
Professional services and consultant: \$	4,671,090	\$ 2,141,875	\$ 4,743,470	\$ 232,462	\$ 11,788,897	\$ 1,324,721	\$ 442,714	\$ 1,767,435	\$ 13,556,332
Media and press support	8,762,567	93,815	15,137	31	8,871,550	209,129	51	209,180	9,080,730
Salaries and related expenses	2,914,684	2,452,418	2,920,799	11,573	8,299,474	25,465	25,145	50,610	8,350,084
Education and promotional costs	1,290,377	1,538,206	2,087,135	10,146	4,925,864	2,469,034	589	2,469,623	7,395,487
Donations to charitable organizations	200	1,235,070	1,376,367	-	2,611,637	-	-	-	2,611,637
General operating expenses	808,902	318,997	1,002,717	47,897	2,178,513	401,895	13,543	415,438	2,593,951
Rent and other building expenses	405,057	450,545	364,878	89,058	1,309,538	18,662	5,610	24,272	1,333,810
Travel and transportation	263,848	229,595	376,717	56	870,216	131,272	12,462	143,734	1,013,950
Postage	286,804	140,255	30,985	257,067	715,111	184,357	722	185,079	900,190
Cost of goods sold	-	-	-	315,969	315,969	-	-	-	315,969
Telephone and office expenses	52,093	90,459	75,746	5,462	223,760	4,405	910	5,315	229,075
Total expenses	\$ 19,455,622	\$ 8,691,235	\$ 12,993,951	\$ 969,721	\$ 42,110,529	\$ 4,768,940	\$ 501,746	\$ 5,270,686	\$ 47,381,215
Percent of total expenses	41.06%	18.34%	27.42%	2.05%	88.87%	10.07%	1.06%	11.13%	100.00%

See Independent Auditor's Report and Notes