

**People for the Ethical Treatment of Animals, Inc.
Financial Statements and
Supplementary Information
July 31, 2015**

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, 2015, 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, 2015, 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 19 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.

Handwritten signature in cursive script that reads "Saggan + Rosenberg, PC".

Rockville, Maryland
November 7, 2015

People for the Ethical Treatment of Animals, Inc.
Statement of Financial Position
July 31, 2015

Assets

Current Assets		
Cash	\$	806,597
Short-term investments		921,124
Property held for sale		52,793
Promises to give, current portion		820,889
Legacies receivable, current portion		520,594
Other receivables		44,823
Inventory		175,022
Prepaid expenses		<u>727,205</u>
Total Current Assets		<u>4,069,047</u>
Property and Equipment, Net		<u>1,709,674</u>
Other Assets		
Investments		14,468,749
Property held for sale		1,265,910
Promises to give, net of current portion		170,673
Legacies receivable, net of current portion		394
Deposits		<u>12,247</u>
Total Other Assets		<u>15,917,973</u>
Total Assets	\$	<u><u>21,696,694</u></u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$	1,857,378
Accrued expenses		701,374
Deferred revenue		138,249
Deferred rent		212,250
Annuities payable, current portion		<u>201,405</u>
Total Current Liabilities		<u>3,110,656</u>
Long-term Liabilities		
Annuities payable, net of current portion		<u>2,103,776</u>
Total Liabilities		<u>5,214,432</u>
Net Assets		
Unrestricted		
Designated by Governing Board for legal matters	\$	1,000,000
Undesignated		<u>10,348,886</u>
Temporarily restricted		1,942,130
Permanently restricted		<u>3,191,246</u>
Total Net Assets		<u>16,482,262</u>
Total Liabilities and Net Assets	\$	<u><u>21,696,694</u></u>

See Independent Auditor's Report and Notes

People for the Ethical Treatment of Animals, Inc.
Statement of Activities
For the Year Ended July 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Public support				
Contributions and donations	\$ 29,679,477	\$ 3,490,022	\$ -	\$ 33,169,499
Legacies and bequests	8,424,574	272,827	-	8,697,401
Special event				
Contributions	1,520,171	-	-	1,520,171
Special event revenue	17,278	-	-	17,278
Less: costs of direct benefits to donors	(200,682)	-	-	(200,682)
Net revenue from special events	<u>1,336,767</u>	<u>-</u>	<u>-</u>	<u>1,336,767</u>
Federated and nonfederated campaigns	<u>328,597</u>	<u>-</u>	<u>-</u>	<u>328,597</u>
Total public support	<u>39,769,415</u>	<u>3,762,849</u>	<u>-</u>	<u>43,532,264</u>
Other revenue				
Merchandise sales	566,513	-	-	566,513
Investment and other income	802,334	-	22,039	824,373
Total other revenue	<u>1,368,847</u>	<u>-</u>	<u>22,039</u>	<u>1,390,886</u>
Net Assets Released from Restrictions				
Satisfaction of time restrictions	136,866	(136,866)	-	-
Satisfaction of program restrictions	3,858,612	(3,858,612)	-	-
Total Support and Revenue	<u>45,133,740</u>	<u>(232,629)</u>	<u>22,039</u>	<u>44,923,150</u>
Expenses				
Program services				
Public Outreach and Education	12,528,963	-	-	12,528,963
International Grassroots Campaigns	8,903,548	-	-	8,903,548
Research, Investigations, and Rescue	14,745,352	-	-	14,745,352
Cruelty-Free Merchandise	928,381	-	-	928,381
Total program services	<u>37,106,244</u>	<u>-</u>	<u>-</u>	<u>37,106,244</u>
Supporting services				
Membership development	6,963,668	-	-	6,963,668
Management and general	854,528	-	-	854,528
Total supporting services	<u>7,818,196</u>	<u>-</u>	<u>-</u>	<u>7,818,196</u>
Total Expenses	<u>44,924,440</u>	<u>-</u>	<u>-</u>	<u>44,924,440</u>
Change in Net Assets	209,300	(232,629)	22,039	(1,290)
Net Assets at Beginning of Year	<u>11,139,586</u>	<u>2,174,759</u>	<u>3,169,207</u>	<u>16,483,552</u>
Net Assets at End of Year	<u>\$ 11,348,886</u>	<u>\$ 1,942,130</u>	<u>\$ 3,191,246</u>	<u>\$ 16,482,262</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, 2015

Cash Flows From Operating Activities:	
Change in net assets	\$ (1,290)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	515,794
Amortized interest	43,433
Accrued interest payable	11,269
Non-cash donations	(1,336,015)
Net realized and unrealized gains and losses	60,392
Net change in deferred rent liability	(36,000)
Loss on disposal of property and equipment	29,145
Impairment on property held for sale	60,779
Gain from annuities	(59,401)
Change in assets and liabilities:	
Decrease in legacies receivable	785,774
Decrease in other receivables	271,590
Increase in promises to give	(355,673)
Increase in inventory	(1,337)
Increase in prepaid expenses	(365,088)
Increase in deposits	(11,797)
Increase in accounts payable	531,700
Increase in accrued expenses	119,231
Increase in deferred revenue	138,249
Net Cash Provided By Operating Activities	<u>400,755</u>
Cash Flows From Investing Activities:	
Reinvestment of matured securities and purchases of investments	(15,781,432)
Maturities and proceeds from sales of investments	14,859,981
Proceeds from sales of property and equipment	803,174
Purchase of property and equipment	(785,606)
Net Cash Used In Investing Activities	<u>(903,883)</u>
Cash Flows From Financing Activities:	
Proceeds from annuity contracts	267,814
Net gain on permanently restricted assets	(22,039)
Principal payments on annuity contracts	(215,155)
Net Cash Provided By Financing Activities	<u>30,620</u>
Net Decrease in Cash	(472,508)
Cash at Beginning of Year	<u>1,279,105</u>
Cash at End of Year	<u>\$ 806,597</u>
Supplemental Disclosure of Cash Flow Information:	
Interest paid during the year	<u>\$ 100,668</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 (PETA), Inc., 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 2015, PETA logged more than 4,500 interactions with the media via letters, tweets, and radio, TV, and print interviews. PETA also had more than 62 million visits to its various websites. Total expenses incurred in this program were \$12,528,963.
- 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 2015, PETA helped organize more than 1,450 demonstrations and sent out several million letters and e-mails to urge companies and individuals to make changes that benefit animals. Influenced by PETA’s continuing efforts to end “dehorning” in the dairy industry, companies such as General Mills, Dannon, Chipotle, and Denny’s have stated their support of and purchasing preference for polled, or naturally hornless, cattle, paving the way for the elimination of the painful dehorning process (i.e., cutting or searing off calves’ horns with no pain relief). PETA also persuaded IKEA to add vegan meatballs to its in-store menus; worked with a cemetery in Amherst, New York, to retrofit its spiked fence in order to prevent deer from becoming fatally impaled on it; and helped enact a bull hook ban in Oakland, California, and Richmond, Virginia. Numerous companies, including United Airlines, JetBlue, Virgin America, Hyundai Motor America, World Travel Guide, DestinationCoupons.com, and the Miami Dolphins football franchise severed ties with SeaWorld after hearing from PETA and PETA’s relentless public pressure on SeaWorld has led to an 84 percent drop in its profits from 2014. PETA’s youth division, peta2, interacted with more than 250,000 young people at colleges, various music festivals, and other events and took along the “I, Chicken” exhibit, which uses cutting-edge virtual reality technology and allows students to see life from the perspective of a chicken who will be killed for food. Following 35 years of pressure and protesting from PETA, Ringling Bros. and Barnum & Bailey

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

Note 1: Organization (continued)

Circus announced that it will end its elephant performances by 2018. Bill Cunningham, the largest Shrine circus producer in the U.S., eliminated all wild animal acts from his shows. After hearing from PETA, 11 retailers, including Inditex (the world's largest clothing retailer), Esprit, Bebe, and Adidas, joined the list of over 80 companies that have banned angora, the production of which involves painfully ripping the fur out of rabbits' skin. PETA persuaded Mercedes-Benz USA to make the base model of its new smart car for two (C453) completely leather-free and prompted Williams-Sonoma to add a synthetic down option for every down option it offers. PETA also got numerous events, including circuses, a Pamplona-style bull run in California, a coyote-killing contest, a petting zoo, a hermit crab giveaway, and live-animal exhibits canceled; persuaded retailer Anthropologie to pull an ad featuring an elephant and to enact a policy against using elephants in ads; and persuaded Endemol Shine North America not to air a segment of Gordon Ramsay's show MasterChef that featured a chimpanzee. Among other things, PETA succeeded in getting Alliance Residential Company, the ninth-largest apartment management company in the nation, to stop using glue traps and CBL & Associates to stop allowing Pocket Pets to sell sugar gliders in its malls. Rite Aid pharmacy also removed all "Teddy Tanks"—stuffed animals with betta fish tanks in their stomachs—from its shelves after hearing from PETA. Total expenses incurred in this program were \$8,903,548.

- 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. In response to a whistleblower complaint, PETA investigated the Osborne Farm dairy in North Carolina and found emaciated and lame cows forced to live in a 3-foot-deep pool of their own liquefied manure, which left them to suffer from skin ulcers and painful hoof ailments. As a result of this exposé, Piedmont Milk Sales and Ingles Markets' Milkco ended their relationships with the farm, the owner was cited after it was discovered that some of the manure was washing into a nearby creek, and the farm was shut down. PETA pressured New Mexico's lawmakers to let the state's most recent "ag-gag" bill die without even having a committee hearing on it. "Ag-gag" statutes criminalize whistle-blowing investigations at factory farms and specifically target animal advocates who expose cruelty to animals. This is an important victory that will protect crucial eyewitness investigations, which reveal blatant, often illegal animal abuse on factory farms. A PETA eyewitness investigation of Deployment Medicine International (DMI), the U.S. military's leading contractor for trauma training courses, documented instructors shooting live pigs with shotguns and cutting open the animals to cause massive bleeding.

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

Note 1: Organization (continued)

At least one pig woke up while being cut open. Footage also showed instructors ramming a metal rod through at least one pig's leg, cutting into his abdomen, pulling out part of his intestines, and shooting him in the face, blowing off his jaw. Following the release of the investigation, the owner of DMI lost his medical license and the company was indefinitely suspended from receiving any federal contracts. As a result of PETA's efforts, India has now added imported animal-tested cosmetics and their ingredients to the existing ban on all cosmetics testing on animals, the U.K. introduced a ban on testing household products on animals, and the Canadian government is reevaluating its requirement to test citronella bug sprays on animals. Following PETA's recommendations, the Environmental Protection Agency (EPA) plans to incorporate the results of non-animal methods as a step toward its goal of developing a set of in vitro methods to replace all animal tests in its Endocrine Disruptor Screening Program, which has the potential to spare millions of animals' lives. The PETA scientists associated with the PETA International Science Consortium also hosted an international workshop at the EPA headquarters with the goal of designing a non-animal test that could replace the use of rats in inhalation toxicity studies. PETA's investigation of Primate Products, Inc., a Florida facility that imports hundreds of monkeys every year and sells them to laboratories, uncovered sick and injured monkeys who were denied adequate veterinary care, including for exposed bones in their tails and fingers; workers routinely grabbing monkeys by the tails; and monkeys kept outside without heat throughout the winter. As a result of the investigation, the U.S. Department of Agriculture (USDA) cited the company for 25 violations of the Animal Welfare Act. After PETA filed complaints and requests asking the USDA to conduct investigations in response to incidents in which children were bitten by dolphins, SeaWorld Orlando announced that it is ending its public dolphin-feeding program. PETA's international exposé of the exotic-skins industry in Africa and the U.S. revealed the appalling conditions in which crocodiles and alligators are raised and/or killed on factory farms for Hermès "luxury" goods. Alligators are packed into dank pools and crocodiles are crowded into barren concrete pits for months or even years before finally being slaughtered for their skins. Workers were documented crudely hacking into the necks of some alligators and trying to scramble their brains with metal rods. Some reptiles were still conscious, flailing and kicking, even minutes after workers tried to kill them. As a result, Jane Birkin requested that Hermès remove her name from the crocodile Birkin bags. Following PETA's calls for stronger whipping regulations in the U.S.—including for the Kentucky Derby, in which Triple Crown winner American Pharaoh was whipped more than 30 times—the California Horse Racing Board implemented the strictest regulation in the country governing the use of whips in horse racing. Other lifesaving reforms were made in the horse-racing industry, thanks to PETA, including the introduction of legislation mandating federal drug intervention; the adoption of new, stronger rules to eliminate electro-shock devices in California; a lawsuit against thoroughbred horse trainer Steve Asmussen by the Federal Department of Labor; and the filing of felony charges against jockey Roman Chapa for allegedly using

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

Note 1: Organization (continued)

an electric shock device during a race. Because of PETA's efforts, Kora and Justice, two dogs from two different cases who were found with collars embedded in their necks, were rescued and adopted into new loving homes; a Corpus Christi, Texas, man, who allegedly lifted his dog by the neck, punched and threw the dog to the ground, and dragged the dog inside his house, had the dog seized from him and is now facing charges related to the incident; and a Virginia father and daughter, whose emaciated and starving dog Peaches had to be euthanized after she was found suffering from a foul-smelling infection caused by a horribly embedded collar that had sawed into her neck and caused a 1½-inch cut, were found guilty of cruelty to animals and sentenced to 12 months' jail time (the man will ultimately serve six of the 12 months, and his daughter will serve three). Both have been banned from owning any other animals for life. 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, Virginia, area with hands-on help, handled more than 2,000 calls for assistance; rescued more than 2,700 animals; built and delivered more than 250 free doghouses, which brings the total number of doghouses built since the program started to more than 6,200; and bagged 1,800 bales of straw, providing warm, dry shelter for dogs forced to live outdoors. PETA's Mobile Clinics Division spayed and neutered 11,131 cats and dogs in southeastern Virginia and northeastern North Carolina, including 457 feral cats and 564 pit bulls, at a discounted rate or free of charge. PETA instituted "Operation Animals," a program-wide military discount that offers reduced-cost surgeries to active-duty and retired military service members; partnered with two Virginia shelters to offer free monthly clinics; held a multi-shelter dog adopt-a-thon at its Bea Arthur Dog Park; and hosted a chicken adoption event at its Los Angeles office, the Bob Barker Building, during which 97 chickens found loving homes. Total expenses incurred in this program were \$14,745,352.

- 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. PETA's online lists of cosmetics and household products companies that do and that don't test on animals are among the most visited pages on PETA.org, garnering well over 3 million views this year. PETA also works to persuade companies to enact bans on all animal tests, and this year, PETA added approximately 300 companies to the cruelty-free list, bringing the total number of companies that don't test on animals to nearly 1,800. Total expenses incurred in this program were \$928,381.

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

Note 2: Operating Expenses

Of the total operating expenses incurred for the year, PETA incurred 82.60% for charitable program activities, 15.50% for membership development, and 1.90% 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 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

PETA 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	3 - 7 years
Office furniture and equipment	3 - 7 years
Software	1 - 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, 2015 was \$212,250.

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

Note 3: Summary of Significant Accounting Policies (continued)

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.

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.

The exchange portion of amounts received for future fundraising events are recorded as deferred revenue.

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, 2015, the Organization has evaluated subsequent events for potential recognition and disclosure through November 7, 2015, the date the financial statements were available to be issued.

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

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 3.00% to 8.00%.

Legacies receivable consisted of the following at July 31, 2015:

Receivable within one year	\$ 520,594
Receivable in one to five years	<u>446</u>
Total legacies receivable	521,040
Less: net present value discount	<u>(52)</u>
Legacies receivable, net	520,988
Less: current portion	<u>(520,594)</u>
Legacies receivable, net of current portion	<u>\$ 394</u>

Note 5: Promises to Give

PETA records promises to give that are expected to be collected in future years at the present value of their estimated future cash flows using a discount rate of 4.00%.

Promises to give consisted of the following at July 31, 2015:

Receivable within one year	\$ 820,889
Receivable in one to five years	<u>177,500</u>
Total promises to give	998,389
Less: net present value discount	<u>(6,827)</u>
Promises to give, net	991,562
Less: current portion	<u>(820,889)</u>
Promises to give, net of current portion	<u>\$ 170,673</u>

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

Note 6: Property and Equipment

Property and equipment at July 31, 2015 consisted of the following:

Mobile spay/neuter clinics and other vehicles	\$ 1,320,381
Office furniture and equipment	246,078
Software	1,454,880
Buildings and improvements	203,196
Land	<u>91,170</u>
	3,315,705
Less: accumulated depreciation and amortization	<u>(1,606,031)</u>
Total Property and equipment, net	<u>\$ 1,709,674</u>

Depreciation and amortization expense for the year ended July 31, 2015 was \$515,794.

Note 7: Investments and Fair Value Measurements

For the year ending July 31, 2015, realized gains and unrealized losses on investments were approximately \$28,000 and \$89,000, respectively.

The three levels of the fair value hierarchy under 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.

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

Note 7: Investments and Fair Value Measurements (continued)

Financial assets measured at fair value on a recurring basis as of July 31, 2015 comprise of PETA's investments summarized in the following table using the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ --	\$ 980,740	\$ --	\$ 980,740
Corporate bonds	--	5,084,014	--	5,084,014
Equity securities	5,463,493	--	--	5,463,493
Exchange Traded Funds	293,925	--	--	293,925
Interest-bearing /Money market funds	921,124	--	--	921,124
Mutual funds	<u>2,646,577</u>	<u>--</u>	<u>--</u>	<u>2,646,577</u>
Total investments, at fair value	<u>\$ 9,325,119</u>	<u>\$ 6,064,754</u>	<u>\$ --</u>	<u>\$15,389,873</u>

Financial assets measured at fair value on a non-recurring basis comprise of noncurrent assets held for sale and are valued at \$1,265,910 at July 31, 2015. Noncurrent assets for sale are classified as level 2 under the fair value hierarchy.

Note 8: 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's programs.

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

Note 8: Net Assets (continued)

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes:

Campaigns against animal testing, factory farming, and animal cruelty	\$ 813,236
For periods after July 31, 2015	<u>1,128,894</u>

Total temporarily restricted net assets	<u>\$ 1,942,130</u>
-----------------------------------------	---------------------

Permanently Restricted

Permanently restricted net assets are comprised of four separate endowment funds with a total value of \$3,191,246 as of July 31, 2015. 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 funds 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

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

Note 8: Net Assets (continued)

**Endowment Net Asset Composition by Type of Fund
As of July 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted				
endowment funds	\$ --	\$ --	\$ 3,191,246	\$ 3,191,246

**Changes in Endowment Net Assets
for the Fiscal Year Ended July 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets,				
beginning of year	\$ --	\$ --	\$ 3,169,207	\$ 3,169,207
Investment return:				
Investment income	--	--	22,039	22,039
Net appreciation (realized/unrealized)	--	--	--	--
Total investment				
return			22,039	22,039
Contributions	--	--	--	--
Appropriation of endowment assets for expenditure	--	--	--	--
Endowment net assets,				
end of year	\$ --	\$ --	\$ 3,191,246	\$ 3,191,246

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.

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People for the Ethical Treatment of Animals, Inc.
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Note 9: 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, 2015 were \$48,966.

Note 10: 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 13. Rental payments to the Foundation during the fiscal year were \$1,120,200. In addition, the Foundation provided approximately \$12,920,000 in services to PETA during FY’15. At year end, PETA owed FSAP approximately \$1,096,000.

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 \$1,557,000 to assist in their operations.

Note 11: Concentration of Credit Risk

The Federal Deposit Insurance Corporation (FDIC) insures accounts up to \$250,000 at each financial institution. At July 31, 2015, the Organization exceeded insured levels by \$779,715.

Note 12: Allocation of Joint Costs

During the fiscal year, PETA incurred joint costs of \$9,170,706 for educational material and activities that included fund-raising appeals. Based on an analysis of the content of these mailings, \$74,546 was allocated to management and general, \$2,436,300 was allocated to membership development and \$6,659,860 was allocated to program expenses. Of the amount allocated to program expenses, \$2,178,531 was allocated to international grassroots campaigns, \$1,470,530 was allocated to public outreach and education, \$2,995,362 was allocated to research, investigations and rescue and \$15,437 was allocated to merchandise.

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People for the Ethical Treatment of Animals, Inc.
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Note 13: 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,	
2016	\$ 1,120,200
2017	1,130,700
2018	978,950
2019	756,000
2020	378,000
Thereafter	<u>535,500</u>
	<u>\$ 4,899,350</u>

Rent expense for the year ended July 31, 2015 was \$1,144,262.

People for the Ethical Treatment of Animals, Inc.
Schedule of Functional Expenses
For the Year Ended July 31, 2015

	<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 consultants \$	3,831,705	\$ 1,877,725	\$ 6,411,928	\$ 259,907	\$ 12,381,265	\$ 2,744,918	\$ 743,965	\$ 3,488,883	\$ 15,870,148
Media and press support	2,122,416	76,953	10,018	172	2,209,559	706,802	287	707,089	2,916,648
Salaries and related expenses	3,544,877	2,779,648	3,497,681	16,097	9,838,303	23,515	23,604	47,119	9,885,422
Education and promotional costs	1,187,651	1,661,938	2,085,518	4,702	4,939,809	2,588,365	3,252	2,591,617	7,531,426
Donations to charitable organizations	50	1,263,357	875,180	-	2,138,587	-	-	-	2,138,587
General operating expenses	771,167	314,527	963,249	45,981	2,094,924	600,771	68,746	669,517	2,764,441
Rent and other building expenses	397,233	472,829	373,243	93,029	1,336,334	30,824	5,982	36,806	1,373,140
Travel and transportation	280,474	219,669	423,110	6	923,259	63,294	6,975	70,269	993,528
Postage	336,519	150,375	27,509	236,986	751,389	200,746	916	201,662	953,051
Cost of goods sold	-	-	-	265,388	265,388	-	-	-	265,388
Telephone and office expenses	56,871	86,527	77,916	6,113	227,427	4,433	801	5,234	232,661
Total expenses	\$ 12,528,963	\$ 8,903,548	\$ 14,745,352	\$ 928,381	\$ 37,106,244	\$ 6,963,668	\$ 854,528	\$ 7,818,196	\$ 44,924,440
Percent of total expenses	27.89%	19.82%	32.82%	2.07%	82.60%	15.50%	1.90%	17.40%	100.00%

See Independent Auditor's Report and Notes