

**People for the Ethical Treatment of Animals, Inc.  
Financial Statements and  
Supplementary Information  
July 31, 2016**

**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 of  
People for the Ethical Treatment of Animals, Inc.

We have audited the accompanying financial statements of People for the Ethical Treatment of Animals, Inc. (a nonprofit organization), which comprise the statement of financial position as of July 31, 2016, 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, 2016, 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.

## **Report on Supplementary Information**

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 23 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.

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

Rockville, Maryland  
November 11, 2016

**People for the Ethical Treatment of Animals, Inc.**  
**Statement of Financial Position**  
**July 31, 2016**

**Assets**

Current Assets		
Cash	\$	1,797,270
Short-term investments		11,306,030
Property held for sale		92,970
Promises to give		225,790
Legacies receivable		1,814,499
Related party receivables		31,527
Other receivables		40,542
Inventory		167,713
Prepaid expenses		542,301
Total Current Assets		16,018,642
Property and Equipment, Net		1,489,451
Other Assets		
Investments		20,867,507
Property held for sale, net of allowance of \$70,000		1,195,910
Deposits and other assets		14,397
Total Other Assets		22,077,814
Total Assets	\$	39,585,907

**Liabilities and Net Assets**

Current Liabilities		
Accounts payable	\$	3,533,980
Accrued expenses		748,322
Deferred rent		176,250
Annuities payable, current portion		189,821
Total Current Liabilities		4,648,373
Long-term Liabilities		
Annuities payable, net of current portion		1,997,710
Total Liabilities		6,646,083
Net Assets		
Unrestricted		
Designated by Governing Board for legal matters	\$	1,000,000
Undesignated		27,448,506
Total Unrestricted		28,448,506
Temporarily restricted		1,311,990
Permanently restricted		3,179,328
Total Net Assets		32,939,824
Total Liabilities and Net Assets	\$	39,585,907

See Independent Auditor's Report and Notes

**People for the Ethical Treatment of Animals, Inc.**  
**Statement of Activities**  
**For the Year Ended July 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Public support				
Contributions and donations	\$ 25,464,814	\$ 3,763,368	\$ -	\$ 29,228,182
Legacies and bequests	34,794,542	-	-	34,794,542
Special event				
Contributions	949,593	343,665	-	1,293,258
Special event revenue	169,880	-	-	169,880
Federated and nonfederated campaigns	254,148	-	-	254,148
Total public support	<u>61,632,977</u>	<u>4,107,033</u>	<u>-</u>	<u>65,740,010</u>
Other revenue				
Merchandise sales	543,889	-	-	543,889
Investment and other income	746,092	-	4,928	751,020
Total other revenue	<u>1,289,981</u>	<u>-</u>	<u>4,928</u>	<u>1,294,909</u>
Net Assets Released from Restrictions				
Satisfaction of time restrictions	268,104	(268,104)	-	-
Satisfaction of program restrictions	4,485,915	(4,469,069)	(16,846)	-
Total Support and Revenue	<u>67,676,977</u>	<u>(630,140)</u>	<u>(11,918)</u>	<u>67,034,919</u>
Expenses				
Program services				
Public Outreach and Education	16,079,120	-	-	16,079,120
International Grassroots Campaigns	9,885,130	-	-	9,885,130
Research, Investigations, and Rescue	15,578,094	-	-	15,578,094
Cruelty-Free Merchandise	716,343	-	-	716,343
Total program services	<u>42,258,687</u>	<u>-</u>	<u>-</u>	<u>42,258,687</u>
Supporting services				
Membership development	7,684,178	-	-	7,684,178
Management and general	634,492	-	-	634,492
Total supporting services	<u>8,318,670</u>	<u>-</u>	<u>-</u>	<u>8,318,670</u>
Total Expenses	<u>50,577,357</u>	<u>-</u>	<u>-</u>	<u>50,577,357</u>
Change in Net Assets	17,099,620	(630,140)	(11,918)	16,457,562
Net Assets at Beginning of Year	<u>11,348,886</u>	<u>1,942,130</u>	<u>3,191,246</u>	<u>16,482,262</u>
Net Assets at End of Year	<u>\$ 28,448,506</u>	<u>\$ 1,311,990</u>	<u>\$ 3,179,328</u>	<u>\$ 32,939,824</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, 2016**

Cash Flows From Operating Activities:	
Change in net assets	\$ 16,457,562
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	516,433
Amortized interest	6,830
Amortized promise to give discount	6,827
Accrued interest payable	11,673
Non-cash donations	(273,759)
Net realized and unrealized gains and losses	155,584
Net change in deferred rent liability	(36,000)
Impairment loss on obsolete fixed assets	359,091
Loss on disposal of fixed assets	17,224
Unrealized gain on property held for sale	(56,502)
Loss provision on property held for sale	70,000
Cash receipts of contributed financial assets	262,632
Gain from annuities	(70,339)
Change in assets and liabilities:	
Increase in legacies receivable	(1,293,511)
Decrease in other receivables	4,281
Increase in related party receivables	(31,527)
Decrease in promises to give	758,945
Decrease in inventory	7,309
Decrease in prepaid expenses	184,904
Increase in deposits and other assets	(2,150)
Increase in accounts payable	1,676,602
Increase in accrued expenses	46,948
Decrease in deferred revenue	(138,249)
Net Cash Provided By Operating Activities	<u>18,640,808</u>
Cash Flows From Investing Activities:	
Reinvestment of matured securities and purchases of investments	(40,467,899)
Maturities and proceeds from sales of investments	23,530,884
Purchase of property and equipment	(683,784)
Proceeds from the sale of property held for sale	23,316
Proceeds from sale of property and equipment	11,260
Net Cash Used In Investing Activities	<u>(17,586,223)</u>
Cash Flows From Financing Activities:	
Proceeds from annuity contracts	136,140
Net gain on permanently restricted assets	(4,928)
Principal payments on annuity contracts	(195,124)
Net Cash Used In Financing Activities	<u>(63,912)</u>
Net Increase in Cash	990,673
Cash at Beginning of Year	806,597
Cash at End of Year	<u><u>\$ 1,797,270</u></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 for children, high school and college students, and educators as well as factsheets, booklets, fliers, posters, and a magazine, Animal Times, for the general public and supporters. 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 2016, PETA secured free advertising space worth more than \$1 million and logged more than 3,500 interactions with the media via letters, tweets, and radio, TV, and print interviews. PETA's various websites also received more than 113 million visits.

Total expenses incurred in this program were \$16,079,120.

- 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 other cruelty. In 2016, PETA helped organize more than 1,500 demonstrations and sent out 18 million letters through our online advocacy campaigns to urge companies and individuals to make changes that benefit animals.

PETA's Action Team—which helps people speak out for animals and get involved in advocacy—grew from 16,000 members to 106,160 members. PETA's youth division, peta2, interacted with more than 250,000 young people at colleges, music festivals, and other events. The group visited more than 45 top college campuses with its "The Right Side of History" exhibit, which compares the devastating environmental damage of meat production to the significantly lighter footprint of vegan meals.



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

Note 1: Organization (continued)

*Animals in the Food Industry*

Influenced by PETA's continuing efforts to end dehorning (the cutting or searing off of calves' horns with no pain relief) in the dairy industry, companies including Harris Teeter, Lifeway Foods, Sprouts Farmers Market, PepsiCo, Chobani, ALDI, and Dean Foods have stated their support of and purchasing preference for polled, or naturally hornless, cattle, paving the way for the elimination of the painful procedure. PETA also persuaded Boston-based Tasty Burger to pull all references to "certified humane" meat from its website, menu, and signage, and we helped influence Pie Five Pizza to add vegan cheese to the menus of its 87 locations. In addition, we helped Ben & Jerry's launch four flavors of vegan ice cream and encouraged Dippin' Dots to introduce several vegan products.

*Animals in the Clothing Industry*

PETA persuaded 14 retailers, including URBN (the parent company of Urban Outfitters and Anthropologie), Guess, Ralph Lauren, and Zumiez, to join the list of more than 110 companies that have banned angora, as its production involves painfully ripping out live rabbits' fur. We confirmed that Pottery Barn and West Elm now offer a synthetic option for every down-filled item they sell, in addition to prompting the Sullivan Family of Companies (which runs more than 100 gift shops in Four Seasons and other luxury hotels), Sport Chalet, and Shoe Carnival to ban fur. After speaking with PETA, bebe and Nine West banned all exotic skins, and Uber removed the leather requirement for UberBLACK vehicle interiors.

*Animals in the Entertainment Industry*

Following years of relentless pressure from PETA, SeaWorld agreed to end its orca-breeding program, ensuring that no additional orcas will be held captive in its tanks, and the National Aquarium announced that it will transfer the dolphins there to a seaside sanctuary, partially funded by PETA, by 2020. After launching a letter campaign, billboards, ads, and protests in behalf of the 29 orcas and countless other animals still imprisoned at SeaWorld, PETA led a news conference during which a panel of experts announced the formation of The Whale Sanctuary Project, whose mission is to develop, design, and establish a protected coastal location "where cetaceans (porpoises, dolphins and whales) can be rehabilitated or can live permanently."

After decades of PETA campaigns and protests, Ringling Bros. and Barnum & Bailey Circus retired elephants from its circus acts, and after hearing from PETA, numerous malls and property-management companies vowed not to host circuses that use animals. Furthermore, the cities of Norfolk and Winchester in Virginia refused to let Garden Bros. Circus perform as long as elephants were part of the acts.

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

Note 1: Organization (continued)

Additionally, nearly a dozen travel agencies and tour companies agreed to stop offering captive-elephant encounters, including rides and shows. PETA also got numerous cruel events canceled, including elephant rides at a flea market, a tiger cub exhibit, a photo op with a live alligator at The Bowery Hotel in New York, a pig-wrestling contest, butterfly and balloon releases, and a festival in Mexico at which ducks' heads are torn off and opossums and iguanas are stuffed into piñatas and beaten and trampled to death.

Top advertising agencies 360i, The Martin Agency, and Anomaly as well as insurance company GEICO pledged not to use great apes in advertising after hearing from PETA.

*Other Cruelty to Animals*

Meanwhile, Instagram agreed to remove posts promoting the sale and private ownership of wild-caught great apes and other endangered species and is implementing measures to prevent future sales. PETA also succeeded in persuading the city council of Miami Springs, Florida, to stop trapping and killing raccoons at a golf course; Air Transport Services Group to stop transporting monkeys to laboratories; and Marsh Supermarkets, Books-A-Million, and Half Price Books, Records, Magazines to stop using glue traps.

Total expenses incurred in this program were \$9,885,130.

- Research, Investigations, and Rescue

Receiving nearly 300 complaints related to animal abuse and neglect each week, PETA works to rescue abused, neglected, and at-risk animals and organize care for them. The group also investigates cruelty cases, conducts investigations, gathers evidence of legal violations, and takes action to ensure the enforcement of laws and regulations.

*Animals in the Food Industry*

PETA investigated Sweet Stem Farm in Pennsylvania, a “happy meat” supplier to Whole Foods, and found that pigs were suffering from fevers, lameness, bleeding rectal prolapses and other conditions for weeks without being examined or treated by a veterinarian. Although the facility is expected to meet higher welfare standards than most of the pig-meat farms that supply Whole Foods, PETA found that animals lived in factory farm-like conditions with 5 square feet of space each, and more than 20 pigs were packed into a metal trailer more than 24 hours before they were hauled to slaughter as the heat index exceeded 90 degrees. PETA used the case to call on Whole Foods to end its misleading claims that animals killed for their stores are treated humanely.

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

Note 1: Organization (continued)

Additionally, because of efforts by PETA and other nonprofit organizations, Idaho's "ag-gag" law was ruled unconstitutional for violating the First and 14th Amendments to the U.S. Constitution. This is the first time a court has declared an "ag-gag" statute unconstitutional. Such legislation criminalizes whistleblowing investigations at factory farms and specifically targets animal advocates who expose cruelty. This is an important victory that will protect crucial eyewitness investigations, which reveal blatant, often illegal animal abuse on factory farms.

*Animals in the Clothing Industry*

The New York Times broke PETA's investigation of the commercial ostrich industry in South Africa, which kills hundreds of thousands of young ostriches each year for their skin, feathers, and meat, supplying skins to Hermès, Prada, Louis Vuitton, and other top European fashion houses. PETA's exposé revealed that young birds are imprisoned on barren dirt feedlots and that some of their feathers are painfully plucked, including the day before slaughter. At the slaughterhouses, workers yanked terrified ostriches into stun boxes, electrically stunned them, turned them upside down, and slit their throats. The birds next in line watched helplessly as their flock mates were killed right in front of them. As a result of the exposé, Global Brands Group banned ostrich-derived materials from its controlled brands, which include Juicy Couture, Frye, Jones New York, Jennifer Lopez, and David Beckham, among many others.

*Animals in the Experimentation Industry*

As a result of PETA's efforts, Canada will no longer test pesticides on dogs, while India is reducing the number of animals used in pesticide testing, has stopped requiring that drugs be retested on animals if they've already been tested and approved in other countries, and has approved a new non-animal method for predicting skin allergies.

Thanks to decades of hard work by PETA, tens of thousands of animals will be spared abuse with the passage of the landmark Frank R. Lautenberg Chemical Safety for the 21st Century Act, which requires that non-animal testing methods be developed, prioritized, and used before toxicity tests on animals are considered.

PETA informed universities that Santa Cruz Biotechnology (SCBT)—a biotech firm that supplies animal-derived antibodies to laboratories around the world—has been repeatedly cited for failing to treat severely ill or injured goats, preventing the U.S. Department of Agriculture (USDA) from inspecting animals, and repeatedly denying the existence of a facility that housed more than 800 goats. As a result, one institution dropped the cruel company, and the USDA

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

Note 1: Organization (continued)

announced that SCBT must pay a whopping \$3.5 million penalty (the largest fine in USDA history) and stop using animals to make antibodies.

In addition, scientists from the PETA International Science Consortium Ltd. and PETA's Regulatory Testing Department have been busy traveling to meetings, attending conferences, holding seminars, leading projects, and publishing articles to show the scientific community as well as industry and regulatory agencies how to replace animal tests with non-animal methods.

*Animals in the Entertainment Industry*

A PETA eyewitness captured video footage showing that the owner and director of the Bowmanville Zoo, Michael Hackenberger, viciously whipped a tiger up to 19 times on his face, body, and legs while he lay cowering on his back. The beating was so severe that he emptied his anal sacs out of fear. PETA turned over its evidence to the Ontario Society for the Prevention of Cruelty to Animals, which has charged Hackenberger with five counts of cruelty to animals, potentially resulting in a jail sentence and a lifetime ban on owning or working with animals. Soon afterward, the zoo announced that it would close its doors after nearly 100 years in business and blamed PETA's exposé for the drop in attendance over the past year.

PETA also rescued dozens of animals from other roadside zoos, including a bear named Sweet Baby, who was emaciated and housed inside a tiny cage in a barn, and Tootie, a chimpanzee who had spent the previous 20 years of his life in solitary confinement.

In response to PETA's 2013 investigation of horse-racing trainer Steve Asmussen, which exposed the chronic overuse of medications to keep sore and injured horses racing, the New York State Gaming Commission confirmed much of what PETA had documented and fined him \$10,000. More importantly, the commission is proposing new regulations to prevent such abuses by state trainers and veterinarians, and a dialog has been opened between PETA, racing organizations, and track owners regarding measures to improve horses' lives. PETA also rescued abused Thoroughbred Charlie's Quest and retired him to a farm operated by a PETA supporter. While he continues to be evaluated and treated for the many serious, chronic injuries he's sustained through the years, his racing days are thankfully over.

*Companion-Animal Issues*

A first-of-its-kind PETA exposé revealed severe crowding, neglect, and a massive death toll at Brelean Corporation, a supplier of hermit crabs to PetSmart, Petco, and beach souvenir shops. PETA's eyewitness found that wild-caught hermit crabs were dumped into pens, before workers cracked open their shells with a

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

Note 1: Organization (continued)

manual lever press to force them into painted shells. Hermit crabs can live for decades in their seashore homes, but at Brelean, hundreds were found dead every day. Within days of the release, PetSmart stated that its supplier had ended its relationship with Brelean. PETA also investigated and exposed the abusive and filthy conditions that animals were made to endure at Reptiles by Mack and Holmes Farm, two massive animal mills that supply PetSmart and other big-box pet store chains nationwide.

Because of PETA's efforts, Larry, a 5-year-old Shih Tzu who was filthy, matted, severely weakened by anemia, malnourished, and suffering from ear and urinary tract infections, and Nero, an emaciated pug-beagle mix forced to live in a mud pit with a heavy chain wrapped around his neck, were rescued and adopted into new loving homes. In addition, a North Carolina man who allegedly starved his dog Night Train to death, leaving the body still chained inside a barrel used for shelter, was charged with cruelty to animals. PETA was also responsible for obtaining convictions for a number of other individuals around the nation who abused or neglected animals.

PETA's Community Animal Project, which offers animals in the Hampton Roads area of Virginia hands-on care, responded to more than 2,300 calls for assistance and helped more than 2,500 animals. It also built and delivered more than 300 free doghouses—bringing the total number distributed since the program started to more than 6,500—and bagged 1,675 bales of straw, providing dogs forced to live outdoors with warm, dry shelter. PETA's Mobile Clinics Division spayed and neutered 13,174 cats and dogs—including 542 feral cats and 1,158 pit bulls—in southeastern Virginia and northeastern North Carolina, at a discounted rate or free of charge. In order to help even more animals, PETA added a fourth state-of-the-art clinic to the fleet as well as a third full-time veterinarian and expanded the area that the clinics serve.

Finally, PETA supported outreach and educational activities in Norfolk, Virginia; teamed up with a Newport News City Council member's food drive to offer free spay/neuter surgeries; partnered with two Virginia shelters to provide free monthly clinics; and held two very successful multi-shelter dog adopt-a-thons. And after Waverly, a small town in Virginia, was devastated by a tornado, PETA sent a fieldwork crew out to deliver some much-needed animal supplies. The town expressed its gratitude by presenting the organization with a certificate of appreciation signed by the mayor.

Total expenses incurred in this program were \$15,578,094.

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

Note 1: Organization (continued)

- Cruelty-Free Merchandise Program

PETA encourages and facilitates cruelty-free living by providing compassionate people around the world with educational materials, consumer products—such as cosmetics and household cleaners that are not tested on animals, animal-care products, and slogan T-shirts—educational videos and books, animal-rescue equipment, and campaign materials. These items are available online through the PETA Mall and the PETA Catalog.

PETA’s online lists of cosmetics and household-product companies that do and that don’t test on animals are among the most visited pages on PETA.org, garnering millions of views this year. PETA also works to persuade companies to enact bans on all animal tests—and this year, it added approximately 500 companies to the cruelty-free list, bringing the total number of businesses that don’t test on animals to 2,300.

Total expenses incurred in this program were \$716,343.

Note 2: Operating Expenses

Of the total operating expenses incurred for the year, PETA incurred 83.55% for program activities, 15.19% for membership development, and 1.26% 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 value and all investments in debt securities are reported at their fair value 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.

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

Note 3: Summary of Significant Accounting Policies (continued)

Promises to Give

PETA records unconditional promises to give expected to be collected within one year at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Conditional promises to give are not included as support until the conditions are substantially met. PETA evaluates the adequacy of the allowance for doubtful accounts on a periodic basis. As of year end, management does not believe it is necessary to establish an allowance for doubtful accounts.

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.

PETA capitalizes certain costs of software developed for internal use when preliminary development efforts are successfully completed, management has committed project resourcing, and it is probably that the project will be completed and the software will be used as intended. Such costs are amortized over the straight-line basis of the estimated useful life of the related asset. Costs incurred prior to meeting these criteria, together with costs incurred for training and maintenance, are expensed as 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

PETA reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. PETA has determined that certain long-lived assets were impaired during the fiscal year, and have recorded an impairment loss of \$359,091.

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

Note 3: Summary of Significant Accounting Policies (continued)

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 certain office space leases. Accounting principles generally accepted in the United States of America require that rent expense be straight-lined over the life of the lease. PETA is amortizing the abatement over the life of the lease. The deferred rent liability as of July 31, 2016 was \$176,250.

Charitable Gift Annuities

Under charitable gift annuity contracts, PETA receives immediate and unrestricted title to contributed assets and agrees to make fixed recurring payments over a stipulated period. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the annuity liability is recorded as an unrestricted contribution. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as income.

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.

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 at the end of the year for future fundraising events are recorded as deferred revenue until the event occurs.

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

Note 3: Summary of Significant Accounting Policies (continued)

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to PETA's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. PETA records donated professional services at the respective fair values of the services received (Note 11).

Investment expenses

PETA incurs management fees on their investment accounts. Investment management fees totaled \$103,126 during the fiscal year.

Advertising Costs

Advertising costs are expensed as incurred and approximated \$3,168,000 for the year ended July 31, 2016.

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, 2016, PETA has evaluated subsequent events for potential recognition and disclosure through November 11, 2016, the date the financial statements were available to be issued.

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

Note 4: Investments

For the year ended July 31, 2016, interest and dividend income on investments was \$352,713 of which \$132,089 related to endowment investments. In addition, net realized and unrealized losses on investments were \$155,584 of which \$29,089 related to endowment investments.

Note 5: Property and Equipment

Property and equipment at July 31, 2016 consisted of the following:

Mobile spay/neuter clinics and other vehicles	\$ 1,591,496
Office furniture and equipment	291,245
Software	1,182,580
Buildings and improvements	209,094
Land	<u>91,170</u>
	\$3,365,585
Less: accumulated depreciation and amortization	<u>(1,876,134)</u>
Total Property and equipment, net	\$ <u>1,489,451</u>

Depreciation and amortization expense for the year ended July 31, 2016 was \$516,433.

Note 6: Fair Value Measurements

PETA reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions. Regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available.

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.

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

Note 6: Fair Value Measurements (continued)

*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.

PETA classifies its investments in certificates of deposit and corporate bonds as Level 2 under the hierarchy. These assets are valued by custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market rate assumptions.

Financial assets measured at fair value on a recurring basis as of July 31, 2016 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	\$ --	\$ 1,033,110	\$ --	\$ 1,033,110
Corporate bonds	--	14,158,487	--	14,158,487
Equity securities	4,873,157	--	--	4,873,157
Exchange traded funds	172,814	--	--	172,814
Stock funds	141,489	--	--	141,489
Mutual funds	<u>488,450</u>	<u>--</u>	<u>--</u>	<u>488,450</u>
Total investments, at fair value	<u>\$ 5,675,910</u>	<u>\$15,191,597</u>	<u>\$ --</u>	<u>\$20,867,507</u>

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's programs.

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

Note 7: Net Assets (continued)

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes:

Campaigns against animal testing, factory farming, and animal cruelty	\$ 1,086,200
For periods after July 31, 2016	<u>225,790</u>
Total temporarily restricted net assets	<u>\$ 1,311,990</u>

Permanently Restricted

Permanently restricted net assets are comprised of four separate endowment funds with a total value of \$3,179,328 as of July 31, 2016. 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 remaining three 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 PETA 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 7: Net Assets (continued)

**Endowment Net Asset Composition by Type of Fund  
As of July 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ --	\$ --	\$3,179,328	\$3,179,328

**Changes in Endowment Net Assets  
for the Fiscal Year Ended July 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ --	\$ --	\$3,191,246	\$3,191,246
Investment return:				
Investment income	--	--	4,928	4,928
Total investment return	--	--	4,928	4,928
Reclassification of Donor restricted endowment funds	--	--	(16,846)	(16,846)
Endowment net assets, end of year	\$ --	\$ --	\$3,179,328	\$3,179,328

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.**  
**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, 2016 were \$67,348.

Note 9: Related Party Transactions

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

PETA has entered into agreements to lease office space, tangible and intangible assets from FSAP as more fully described in Note 13. Rental payments to the Foundation during fiscal year 2016 were \$1,120,200. FSAP also donated \$44,160 of space to PETA during the fiscal year. In addition, the Foundation provided \$12,366,968 in services to PETA during the fiscal year. At year end, PETA owed FSAP \$2,795,141.

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 \$1,629,783 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, 2016, PETA exceeded insured levels by \$1,601,308.

Note 11: Donated Professional Services

PETA received donated professional services as follows during the fiscal year:

	Program Services	Management and General	Fundraising and Development	Total
Legal Services	\$ 239,952	\$ --	\$ --	\$ 239,952
Advertising	1,860,177	--	--	1,860,177
	<u>\$ 2,100,129</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 2,100,129</u>

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

Note 12: Allocation of Joint Costs

During the fiscal year, PETA incurred joint costs of \$10,491,309 for educational material and activities that included fund-raising appeals. Based on an analysis of the content of these mailings, \$214,450 was allocated to management and general, \$3,362,964 was allocated to membership development and \$6,913,895 was allocated to program expenses. Of the amount allocated to program expenses, \$2,221,585 was allocated to international grassroots campaigns, \$1,741,655 was allocated to public outreach and education, \$2,866,804 was allocated to research, investigations and rescue and \$83,851 was allocated to merchandise.

Note 13: Operating Leases

PETA leases office space and tangible and intangible assets from FSAP. 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,	
2017	1,130,700
2018	978,950
2019	756,000
2020	378,000
2021	378,000
Thereafter	<u>157,500</u>
	<u>\$ 3,779,150</u>

Rent expense for the year ended July 31, 2016 was \$1,213,320.

Note 14: Supplemental Disclosure of Cash Flow Information

PETA paid \$105,191 of interest during the fiscal year.

Note 15: Accounting Standards Update

In October 2012, the FASB issued ASU 2012-05 concerning the classification of cash receipts arising from the sale of donated financial assets in the statement of cash flows of not-for-profit entities. The guidance requires that the cash receipts from the sale of donated securities that were converted nearly immediately into cash should be classified as cash inflows from operating activities unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities. PETA implemented ASU 2012-05 for the financial statements as of July 31, 2016.

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

Note 15: Accounting Standards Update (continued)

In May 2014, the FASB issued guidance codified in ASC 606, Revenue Recognition – Revenue from Contracts with Customers, which amends the guidance in former ASC 605, Revenue Recognition, and most other existing revenue guidance in U.S. Generally Accepted Accounting Principles (GAAP), to require an entity to recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to customers and provide additional disclosures. As amended, the effective date for nonpublic entities is annual reporting periods beginning after December 15, 2018 and interim periods therein. As such, PETA will be required to adopt the standard on August 1, 2019. Early adoption is not permitted before the first quarter of fiscal year 2017. ASC 606 may be adopted either using a full retrospective approach, in which the standard is applied to all of the periods presented, or a modified retrospective approach. PETA is currently evaluating which transition method to use and how ASC 606 will affect its financial statements.

In February 2016, the FASB issued guidance codified in ASC 842, Leases, which amends the guidance in former ASC 840, Leases, requiring the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. The effective date for nonpublic entities is annual reporting periods beginning after December 15, 2019 and interim periods therein. As such, PETA will be required to adopt the standard on August 1, 2020. Early adoption is permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. PETA is currently evaluating how the changes in ASC 842 will affect its financial statements.

In August 2016, the FASB issued guidance codified in ASC 958, Not-for-Profit Entities, which changes certain requirements for the financial statements of not-for-profit entities. The effective date is annual reporting periods beginning after December 15, 2017 and interim periods therein. As such, PETA will be required to adopt the standard on August 1, 2018. Early adoption is permitted. PETA is currently evaluating how the changes in ASC 958 will affect its financial statements.



**People for the Ethical Treatment of Animals, Inc.**  
**Schedule of Functional Expenses**  
**For the Year Ended July 31, 2016**

	<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 \$	5,704,045	\$ 2,327,814	\$ 6,204,462	\$ 200,221	\$ 14,436,542	\$ 2,493,851	\$ 588,118	\$ 3,081,969	\$ 17,518,511
Media and press support	2,728,699	108,613	62,955	5	2,900,272	388,215	48	388,263	3,288,535
Salaries and related expenses	3,795,109	2,737,723	4,119,999	19,552	10,672,383	20,480	20,429	40,909	10,713,292
Education and promotional costs	1,322,511	1,593,009	1,971,356	11,523	4,898,399	2,948,880	415	2,949,295	7,847,694
Donations to charitable organizations	200	1,372,089	724,461	-	2,096,750	-	-	-	2,096,750
General operating expenses	771,754	450,177	1,292,287	20,974	2,535,192	672,153	15,989	688,142	3,223,334
Rent and other building expenses	325,150	559,442	494,162	9	1,378,763	11,945	-	11,945	1,390,708
Travel and transportation	223,618	208,871	499,289	6	931,784	61,722	8,101	69,823	1,001,607
Postage	295,361	181,956	27,071	208,155	712,543	204,052	326	204,378	916,921
Special events expenses	521,300	259,336	94,840	-	875,476	879,200	-	879,200	1,754,676
Cost of goods sold	-	-	-	254,980	254,980	-	-	-	254,980
Telephone and office expenses	391,373	86,100	87,212	918	565,603	3,680	1,066	4,746	570,349
<b>Total expenses</b>	<b>\$ 16,079,120</b>	<b>\$ 9,885,130</b>	<b>\$ 15,578,094</b>	<b>\$ 716,343</b>	<b>\$ 42,258,687</b>	<b>\$ 7,684,178</b>	<b>\$ 634,492</b>	<b>\$ 8,318,670</b>	<b>\$ 50,577,357</b>
<b>Percent of total expenses</b>	<b>31.79%</b>	<b>19.54%</b>	<b>30.80%</b>	<b>1.42%</b>	<b>83.55%</b>	<b>15.19%</b>	<b>1.26%</b>	<b>16.45%</b>	<b>100.00%</b>

See Independent Auditor's Report and Notes