

**People for the Ethical Treatment of Animals, Inc.  
Financial Statements and  
Supplementary Information  
July 31, 2017**

**With Independent Auditor's Report Thereon**

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

**Table of Contents**

<u>Title</u>	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6-23
Supplementary Information	
Schedule of Functional Expenses	24



---

One Church Street  
Suite 204  
Rockville, Maryland 20850

---

---

Office: 301.738.9040  
Fax: 301.738.9010  
Toll-Free: 800.541.5811

---

## 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, 2017, 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 risks 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, 2017, 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 24 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.

*Segger & Rosenberg P.C.*

Rockville, Maryland  
November 13, 2017

**People for the Ethical Treatment of Animals, Inc.**  
**Statement of Financial Position**  
**July 31, 2017**

**Assets**

Current Assets		
Cash	\$	2,412,454
Investments, current portion		542,148
Property held for sale, current portion		69,014
Legacies receivable		1,679,115
Related party receivables		128,992
Other receivables		67,703
Inventory		170,095
Prepaid expenses		467,868
Total Current Assets		5,537,389
Property and Equipment, Net		1,669,443
Other Assets		
Investments, non-current portion		11,463,934
Property held for sale, non-current portion, net of allowance of \$12,697		1,157,565
Deposits and other assets		9,722
Total Other Assets		12,631,221
Total Assets	\$	19,838,053

**Liabilities and Net Assets**

Current Liabilities		
Accounts payable	\$	2,876,559
Accrued expenses		852,381
Deferred rent, current portion		54,000
Annuities payable, current portion		215,976
Total Current Liabilities		3,998,916
Long-term Liabilities		
Deferred rent, non-current portion		75,750
Annuities payable, non-current portion		2,028,864
Total Long-term Liabilities		2,104,614
Total Liabilities		6,103,530
Net Assets		
Unrestricted		
Designated by Governing Board for legal matters	\$	1,000,000
Undesignated		7,320,609
Total Unrestricted		8,320,609
Temporarily restricted		2,212,025
Permanently restricted		3,201,889
Total Net Assets		13,734,523
Total Liabilities and Net Assets	\$	19,838,053

See Independent Auditor's Report and Accompanying Notes

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

**Statement of Activities**

**For the Year Ended July 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Public support				
Contributions and donations	\$ 33,076,363	\$ 703,265	\$ -	\$ 33,779,628
Legacies and bequests	11,672,340	608,000	-	12,280,340
Special event				
Contributions	114,696	141,299	-	255,995
Special event revenue	33,988	-	-	33,988
Total public support	<u>44,897,387</u>	<u>1,452,564</u>	<u>-</u>	<u>46,349,951</u>
Other revenue				
Merchandise sales	491,974	-	-	491,974
Investment and other income	1,604,026	-	22,561	1,626,587
Total other revenue	<u>2,096,000</u>	<u>-</u>	<u>22,561</u>	<u>2,118,561</u>
Net Assets Released from Restrictions				
Satisfaction of time restrictions	100,790	(100,790)	-	-
Satisfaction of program restrictions	451,739	(451,739)	-	-
Total Support and Revenue	<u>47,545,916</u>	<u>900,035</u>	<u>22,561</u>	<u>48,468,512</u>
Expenses				
Program services				
Public Outreach and Education	14,102,458	-	-	14,102,458
International Grassroots				
Campaigns	10,331,476	-	-	10,331,476
Research, Investigations, and				
Rescue	17,276,362	-	-	17,276,362
Cruelty-Free Merchandise	772,964	-	-	772,964
Supporting Organizations				
Activities	14,842,673	-	-	14,842,673
Total program services	<u>57,325,933</u>	<u>-</u>	<u>-</u>	<u>57,325,933</u>
Supporting services				
Membership development	9,787,660	-	-	9,787,660
Management and general	560,220	-	-	560,220
Total supporting services	<u>10,347,880</u>	<u>-</u>	<u>-</u>	<u>10,347,880</u>
Total Expenses	<u>67,673,813</u>	<u>-</u>	<u>-</u>	<u>67,673,813</u>
Change in Net Assets	(20,127,897)	900,035	22,561	(19,205,301)
Net Assets at Beginning of Year	<u>28,448,506</u>	<u>1,311,990</u>	<u>3,179,328</u>	<u>32,939,824</u>
Net Assets at End of Year	<u>\$ 8,320,609</u>	<u>\$ 2,212,025</u>	<u>\$ 3,201,889</u>	<u>\$ 13,734,523</u>

See Independent Auditor's Report and Accompanying Notes

**People for the Ethical Treatment of Animals, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended July 31, 2017**

Cash Flows From Operating Activities:	
Change in net assets	\$ (19,205,301)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	444,529
Loss on disposal of fixed assets	14,960
Amortized interest	(27,874)
Accrued interest payable	12,082
Non-cash donations	(2,403,202)
Net realized and unrealized gains and losses	(667,404)
Net change in deferred rent liability	(46,500)
Net realized and unrealized gains and losses on property held for sale	144,638
Net change in provision on property held for sale	(57,303)
Cash receipts of contributed financial assets	2,506,032
Gain from annuity contracts	(2,549)
Change in assets and liabilities:	
Decrease in legacies receivable	135,384
Increase in related party receivables	(97,465)
Increase in other receivables	(27,161)
Decrease in promises to give	225,790
Increase in inventory	(2,382)
Decrease in prepaid expenses	74,433
Decrease in deposits and other assets	4,675
Decrease in accounts payable	(657,421)
Increase in accrued expenses	104,059
Net Cash Used In Operating Activities	<u>(19,527,980)</u>
Cash Flows From Investing Activities:	
Reinvestment of matured securities and purchases of investments	(16,334,895)
Maturities and proceeds from sales of investments	37,148,476
Purchase of property and equipment	(644,171)
Proceeds from sale of property held for sale	13,773
Proceeds from sale of property and equipment	4,690
Net Cash Provided By Investing Activities	<u>20,187,873</u>
Cash Flows From Financing Activities:	
Proceeds from annuity contracts	177,320
Net gain on permanently restricted assets	(22,561)
Principal payments on annuity contracts	(199,468)
Net Cash Used In Financing Activities	<u>(44,709)</u>
Net Increase in Cash	615,184
Cash at Beginning of Year	<u>1,797,270</u>
Cash at End of Year	<u><u>\$ 2,412,454</u></u>

See Independent Auditor's Report and Accompanying Notes

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

Note 1: Organization

People for the Ethical Treatment of Animals, Inc. (PETA), 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 informational campaigns and publishes materials for children, high school and college students, and educators as well as factsheets, booklets, fliers, posters, and a magazine, *PETA Global*, 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 2017, PETA secured free advertising space worth approximately \$670,000 and logged more than 3,250 interactions with the media via letters, tweets, and radio, TV, and print interviews. PETA's various websites received more than 110 million visits, assorted Facebook posts received over 9 billion impressions, and videos were viewed over 1.4 billion times.

Total expenses incurred in this program were \$14,102,458.

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 types of cruelty. In 2017, PETA helped organize more than 2,400 demonstrations and sent out millions of letters through PETA's online advocacy campaigns to urge companies and individuals to make changes that benefit animals.

PETA's youth division, *peta2*, interacted with more than 460,000 young people at colleges, music festivals, and other events. The group visited more than 45 top colleges with its "Arc of Justice" exhibit, a timeline-style historical look at the progress that the animal rights movement has made over the last few hundred years. *peta2*'s Campus Representative Program—the first and largest student leadership program of any animal charity—helped students on more than 100 college campuses carry out more than 1,600 actions. Students held vegan food giveaways, got all-vegan stations opened in their dining halls, stopped cruel animal exhibitors from setting up on campus, and hosted informative guest speakers. TeachKind, PETA's humane education division, launched an updated

See Independent Auditor's Report



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

Note 1: Organization (continued)

version of Share the World—a free empathy-building video and curriculum kit for elementary school educators.

*Animals in the Food Industry*

Thanks to the efforts of PETA and Pamela Anderson, the mayor of Jackson, Mississippi, Chokwe Antar Lumumba, and four of his staff members accepted a challenge to go vegan for a month in response to the city’s obesity problem. In addition, PETA’s ad featuring various animals alongside the message “I’m ME, Not MEAT. See the Individual. Go Vegan” reminded people across the country about the individuals harmed in the production of the items that they purchase. PETA also persuaded Dunkin’ Donuts to offer almond milk at all its locations, helped influence Olive Garden to make its minestrone soup vegan, and persuaded Starbucks, The Coffee Bean & Tea Leaf, Hard Rock Cafe, Panera Bread, online grocer FreshDirect, and Live Nation (which owns or operates about 165 venues in North America and Europe) to add more vegan options to their menus.

*Animals in the Clothing Industry*

In a major win for animals, Croatia’s fur-farming ban finally went into effect after a 10-year phase-out period, thanks in part to Sharon Osbourne’s efforts on behalf of PETA. A Croatian member of the European Parliament released a statement congratulating PETA on a successful campaign. PETA persuaded Dutch, LLC (which sells products online and in shops in more than 2,000 locations in 75 countries), Jo-Ann Stores, and Canadian Tire to ban fur, in addition to confirming that high-end boutique brand 1 Hotels will start purchasing only down-free bedding for its current locations and make its future hotels down-free. PETA also persuaded several companies, including Global Brands Group (which controls brands Buffalo, Juicy Couture, Jones New York, and many others) and Overstock.com, to join the list of more than 200 major companies that have banned angora, as its production involves painfully ripping out live rabbits’ fur. After hearing from PETA, retailer H&M pulled leather from its Conscious Exclusive clothing line, Lyft removed the leather requirement for Premier vehicle interiors, and Tesla eliminated leather seats, making all seats vegan.

*Animals in the Entertainment Industry*

Following three decades of PETA campaigns, protests, and complaints to the U.S. Department of Agriculture (USDA), Ringling Bros. and Barnum & Bailey Circus shut down, and after hearing from PETA, numerous businesses and venues, vowed not to host circuses that use animals. Furthermore, the New York City Council banned all traveling circuses with wild animals from entering the city, and California lawmakers banned the use of bullhooks (weapons resembling fireplace poker with a sharp metal tip at one end) on elephants.

See Independent Auditor’s Report

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

Note 1: Organization (continued)

PETA was also instrumental in seeing that California became the first state to ban the breeding of captive orcas, and PETA's determined campaigning against SeaWorld continues to pay off, as the marine park had its worst year yet, finishing 2016 with its lowest attendance since the documentary *Blackfish* was released in 2013.

After meeting with PETA, TripAdvisor, the world's largest travel site, announced that it will no longer sell tickets to activities in which wild animals are forced to come into contact with the public, including elephant rides, tiger encounters, and "swim with dolphins" excursions. More than a dozen travel agencies, tour companies, and other businesses also agreed to stop offering captive-elephant encounters, and PETA successfully pressured State Farm, Guggenheim Partners, and Wells Fargo to sever ties with the cruel Iditarod race.

PETA also got numerous cruel events canceled, including a goldfish giveaway in New York's Times Square; a hands-on nurse shark encounter at a festival in Macon, Georgia; and multiple "monkey rodeos," in which tiny capuchin monkeys are strapped to dogs, who then run around racetracks at fairs and on minor-league baseball fields.

Top advertising agency VSA Partners, whose prominent clients include GE, Cargill, IBM, Facebook, and Converse, became the 40<sup>th</sup> ad agency to pledge not to use great apes in advertising after hearing from PETA.

*Other Cruelty to Animals*

In response to a lawsuit filed by PETA and an Arcadia, California resident, the Arcadia City Council canceled its plan to use cruel neck and leg snares to trap and kill coyotes. PETA also succeeded in persuading Madison, Wisconsin officials to stop trapping and killing beavers in a city park; Indianapolis officials to build ramps to prevent ducklings and goslings from drowning in the city's downtown canal; and Home Depot, Federal Realty Investment Trust, and more than 25 U.S. airports to stop using glue traps.

Total expenses incurred in this program were \$10,331,476.

Research, Investigations, and Rescue

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

See Independent Auditor's Report

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

Note 1: Organization (continued)

*Animals in the Food Industry*

In a joint effort with the Israeli group Anonymous for Animal Rights, PETA broke a major investigation into kosher slaughterhouses in South America that kill cows using a barbaric method called “shackle and hoist.” Eyewitness video revealed that cows were being pinned down with a sharp tool called a “devil’s fork” then hooked by the nose, their throats were cut, and they were then hoisted, struggling, into the air by their shackled legs, cut open, and stabbed in the spine while still completely conscious. Following that investigation, Israel pressured Paraguay, which supplies it with 40 percent of all its kosher beef—to phase out its use of “shackle and hoist” slaughter then announced that it would only import beef from facilities that switch to the use of rotating restraint pens, a more modern and humane method.

*Animals in the Clothing Industry*

In a landmark case, officials in Victoria, Australia, charged six shearers with at least 70 counts of cruelty to animals, the first-ever charges against wool industry workers for abusing sheep. One defendant was banned from shearing or being in charge of farmed animals for two years, and four more shearers pleaded guilty to more than 60 counts of cruelty. All were banned from shearing or being in charge of sheep for up to two years and fined up to \$3,500. The sixth shearer was convicted of cruelty to animals, banned from shearing or being in charge of sheep for six months, and fined \$2,000.

The charges followed the release of a PETA investigation that documented Australian wool industry workers beating, punching, and stomping on terrified sheep.

*Animals in the Experimentation Industry*

In a historic move, the Dutch government announced that it intends to end all tests on animals by 2025. PETA was the only international animal-protection group in attendance at the original meetings. Asked to help, PETA’s scientists submitted an extensive dossier of information to guide the Netherland’s transition to animal-free testing, beginning with an immediate end to all animal experiments that can be stopped right away.

Following five years of pressure from PETA—including protests, an eyewitness video investigation narrated by Oliver Stone, and a meeting with U.S. Coast Guard officials—the Coast Guard became the first branch of the military to end the shooting, stabbing, and killing of animals in trauma training drills. It confirmed that the policy change was prompted by PETA’s exposé. As a result of PETA’s efforts, House Foods, a tofu company, put an end to its longstanding

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

Note 1: Organization (continued)

practice of force-feeding mice and injecting them with chemicals in order to make health claims about its products, and Northeastern University in Massachusetts ended cruel experiments in which hamsters were given anabolic steroids or cocaine to make them fight.

*Animals in the Entertainment Industry*

PETA released an eyewitness exposé of Summer Wind Farms Sanctuary, a roadside zoo in Michigan that was cited by the USDA for hundreds of animal-welfare violations in just the last few years. A PETA eyewitness found that animals were denied adequate veterinary care, including Mohan, an elderly tiger who didn't receive any pain medication for his labored gait, and Daisy, a 2-year-old tiger with balance issues, apparent vision loss, and reported seizures. The eyewitness also documented a male goose who was killed by a rival goose after workers failed to separate them properly, two highly social macaques kept isolated from each other, and bears exhibiting signs of psychological distress, including pacing and swaying. PETA filed a complaint with federal authorities, and just a week later, both tigers were rescued and moved to a spacious sanctuary where they are now finally getting the freedom, attention, and veterinary care that they have always deserved.

Following years of complaints and pressure from PETA, the USDA revoked the exhibitor license of The Mobile Zoo in Alabama, making it illegal for the facility or its operator to exhibit warm-blooded animals—the only ones covered under the federal Animal Welfare Act (the “AWA”)—ever again. The license revocation came about as a result of a lawsuit filed by the USDA against the sordid roadside zoo for denying adequate veterinary care to animals, including bears who were vomiting and had diarrhea and one who was seen panting and salivating excessively from the scorching heat.

The Mobile Zoo's operator was charged with 28 counts of cruelty to animals, and a mother bear named Elsie and her offspring, Dusty and Bella, were confiscated and placed in an accredited sanctuary following months of negotiations that were prompted by PETA. PETA covered the transportation costs for the bears and will help pay for their lifetime care at their new home—a multi-acre, naturalistic habitat where they can make their home in a cozy den and cool off in refreshing pools, knowing that their days of endlessly pacing, panting, and begging for peanuts are finally over.

*Companion-Animal Issues*

As first reported in *The Hollywood Reporter*, PETA released an eyewitness investigation of Birds and Animals Unlimited, the company that allegedly supplied dogs for *A Dog's Purpose* as well as many other animals used in film and television productions. The eyewitness documented chronic neglect,

See Independent Auditor's Report

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

Note 1: Organization (continued)

including sick and injured animals who went without adequate veterinary care and who were housed in filthy enclosures. Animals were denied food so that they would be hungry when being trained to do tricks. Two cats were denied proper amounts of food in order to make them lose weight for a role in a film, resulting in a dangerous 5% loss of bodyweight in just five days. Following PETA's complaint, the USDA cited the company for multiple violations of the AWA, including failing to supply bedding to dogs who were left outside overnight in the cold with nothing to lie on except the concrete and failing to provide pigs, who were suffering from skin conditions, lameness, and overgrown hooves, with veterinary care.

Because of PETA's efforts, a puppy was rescued and given a new, loving home after an Elgin, Illinois, man posted on Facebook about deliberately throwing him and breaking his leg. The man was charged with felony aggravated cruelty to animals and two counts of misdemeanor cruelty to animals. PETA was also responsible for obtaining convictions for a number of other individuals around the country who abused or neglected animals. And PETA sprang into action after seeing a viral video in which a dog was being severely beaten while pulling a man on a cart in China. PETA Asia assisted with tracking the man down, and local activists persuaded him to surrender the dog. The dog in the video and another dog the man had in his possession were quickly adopted by a loving family.

PETA's Community Animal Project, which offers animals in the Hampton Roads area of Virginia hands-on care, responded to more than 2,200 calls for assistance and helped more than 3,000 animals. It also built and delivered more than 270 free doghouses—bringing the total number distributed since the program started to more than 6,800—and bagged 1,717 bales of straw, providing dogs forced to live outdoors with warm, dry shelter. PETA's Mobile Clinics Division spayed and neutered 15,263 cats and dogs—including 680 feral cats and 1,541 pit bulls—in southeastern Virginia and northeastern North Carolina at a reduced cost or free of charge.

Finally, PETA sent a fieldwork crew down to Louisiana to assist with efforts to locate and rescue stranded animals following devastating flooding. The team returned with three vans full of dogs, cats, rabbits, and a cockatiel named Crash. All these animals were either transferred to PETA from Baton Rouge—area shelters overwhelmed as a result of the floods or surrendered directly by owners unable to care for them. *The Virginian-Pilot* and all three local TV stations awaited their arrival, as did vehicles from several area shelters. All the animals were adopted. PETA's rescue team was also on the ground in North Carolina and Virginia following Hurricane Matthew. PETA's crew slogged through water to search for lost, injured, and stray animals and helped guardians cope with the aftermath.

Total expenses incurred in this program were \$17,276,362.

See Independent Auditor's Report

**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 consumer products—such as cosmetics and household cleaners that aren't tested on animals, animal-care products, and slogan T-shirts—informational 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 worked to persuade companies to enact bans on all animal tests—and this year, PETA added more than 560 of them to the cruelty-free list, bringing the total number of businesses that don't test on animals to 2,753.

Total expenses incurred in this program were \$772,964.

Supporting Organizations

The Foundation to Support Animal Protection (the "Foundation") is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and a supporting organization under Section 509(a)(3) of the Internal Revenue Code. The Foundation supports operations of certain animal protection organizations, including PETA.

The grant to the Foundation was to further its animal protection program services supporting all PETA affiliates (including PETA Asia, PETA India, PETA Germany, PETA Europe, PETA Australia, and the PETA International Science Consortium) and to deter animal exploitive industries from attacking PETA's ability to fund campaigns which seek to end their animal abusing practices.

Total expenses incurred in this program were \$14,842,673.

PETA is grateful to Kim Howe and her estate for the legacy contribution of \$20,300,000 in the year ended July 31, 2016, which allowed extra spending on programs in the current year. Fiscal year 2017 was an unusual year because of this legacy and gave PETA's programs a one-year boost.

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

Note 2: 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.

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.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is established through charges to the provision for bad debts. The Organization evaluates the adequacy of the allowance for doubtful accounts on a periodic basis. The evaluation includes historical trends in collections and write-offs, management's judgement of the probability of collecting accounts and management's evaluation of business risk. Management estimates all promises to give at July 31, 2017 are collectible; therefore, no provision for bad debts has been made.

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 probable that the project will be completed and the software will be used as intended. Such costs are amortized over a straight-line basis of the estimated

See Independent Auditor's Report

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

Note 2: Summary of Significant Accounting Policies (continued)

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 no long-lived assets were impaired during the fiscal year.

Inventory

Inventory is valued at the lower of cost or market. Cost is determined using the weighted average method with freight being included in the calculation.

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 at July 31, 2017 was \$129,750.

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.



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

Note 2: 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.

Donated assets are recorded at fair value as of the date of gift.

Cruelty-free merchandise sales revenue is recognized upon shipment of goods.

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).

Advertising Costs

Advertising costs are expensed as incurred and approximated \$2,277,000 for the year ended July 31, 2017.

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.

See Independent Auditor's Report

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

Note 2: Summary of Significant Accounting Policies (continued)

*Subsequent Events*

For the year ended July 31, 2017, PETA has evaluated subsequent events for potential recognition and disclosure through November 13, 2017, the date the financial statements were available to be issued, and believe there to be no further potential recognition or disclosure.

Note 3: Net Investment Return

Net investment return consists of the following for the year ended July 31, 2017 and is included as part of investment and other income on the Statement of Activities:

Operating investments	
Interest and dividends	\$ 258,078
Net realized and unrealized gain	<u>591,844</u>
	<u>849,922</u>
Endowment investments	
Interest and dividends	130,290
Net realized and unrealized gain	151,799
Less investment management and custodial fees	<u>(97,022)</u>
	<u>185,067</u>
	<u>\$ 1,034,989</u>

Note 4: Inventory

Inventory consists of cruelty-free merchandise available for sale.

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

Note 5: Property and Equipment

Property and equipment at July 31, 2017 consisted of the following:

Mobile spay/neuter clinics and other vehicles	\$ 1,587,637
Office furniture and equipment	379,241
Software	1,369,559
Buildings and improvements	247,698
Land	<u>91,170</u>
	\$3,675,305
Less: accumulated depreciation and amortization	<u>(2,005,862)</u>
 Total Property and equipment, net	 <u>\$ 1,669,443</u>

Depreciation and amortization expense for the year ended July 31, 2017 was \$444,529.

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. A three-tier hierarchy categorizes the inputs 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.

A significant portion of PETA's investment assets are classified within Level 1 because they are comprised of open-end mutual funds, equity securities, exchange traded funds, and stock funds with readily determinable fair values based on the daily redemption

See Independent Auditor's Report

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

Note 6: Fair Value Measurements (continued)

values. PETA invests in certificates of deposit, corporate bonds, and real estate funds that are traded in the financial markets. These investments are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, market-rate assumptions, and are classified with Level 2.

Financial assets measured at fair value on a recurring basis as of July 31, 2017 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	\$ --	\$ 1,018,231	\$ --	\$ 1,018,231
Corporate bonds	--	4,820,686	--	4,820,686
Equity securities	4,873,064	--	--	4,873,064
Exchange traded funds	108,850	--	--	108,850
Stock funds	72,023	--	--	72,023
Mutual funds	70,025	--	--	70,025
Real estate investment trust	--	102,129	--	102,129
Real estate funds	--	398,926	--	398,926
Total investments, non-current portion, at fair value	<u>\$ 5,123,962</u>	<u>\$ 6,339,972</u>	<u>\$ --</u>	<u>\$ 11,463,934</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.

See Independent Auditor's Report

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

Note 7: Net Assets (continued)

Temporarily Restricted

Temporarily restricted net assets of \$2,212,025 are available for campaigns against animal testing, factory farming, and animal cruelty.

Permanently Restricted

Permanently restricted net assets are comprised of three separate endowment funds with a total value of \$3,201,889 as of July 31, 2017. 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 two 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

**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, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ --	\$ --	\$ 3,201,889	\$ 3,201,889

**Changes in Endowment Net Assets**  
**for the Fiscal Year Ended July 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ --	\$ --	\$ 3,179,328	\$ 3,179,328
Investment return:				
Investment income	--	--	22,561	22,561
Total investment return	--	--	22,561	22,561
Reclassification of donor restricted endowment funds	--	--	--	--
Endowment net assets, end of year	\$ --	\$ --	\$ 3,201,889	\$ 3,201,889

Return Objectives and Risk Parameters

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

See Independent Auditor's Report

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

Note 8: Defined Contribution Retirement Plan

PETA is a participating employer in a defined contribution plan. To be an eligible participant of the plan, full time employees (working at least 1,000 hours during the plan year) must be 21 years of age and complete one year of service. Employer matching contributions to the plan are at the discretion of the Board of Directors of PETA. Employer contributions for the year ended July 31, 2017 were \$102,859.

Note 9: Related Party Transactions

The Foundation 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 2017 were \$1,203,797. FSAP also donated \$27,000 of space to PETA during the fiscal year. In addition, the Foundation provided \$14,284,067 in services to PETA during the fiscal year. During the fiscal year, PETA donated \$14,842,604 to FSAP to assist in their operations. At year end, PETA owed FSAP \$1,263,200.

A PETA director serves on the boards of directors of affiliated animal rights organizations in the United States, France, the Asia-Pacific region, India, Netherlands, the United Kingdom, Germany, and Australia to which during the fiscal year PETA donated \$2,043,424 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, 2017, PETA exceeded insured levels by \$1,985,072.

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

Note 11: Donated Professional Services and Materials

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

	Program Services	Management and General	Fundraising and Development	Total
Legal Services	\$ 110,393	\$ --	\$ --	\$ 110,393
Advertising	669,221	--	--	669,221
Goods	--	206,020	--	206,020
	\$ 779,614	\$ 206,020	\$ --	\$ 985,634

Note 12: Allocation of Joint Costs

During the fiscal year, PETA incurred joint costs of \$8,638,966 for educational material and activities that included fund-raising appeals. Based on an analysis of the content of these mailings, \$11,251 was allocated to management and general, \$2,996,938 was allocated to membership development and \$5,630,777 was allocated to program expenses. Of the amount allocated to program expenses, \$1,690,947 was allocated to international grassroots campaigns, \$1,510,717 was allocated to public outreach and education, and \$2,429,113 was allocated to research, investigations and rescue.

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 2026. Future minimum rental payments under the non-cancelable operating leases are:

Year ending July 31,	
2018	\$ 1,110,950
2019	888,000
2020	289,500
2021	132,000
2022	135,850
Thereafter	612,150
	\$ 3,168,450

Rent expense for the year ended July 31, 2017 was \$1,250,952.



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

Note 14: Cash Flows

Supplemental disclosure of cash flow information

PETA paid \$117,480 of interest during the fiscal year.

Non-cash investing and financing activities

PETA received stock valued at \$99,405 in exchange for an annuity contract. \$29,481 was recognized in the current year as annuity income and \$69,924 is included in annuities payable at July 31, 2017.

Note 15: Accounting Standards Update

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 2017, 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 2017, 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.

See Independent Auditor's Report

**People for the Ethical Treatment of Animals, Inc.**  
**Schedule of Functional Expenses**  
**For the Year Ended July 31, 2017**

	<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>Supporting Organizations Activities</u>	<u>Total</u>	<u>Membership Development</u>	<u>Management and General</u>	<u>Total</u>	
Professional services and consultants	\$ 5,011,458	\$ 1,844,250	\$ 6,954,677	\$ 235,444	\$ -	\$ 14,045,829	\$ 4,224,856	\$ 506,542	\$ 4,731,398	\$ 18,777,227
Media and press support	1,680,793	574,816	52,925	18	-	2,308,552	562,554	6	562,560	2,871,112
Salaries and related expenses	4,178,758	2,667,505	5,051,382	20,180	-	11,917,825	23,054	23,047	46,101	11,963,926
Education and promotional costs	1,072,716	1,124,252	1,216,390	2,862	-	3,416,220	1,167,368	245	1,167,613	4,583,833
Donations to charitable organizations	-	1,755,044	762,390	-	14,842,673	17,360,107	-	-	-	17,360,107
General operating expenses	748,871	501,388	1,270,821	19,576	-	2,540,656	669,094	14,779	683,873	3,224,529
Rent and other building expenses	358,495	603,513	520,114	-	-	1,482,122	19,315	7,900	27,215	1,509,337
Travel and transportation	230,410	347,090	443,583	38	-	1,021,121	50,466	6,470	56,936	1,078,057
Postage	766,189	821,767	917,778	225,192	-	2,730,926	2,784,267	292	2,784,559	5,515,485
Special events expenses	-	982	629	-	-	1,611	283,297	-	283,297	284,908
Cost of goods sold	-	-	-	266,897	-	266,897	-	-	-	266,897
Telephone and misc. office expenses	54,768	90,869	85,673	2,757	-	234,067	3,389	939	4,328	238,395
<b>Total expenses</b>	<b>\$ 14,102,458</b>	<b>\$ 10,331,476</b>	<b>\$ 17,276,362</b>	<b>\$ 772,964</b>	<b>\$ 14,842,673</b>	<b>\$ 57,325,933</b>	<b>\$ 9,787,660</b>	<b>\$ 560,220</b>	<b>\$ 10,347,880</b>	<b>\$ 67,673,813</b>
<b>Percent of total expenses</b>	<b>20.84%</b>	<b>15.27%</b>	<b>25.53%</b>	<b>1.14%</b>	<b>21.93%</b>	<b>84.71%</b>	<b>14.46%</b>	<b>0.83%</b>	<b>15.29%</b>	<b>100.00%</b>

See Independent Auditor's Report and Accompanying Notes