

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

July 31, 2019

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, 2019, and the related statements of activities, functional expenses 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, 2019, 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.

Saggar & Rosenberg P.C.

Rockville, Maryland
November 26, 2019

People for the Ethical Treatment of Animals, Inc.
Statement of Financial Position
July 31, 2019

Assets

Current Assets	
Cash	\$ 841,759
Investments, current portion	763,869
Property held for sale, current portion	33,197
Legacies receivable	777,995
Other receivables	45,583
Inventory	50,423
Prepaid expenses	551,971
Total Current Assets	<u>3,064,797</u>
Property and Equipment, Net	<u>1,134,277</u>
Other Assets	
Investments, non-current portion	9,982,078
Prepaid hosting arrangements, net	199,895
Property held for sale, non-current portion	1,245,206
Deposits and other assets	20,072
Total Other Assets	<u>11,447,251</u>
Total Assets	<u>\$ 15,646,325</u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 1,769,273
Related party payable	1,949,319
Accrued expenses	991,299
Deferred rent, current portion	9,000
Annuities payable, current portion	216,054
Total Current Liabilities	<u>4,934,945</u>
Long-Term Liabilities	
Deferred rent, non-current portion	12,850
Annuities payable, non-current portion	2,265,610
Total Long-Term Liabilities	<u>2,278,460</u>
Total Liabilities	<u>7,213,405</u>
Net Assets	
Without donor restrictions	
Designated by Governing Board for legal matters	1,000,000
Undesignated	2,078,994
	<u>3,078,994</u>
With donor restrictions	
Purpose Restricted	2,065,863
Endowment	3,288,063
Total Net Assets	<u>8,432,920</u>
Total Liabilities and Net Assets	<u>\$ 15,646,325</u>

See Accompanying Footnotes

People for the Ethical Treatment of Animals, Inc.
Statement of Activities
For the Year Ended July 31, 2019

	With			Total
	Without	Donor Restrictions		
	Donor Restrictions	Program	Endowment	
	Restrictions	Restrictions	Funds	
Support and Revenue				
Public support				
Contributions and donations	\$ 33,094,254	\$ 2,759,639	\$ -	\$ 35,853,893
Legacies and bequests	9,561,430	2,734,807	40,000	12,336,237
Special event				
Contributions	527,379	345,100	-	872,479
Special event revenue	24,195	-	-	24,195
Less: cost of direct benefits to donors	(20,797)	-	-	(20,797)
Total public support	<u>43,186,461</u>	<u>5,839,546</u>	<u>40,000</u>	<u>49,066,007</u>
Other revenue				
Merchandise sales	107,869	-	-	107,869
Net investment and other income	1,677,046	-	20,390	1,697,436
Total other revenue	<u>1,784,915</u>	<u>-</u>	<u>20,390</u>	<u>1,805,305</u>
Net Assets Released from Restrictions				
Satisfaction of program restrictions	5,572,207	(5,572,207)	-	-
Total Support and Revenue	<u>50,543,583</u>	<u>267,339</u>	<u>60,390</u>	<u>50,871,312</u>
Expenses				
Program services				
Public Outreach and Education	13,548,157	-	-	13,548,157
International Grassroots				
Campaigns	10,873,780	-	-	10,873,780
Research, Investigations, and				
Rescue	20,039,560	-	-	20,039,560
Cruelty-Free Merchandise	440,633	-	-	440,633
Total program services	<u>44,902,130</u>	<u>-</u>	<u>-</u>	<u>44,902,130</u>
Supporting services				
Membership development	10,507,935	-	-	10,507,935
Management and general	564,880	-	-	564,880
Total supporting services	<u>11,072,815</u>	<u>-</u>	<u>-</u>	<u>11,072,815</u>
Total Expenses	<u>55,974,945</u>	<u>-</u>	<u>-</u>	<u>55,974,945</u>
Change in Net Assets	(5,431,362)	267,339	60,390	(5,103,633)
Net Assets at Beginning of Year	8,510,356	1,798,524	3,227,673	13,536,553
Net Assets at End of Year	<u>\$ 3,078,994</u>	<u>\$ 2,065,863</u>	<u>\$ 3,288,063</u>	<u>\$ 8,432,920</u>

See Accompanying Footnotes

People for the Ethical Treatment of Animals, Inc.
Statement of Functional Expenses
For the Year Ended July 31, 2019

	<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>Cost of Direct Benefit to Donors</u>	
Professional services and consultants	\$ 5,267,956	\$ 1,669,395	\$ 7,715,276	\$ 172,735	\$ 14,825,362	\$ 4,759,309	\$ 310,805	\$ -	\$ 19,895,476
Media and press support	1,958,290	182,970	86,974	61	2,228,295	391,750	39,522	-	2,659,567
Salaries and related expenses	2,446,558	3,360,963	6,625,906	21,298	12,454,725	20,311	20,315	-	12,495,351
Education and promotional costs	1,271,052	1,360,799	1,561,490	4,952	4,198,293	3,576,917	183,617	-	7,958,827
Donations to charitable organizations	-	2,084,196	721,995	-	2,806,191	-	-	-	2,806,191
General operating expenses	966,888	447,971	1,236,656	28,855	2,680,370	806,041	7,208	-	3,493,619
Rent and other building expenses	492,280	456,860	512,844	62,113	1,524,097	42,453	-	-	1,566,550
Travel and transportation	214,061	314,935	443,207	75	972,278	66,771	2,466	-	1,041,515
Postage	863,611	889,458	1,024,095	86,118	2,863,282	643,328	311	-	3,506,921
Special events expenses	229	2,997	3,010	-	6,236	174,888	-	-	181,124
Cost of direct benefits to donors	-	-	-	-	-	-	-	20,797	20,797
Cost of goods sold	-	-	-	60,186	60,186	-	-	-	60,186
Telephone and misc. office expenses	67,232	103,236	108,107	4,240	282,815	26,167	636	-	309,618
Total expenses	\$ 13,548,157	\$ 10,873,780	\$ 20,039,560	\$ 440,633	\$ 44,902,130	\$ 10,507,935	\$ 564,880	\$ 20,797	\$ 55,995,742
Less expenses included with support and revenue on statement of activities									
Cost of direct benefits to donors	-	-	-	-	-	-	-	(20,797)	(20,797)
Total expenses included in the expense section of the statement of activities	\$ 13,548,157	\$ 10,873,780	\$ 20,039,560	\$ 440,633	\$ 44,902,130	\$ 10,507,935	\$ 564,880	\$ -	\$ 55,974,945
Percent of total expenses	24.20%	19.43%	35.80%	0.79%	80.22%	18.77%	1.01%	0.00%	100.00%

See Accompanying Footnotes

People for the Ethical Treatment of Animals, Inc.
Statement of Cash Flows
For the Year Ended July 31, 2019

Cash Flows From Operating Activities:	
Change in net assets	\$ (5,103,633)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Property and equipment depreciation and amortization	483,874
Prepaid hosting arrangements amortization	171,294
Loss on disposal of property and equipment	159,440
Premium on bonds	(9,771)
Accrued interest payable	3,872
Non-cash donations	(2,554,555)
Net realized and unrealized gains and losses in operating investments	(204,127)
Net realized and unrealized gains and losses in endowment investments	(29,410)
Net change in deferred rent liability	(53,900)
Net realized and unrealized gains and losses on property held for sale	(159,725)
Contributions restricted to endowment	(40,000)
Cash receipts of contributed financial assets	2,541,527
Gain from annuity contracts	(4,045)
Change in assets and liabilities:	
Increase in legacies receivable	(156,935)
Decrease in other receivables	18,669
Decrease in inventory	52,848
Increase in prepaid expenses	(139,678)
Increase in deposits and other assets	(7,749)
Increase in related party payable	662,279
Increase in accounts payable	463,596
Increase in accrued expenses	73,595
Net Cash Used In Operating Activities	<u>(3,832,534)</u>
Cash Flows From Investing Activities:	
Reinvestment of matured securities and purchases of investments	(13,949,197)
Maturities and proceeds from sales of investments	16,864,882
Purchase of prepaid hosting arrangement	(91,074)
Sale of property and equipment	14,234
Purchase of property and equipment	(450,251)
Proceeds from sale of property held for sale	14,466
Net Cash Provided By Investing Activities	<u>2,403,060</u>
Cash Flows From Financing Activities:	
Proceeds from annuity contracts	679,914
Collection of contributions restricted to endowment	40,000
Principal payments on annuity contracts	(195,917)
Net Cash Provided By Financing Activities	<u>523,997</u>
Net Decrease in Cash	(905,477)
Cash at Beginning of Year	<u>1,747,236</u>
Cash at End of Year	<u>\$ 841,759</u>

See Accompanying Footnotes

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

Note 1: Organization

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

The following is a sample of various programs conducted by PETA.

Public Outreach and Information

PETA conducts informational campaigns and provides children, high school and college students, and educators with materials. PETA publishes factsheets, booklets, fliers, posters, and a magazine called PETA Global for the public and their 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 (PSAs), which are typically placed for free in high exposure outlets.

In fiscal year 2019, PETA secured free advertising space worth \$680,858 and logged more than 4,200 interactions with the media, including radio, TV, and print interviews. PETA’s websites received more than 91 million page-views, their social media posts received over 2 billion impressions, and videos were viewed over 498 million times.

Total expenses incurred in this program were \$13,548,157.

International Grassroots Campaigns

PETA organizes campaigns to inform the public about the abuse and killing of animals in the experimentation, food, clothing, and entertainment industries, among other instances in which they’re treated cruelly. In 2019, PETA organized and led more than 3,400 demonstrations and sent out millions of letters through PETA’s online advocacy campaigns to urge companies and individuals to make changes that benefit animals.

TeachKind, PETA’s humane education division, partnered with a school district in rural Mississippi to train teachers in humane education and help them implement their “Share the World” program in classrooms to foster empathy for all sentient beings.

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

Note 1: Organization (continued)

PETA's youth division, PETA Future, gave vegan demonstrations to over 1,000 students and toured elementary schools with Carly the life-size- animatronic cow to teach more than 13,000 children how cows suffer in the dairy industry and distribute free vegan ice cream. PETA Future also worked with middle school and high school student clubs throughout the nation to hold tabling events on issues including shopping cruelty-free, dissection-choice policies, and getting more vegan options in school cafeterias. As part of the High School Nation tour, PETA Future brought their "Compassion Is Magical" message to high school football fields across the U.S. and distributed over 100,000 copies of their "Guide to Going Vegan," lots of vegan food samples, and other pro-animal materials.

PETA Future's Campus Rep network—the largest student leadership program of any animal protection organization—helped students take nearly 1,400 actions for animals at more than 100 colleges. For example, the reps screened animal rights films, protested outside campus laboratories, campaigned to end SeaWorld ticket sales, and hosted vegan food and drink giveaways.

Animals in the Experimentation Industry

After hearing from PETA and their international affiliates, pharmaceutical giants Boehringer Ingelheim, Roche Pharmaceuticals, Johnson & Johnson, AbbVie Inc., and Dutch ingredient manufacturer DSM Nutritional Products ended their use of the cruel forced swim test, in which small animals are dropped into inescapable beakers of water and must frantically swim to keep from drowning.

PETA persuaded dozens of food and drink companies to stop all tests on animals not required by law—many of which involved harmful and deadly procedures—and/or implement policies against funding or conducting such tests. Some of these companies include The Hershey Company, Lindt & Sprüngli, the Kellogg Company, McCain Foods, the Campbell Soup Company, Nissin Foods Holdings Co. (the owner of Top Ramen), Suntory Holdings (whose brands include Jim Beam, Maker's Mark, Cruzan Rum, and Hornitos Tequila), Kirin Holdings Co., and the Molson Coors Brewing Company.

Two major personal-care brands joined PETA's Beauty Without Bunnies list of cruelty-free companies after years of working with us: Procter & Gamble's iconic Herbal Essences brand and Dove—one of the most widely available personal-care product brands in the world.

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

Note 1: Organization (continued)

Following talks with PETA, Cincinnati Children's Hospital Medical Center will no longer use animals during its annual Pediatric Flexible Bronchoscopy Postgraduate Course. This will prevent cables from being inserted into the throats and lungs of hundreds of live cats, many of whom would suffer from possibly painful and serious complications, including respiratory distress and cardiac arrest.

Following a two-year PETA campaign to end Texas A&M University's cruel canine muscular dystrophy experiments, the school stopped breeding golden retrievers and other dogs to develop the deadly disease. PETA's determined efforts included numerous bold protests, three lawsuits, a complaint to the Texas attorney general, mobile billboards and advertisements, TV commercials, successful student petitions, a bulk delivery of more than 40,000 postcards from PETA supporters, media coverage in major outlets, and support from more than 500 physicians, scientific experts, and celebrities, including Paul McCartney.

For the first time, PETA tabled at Beautycon—the massive beauty and lifestyle convention—in both New York City and Los Angeles. More than 5,200 attendees signed up to receive text messages from PETA and pledged to shop cruelty-free.

Animals in the Food Industry

To promote vegan eating, PETA held many creative demonstrations and placed billboards across the country—including in states where millions of animals used for food died in the flooding caused by Hurricane Florence; an "I'm ME, Not MEAT" lobster ad in advance of the Maine Lobster Festival; and billboards in memory of the thousands of cows, pigs, chickens, and lobsters who were injured or killed in transport truck crashes.

For Thanksgiving, PETA arranged a donation of 100 Tofurky roasts for the Los Angeles Dodgers to distribute to families in need, coordinated the rescue of 16 turkeys from a slaughterhouse, and donated hundreds of pounds of vegan foods to a charity after thousands of people took their vegan "persuasion pledge."

For National Burger Month (May) and National Hot Dog Month (July), PETA ranked the top 10 vegan burgers and the top 10 vegan hot dogs, respectively, from restaurants around the country.

After PETA alerted law enforcement in Nevada City, California, to a planned illegal foie gras dinner event, it was canceled. And thanks to PETA's pushing, Shake Shack canceled plans to serve foie gras at a special one-day event at one of its locations.

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

Note 1: Organization (continued)

Following talks and urging from PETA, Chobani added vegan yogurts, Carl's Jr. and Del Taco added Beyond Meat products to their menus nationwide, and Baskin-Robbins released its first vegan ice cream flavors.

Animals in the Clothing Industry

Following a strong, months-long push by PETA that included their attendance at multiple committee meetings, the Los Angeles City Council voted to ban the manufacture and sale of fur citywide.

PETA also strongly supported New York City's proposed ban on selling fur—with op-eds by Anjelica Huston and Tim Gunn, support from Morrissey, demonstrations of steel-jaw traps, and more.

A bill that would have blocked California's scheduled ban on importing and selling crocodile and alligator skins after January 1, 2020, failed, following work by PETA.

After years of PETA pressure, numerous designers and brands banned fur, including Prada, Burberry (which also banned angora), Diane von Furstenberg (which also banned angora and exotic skins), Chanel (which also banned exotic skins), Coach, and Jean Paul Gaultier (who admitted that the ways in which animals are killed for their fur are “deplorable”).

In light of their groundbreaking mohair exposé, more than 330 brands worldwide—including Restoration Hardware, Williams Sonoma, Brooks Brothers, and Ralph Lauren—have banned the material.

Multiple companies banned badger hair following PETA's video exposé of China's badger-brush industry, including Procter & Gamble's the Art of Shaving line, The New York Shaving Company, Beau Brummell, and Caswell-Massey.

In response to their question at Tesla's annual meeting, CEO Elon Musk confirmed that the company will replace the animal leather that it currently uses for the steering wheels of its Model 3 with vegan material—and that its Model Y will be fully vegan.

In other victories for PETA's fashion campaign, Victoria Beckham and Ahold Delhaize pledged to stop using exotic skins, H&M banned “conventional” cashmere (the only kind it sells) following a meeting with PETA, and after PETA informed Avocado Green Mattress about shocking, systemic cruelty in the wool industry, the company added a vegan mattress to its previously all-wool line.

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

Note 1: Organization (continued)

PETA kept the pressure on Canada Goose to stop using fur and down feathers with dozens of protests throughout North America, including a fur crawl, die-ins, and other creative visuals. PETA placed an enormous wallscape billboard near Canada Goose’s flagship store in Chicago, released Bill Maher’s “New Rules” video slamming the company for using fur and down feathers, and organized media coverage of the Canada Goose virtual annual meeting—during which model and actor Ireland Basinger-Baldwin demanded to know why the company continues to use coyote fur and down feathers despite knowing how animals suffer for them.

PETA’s multifaceted campaign urging Forever 21 to ban wool included protests at chain locations around the world, op-eds printed in multiple newspapers, and over 60 compelling ads on billboards, buses, and taxis across the U.S., including a “Wool: The Naked Truth” billboard starring supermodel and actor Joanna Krupa in Times Square near New York City’s largest Forever 21 store.

PETA collaborated with menswear designer Stephen F on a vegan, eco-friendly men’s collection, and the education director at the Council of Fashion Designers of America asked PETA to speak at its annual Fashion Education Summit, which drew 100 fashion professors from top schools across the country.

Animals in the Entertainment Industry

To stop animal circuses from performing, PETA worked with numerous venues, including South Carolina’s Greenville Convention Center (which banned the notoriously cruel Garden Bros. Circus and all other shows that use animals), Connecticut’s Danbury Ice Arena (which won’t host Garden Bros. or any other circus unless it performs without animals), and the Antelope Valley Fair in California (which skipped its scheduled Garden Bros. shows).

The Los Angeles County Fair left wild and exotic mammals out of this year’s event after PETA informed its organizers about the cruelty inherent in traveling animal exhibits and about public opposition to the exploitation of animals for entertainment. At their urging, the Melha Shrine in Springfield, Massachusetts, dropped its circus altogether. And following years of PETA protests and thousands of e-mails from their supporters, Pittsburgh’s Syria Shrine ended its annual circus.

After more than a decade of persistence by PETA on behalf of Nosey—a severely arthritic elephant who was hauled around the country and forced to give rides—New Jersey became the first state to ban traveling wild-animal acts, with the passage of Nosey’s Law.

After nearly 20,000 PETA members and supporters contacted Journeys International within a matter of hours, the company removed all abusive elephant camps from its tours.

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

Note 1: Organization (continued)

Following PETA's still-pending lawsuit against an Indiana roadside zoo called Wildlife in Need over its abuse of big cats, PETA sued the facility's veterinarian, Dr. Rick Pelphrey, for mutilating big cats by declawing them. PETA secured a first-of-its-kind consent judgment stating that declawing endangered or threatened cats without medical necessity violates the Endangered Species Act.

As a result of PETA's urging, performances by a captive capuchin monkey named Django were canceled at three venues: the "Dickens of a Christmas" event in Chestertown, Maryland; the senior-living community Juniper Village at Mount Joy in Pennsylvania; and Pennsylvania's Mount Gretna Outdoor Art Show, where the monkey act had appeared for the last 20 years.

After hearing from PETA and their supporters, numerous companies cut ties with SeaWorld. Sunwing Airlines and AAA Northeast stopped selling SeaWorld tickets, WestJet removed all references to the park from its website and promotional materials, and U.K. travel giant Virgin Holidays will no longer sell tickets to SeaWorld or any other park that keeps whales and dolphins in captivity.

Pamela Anderson posed in a tub for a PETA ad with the words "Could You Live in a Bathtub for Decades?" and Alec Baldwin signed their question for SeaWorld's annual meeting asking when the park would stop using dolphins as surfboards.

As part of their campaign to prevent SeaQuest from opening a location on Long Island in New York, area native Alec Baldwin also sent a letter urging officials to block the aquarium's application. Following seven months of their spirited protests, appeals to town officials, and testimonies at town board meetings, SeaQuest chose to withdraw its application rather than disclosing its long list of legal issues.

PETA protested at the start of the 2019 Iditarod dogsled race in Alaska and targeted Iditarod sponsor Chrysler at auto shows across the country, where their "dogs" smashed a Chrysler car in protest of the company's refusal to cut ties with the cruel and deadly race. The Coca-Cola Company ended its sponsorship of the Iditarod after months of pressure from PETA, including protests outside Coke's headquarters and at its annual meeting as well as e-mails from more than 205,000 of PETA members and supporters. And after hearing from PETA, Vancouver's CruiseExperts Travel removed all dogsledding excursions from its offerings.

Other Cruelty to Animals

To urge Petco to end sales of betta fish, PETA launched a campaign including protests outside dozens of Petco stores, multiple billboards, an op-ed by prominent ethologist Dr. Jonathan Balcombe, and PSAs (one starring comedy legend Fred Willard). Their petitions calling on the company to stop selling betta fish have received nearly 200,000 signatures.

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

Note 1: Organization (continued)

Hours after PETA informed it of the anguish and pain that glue traps cause small animals, Publishers Clearing House banned the devices and has promised not to sell them again. PETA also persuaded numerous other businesses—including Buy-Low Foods, FIELDS, Giant Tiger, Rossy, Save-On-Foods, and Urban Fare—to ban glue traps.

PETA launched their #EndSpeciesism campaign with thought-provoking “dog BBQ” demonstrations and billboards across the nation.

Total expenses incurred in this program were \$10,873,780.

Research, Investigations, and Rescues

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

Animals in the Experimentation Industry

Through the Freedom of Information Act, PETA obtained and released video footage revealing cruel and scientifically worthless psychological tests conducted on mice at the National Institute of Mental Health (NIMH). These include the widely discredited forced swim test, the tail suspension test (in which mice are hung upside down by their tails), the foot shock test (in which mice or rats are locked inside a chamber with an electrified grid floor and shocked), and the social defeat test (in which animals are put in a situation that compels one to attack another repeatedly). PETA wrote to NIMH Director Joshua Gordon demanding that the institute stop conducting and funding these tests and redirect funds to superior, non-animal research methods that benefit humans.

Washington University in St. Louis is under investigation after a whistleblower informed PETA of alleged neglect, incompetence, and indifference toward animals in the school’s laboratories, including instances in which an experimenter played on his phone as a dog who’d been used in an experimental surgery howled in pain and mice were left to drown or die of hypothermia as their faulty and leaky water bottles flooded their cages. PETA filed formal complaints calling on the Centers for Disease Control and Prevention and the National Institutes of Health’s Office of Laboratory Animal Welfare to investigate.

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

Note 1: Organization (continued)

After years of pushing from PETA, the Chinese government has approved two more non-animal methods for testing cosmetics products in China: the direct peptide reaction assay for skin sensitization and the short time exposure assay for eye irritation. These methods will spare countless animals the agony of substances being applied to their eyes and rubbed onto their skin. This major progress is thanks to the groundbreaking work of the expert scientists and regulatory specialists at the Institute for In Vitro Sciences (IIVS), to whom PETA gave initial funding to provide Chinese scientists and officials with training and educational opportunities in using modern, non-animal methods.

In a push for transparency about experiments on animals, PETA filed a lawsuit against the University of Massachusetts–Amherst after it refused to release video records of experiments on monkeys despite being instructed to do so by the state. The school settled, agreeing to provide PETA with all of its videos of primate experiments from a 17-year study examining why and how monkeys confined to laboratory cages engage in self-mutilation. Texas A&M University also agreed to settle two PETA lawsuits by turning over public records about the care and treatment of dogs used in cruel muscular dystrophy experiments as well as information about the status of the laboratory.

The PETA International Science Consortium Ltd. (the “Science Consortium”), of which PETA is a member, co-organized a workshop at which government and industry researchers brainstormed the best way to replace the use of rabbits and horseshoe crabs in painful tests for fever-causing contaminants. The Science Consortium also sponsored and presented information at a workshop to replace the killing of an estimated 50,000 to 70,000 mice each year in rabies vaccine tests.

The Science Consortium presented several Early-Career Scientist awards to innovative young researchers advancing non-animal approaches. These include one to a toxicologist developing a 3-dimensional model of the human liver to replace the use of rats in liver-toxicity testing, one to a researcher from Argentina to attend a prestigious toxicology workshop where she received training to help her establish the first laboratory in her country dedicated to promoting non-animal tests, and one to a Ph.D. student from the NOVA University of Lisbon to attend the European Commission’s Joint Research Centre’s summer school program on non-animal tests.

Teaming up with biotech company Epithelix, the Science Consortium awarded innovative researchers with \$10,000 worth of free 3-dimensional models of the human respiratory tract. These models, which are made from human cells, can be used to test cosmetics, pharmaceuticals, industrial chemicals, pesticides, and household products without using animals.

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

Note 1: Organization (continued)

To prevent rats from being trapped in narrow tubes and forced to inhale toxic substances for hours before being killed, the Science Consortium donated \$50,000 in equipment to IIVS. The equipment can be used to test the effects of substances on the lungs and yields more human-relevant results than the use of rats.

The Science Consortium organized a webinar to train Taiwanese regulators on using animal-free methods to test for skin irritation instead of smearing toxic chemicals onto animals' skin. More than 160 government scientists attended the free webinar, and other Taiwanese organizations have expressed interest in attending future webinars. Several hundred scientists also tuned in to a webinar presented by the Science Consortium and an agrochemical company on testing the effects of chemicals on human lungs without using animals. And the Science Consortium worked with the U.S. Environmental Protection Agency (EPA) and the Physicians Committee for Responsible Medicine to organize a series of webinars on new approaches for testing chemicals without using animals, reaching hundreds of scientists and government regulators.

The Science Consortium presented at the annual Society of Toxicology conference—the largest toxicology conference in the world—and was recognized for a paper that it had co-authored on testing the effects of inhaled substances on the lungs without using animals.

Collaborating with the EPA, the Science Consortium published a paper showing that the agency can confidently assess the risk of pesticides to the environment without poisoning birds in a cruel test. This test involves feeding birds pesticide-laced food for days and then monitoring them for distress or death. The EPA is expected to use the paper's findings to allow companies to submit a waiver for this test, sparing hundreds of mallards and quails each year.

PETA also advocated for the California Cruelty-Free Cosmetics Act, which was passed after a dedicated campaign.

Animals in the Food Industry

A PETA eyewitness exposé of Reitz Dairy Farm—a Northumberland County, Pennsylvania, farm that kept approximately 300 adult cows and scores of calves—revealed that cows being milked were denied care for painful grapefruit-size masses that oozed blood and pus, were struck over and over on their sensitive udders, and were found lying dead in manure.

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

Note 1: Organization (continued)

A PETA eyewitness investigation into a filthy egg factory farm near Sulphur, Oklahoma, that supplied eggs to companies including The Kroger Co.—which sold them as Kroger-brand eggs—revealed that nearly 8,000 hens suffered and died in July and August 2018, when temperatures in the farm’s sheds reached 106 degrees. Over several days in early August, workers yanked more than 49,000 unwanted hens out of their cages, beat their heads against metal boxes, stuffed them inside the boxes, and then crudely gassed them with carbon dioxide, which can cause extreme pain. Countless hens survived the abuse and were then dumped into trucks, so they were beaten again with a piece of wood or slammed against the trucks. Those who remained alive were left to die slowly and in agony.

In a lawsuit brought by PETA and others, the U.S. District Court for the Southern District of Iowa struck down the state’s “ag-gag” law, which criminalized undercover investigations of factory farms and slaughterhouses. The court agreed that it was an unlawful restriction on speech and violated the First Amendment. Iowa is now the third state, following Utah and Idaho, whose attempt to punish witnesses who expose illegal and inhumane conduct on factory farms was ruled unconstitutional.

Animals in the Clothing Industry

PETA exposed a sheep farm in Victoria, Australia, revealing that the farm manager and workers mutilated terrified lambs in assembly-line fashion. An eyewitness worked for a sheep-shearing contractor in New South Wales, Australia, and found that workers struck gentle, frightened sheep in the face with sharp metal clippers—showing, yet again, that there is no such thing as humanely produced wool.

Animals in the Entertainment Industry

A federal judge for the U.S. District Court for the District of Maryland issued a first-of-its-kind ruling on PETA’s motion for summary judgment, finding that Tri-State Zoological Park’s failure to provide a now-deceased tiger named Cayenne with adequate veterinary care harmed her, in violation of the federal Endangered Species Act. In light of this development, PETA will request that the U.S. Department of Agriculture terminate the roadside zoo’s federal Animal Welfare Act exhibitor’s license.

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

Note 1: Organization (continued)

Notorious big-cat breeder and roadside zoo operator Joseph Maldonado-Passage (aka “Joe Exotic”) was found guilty of two counts of murder-for-hire as well as 17 federal wildlife charges, including killing five endangered tigers. He was sentenced to 22 years in federal prison. This victory came after PETA filed numerous complaints and launched an eyewitness investigation documenting injured, abused, and starving animals. PETA also rescued 39 tigers, three bears, two baboons, and two chimpanzees from his facility, and all are now thriving in reputable sanctuaries.

PETA published a report finding that dolphins at SeaWorld endure routine physical and social stress and apparently sustain painful injuries as a result of confinement to concrete tanks and because human trainers stand on their sensitive rostrums (the beak-like part of their mouths). More than 140 dolphins are kept in seven crowded, cramped tanks that sound, look, and feel nothing like their natural habitat and where they have no means to escape from other frustrated, aggressive animals. They’re forcibly bred, and trainers treat them like surfboards, standing on their faces and backs in cruel circus-style shows.

In a first-of-its-kind exposé of kennels owned by Iditarod mushers, PETA revealed that dogs were kept constantly chained next to dilapidated boxes and plastic barrels in the bitter cold and biting wind; arthritic, crippled, and injured dogs were denied veterinary care; chained dogs had worn-down, raw, and bloody paw pads from frantically running in tight circles; exhausted, dehydrated dogs were forced to run hundreds of miles; dogs were dragged and injured during training; and one was even killed.

PETA released an investigation of the slaughter of racehorses in South Korea, including U.S.-born horses and their offspring. Eyewitnesses recorded footage of horses trembling in fear and being beaten in the face as they were forced into the country’s largest slaughterhouse and killed for meat. Workers slaughtered horses right in front of other ones, which violates South Korea’s Animal Protection Act. As a result, local police investigated and filed charges against the facility and three of its workers, and both the Korea Racing Authority and the Ministry of Agriculture, Food and Rural Affairs quickly pledged to work on creating a system for horse retirement.

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

Note 1: Organization (continued)

Companion-Animal Issues

PETA released eyewitness footage captured during visits to over 100 Petco locations across the country that revealed widespread suffering for sensitive betta fish. Dead and dying bettas were found floating in tiny cups of contaminated water, and some were left to suffer from painful or debilitating health conditions, even though they were clearly in need of veterinary care. Eyewitnesses saw bettas floating on their side as they struggled to swim and a fish whose eyes severely protruded from their sockets. Many of the fish were forced to try to live in water that was very contaminated with food or feces. *National Geographic* broke the exclusive on the campaign, noting that countless customers have complained of finding sick, dead, and dying betta fish on the store's shelves.

For 10 years, PETA's fieldworkers had been visiting Missy, a sweet Labrador mix whose owner kept her outdoors in a cramped, junk-filled pen through blazing heat, thunderstorms, snowstorms, and even hurricanes. PETA spayed her, gave her a doghouse, and cleaned her pen regularly. When their staffers saw that she'd lost weight and was having difficulty breathing, they suspected that she was suffering from heartworm disease—and they were correct. PETA discussed her medical needs and the cost of treatment with her elderly owner, who then surrendered her to us. After she received treatment and spent a few weeks recovering at the Sam Simon Center—their Norfolk, Virginia, headquarters—they found her a loving home where she can enjoy her twilight years.

When Hurricane Florence was forecast to cause widespread devastation throughout the Carolinas and southeastern Virginia, PETA staffers called more than 1,000 of the clients regularly assisted by their fieldwork program, urging them to take their animals indoors (rather than leaving them chained or penned outside) and informing them of emergency shelters that accept animals. In the meantime, PETA's rescue team geared up and headed out to strategic locations from which members could help animals and their guardians affected by the storm. Although the hurricane ultimately veered away from Virginia, its damaging winds and heavy rains brought dangerous flooding to North Carolina, where PETA's team collaborated with local agencies to assist storm survivors—including dogs, cats, and chickens—who were taken to safety.

PETA's report of an animal-hoarding case to officials in North Port, Florida, resulted in the removal of more than 80 cats. The perpetrator was deemed mentally unfit to stand trial and ordered to a psychiatric facility for treatment, and the majority of the animals were able to be put up for adoption.

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

Note 1: Organization (continued)

A PETA eyewitness investigation of Hemopet—a canine blood bank in Garden Grove, California—revealed that this self-proclaimed “rescue” facility warehouses approximately 200 greyhounds bred for and discarded by the racing industry in cramped crates and barren kennels for about 23 hours a day. PETA found dogs who were sick and who’d been injured in fights with stressed kennelmates. Hemopet boasts that it sells blood to over 2,000 veterinary clinics in North America and Asia.

Total expenses incurred in this program were \$20,039,560.

Cruelty-Free Merchandise Program

PETA encourages and facilitates cruelty-free living by letting compassionate people around the world know about available consumer products—such as cosmetics and household cleaners that aren’t tested on animals, animal-care products, and animal rights T-shirts—informational videos and books, animal rescue equipment, and campaign materials. Some of these items are sold online through the PETA Mall and the PETA Shop.

This fiscal year, PETA added 745 companies to their Beauty Without Bunnies cruelty-free list (and 398 of them are also vegan), bringing the total number of companies on the list to 4,195.

Total expenses incurred in this program were \$440,633.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of PETA have been prepared in accordance with U.S Generally Accepted Accounting Principles (“US GAAP”), which require PETA to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions- Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of PETA’s management and the board of directors.

Net Assets With Donor Restrictions- Net assets subject to stipulations imposed by donors. Some donor-imposed restrictions are temporary in nature; those restrictions will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the funds be maintained in perpetuity.

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

Note 2: Summary of Significant Accounting Policies (continued)

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Investments

Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statement of financial position, and changes in fair value are reported as investment return in the statement of activities.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statement of activities in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

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 statement of activities. Conditional promises to give are not included as support until the conditions are substantially met.

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. Property and equipment donated to PETA is recorded at fair market 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 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.

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

Note 2: Summary of Significant Accounting Policies (continued)

Depreciation is calculated using the straight-line method over estimated lives of the assets as follows:

Mobile spay/neuter clinics and other vehicles	5 - 7 years
Office furniture and equipment	3 - 7 years
Software	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.

Prepaid Hosting Arrangements

In August 2018, FASB issued ASU 2018-15, Intangibles–Goodwill and Other–Internal-Use Software (“ASU 2018-15”), which requires an organization to follow the guidance in Subtopic 350-40 to determine which costs to capitalize under a service contract for a cloud computing arrangement. This update is effective for financial statements issued for fiscal years beginning after December 15, 2020, with early adoption permitted. During 2018, PETA chose to early adopt this ASU.

Under the terms of the ASU, PETA treats cloud computing arrangements that do not include a software license as a service contract. Fees associated with the hosting element of the arrangement are expensed as incurred. Implementation costs of the arrangement are capitalized and amortized on a straight-line basis over the term of the hosting arrangement. Prepaid hosting arrangements for fiscal year ended July 31, 2019 comprise of prepaid implementation costs on such arrangements.

Inventory

Inventory consists of cruelty-free merchandise available for sale. Inventory is valued at the lower of cost or net realizable value. Cost is determined by the first in, first out method.

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

Deferred Rent Liability

PETA received rent abatements 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.

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

Note 2: Summary of Significant Accounting Policies (continued)

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.

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of the donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

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).

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

Note 2: Summary of Significant Accounting Policies (continued)

Advertising Costs

Advertising costs are expensed as incurred and approximated \$2,437,329 for the year ended July 31, 2019.

Functional Allocation of Expenses

The cost of providing program and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated amount program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated included the following:

Expense	Method of Allocation
Salaries and related expenses	Time and effort
Rent and other building expenses	Square footage
General Operating Expenses	Time and effort
Donations to charitable organizations	Time and effort
Postage	Time and effort
Media and press support	Time and effort
Telephone and misc. office expenses	Time and effort
Travel and transportation	Time and effort
Special event expenses	Time and effort
Education and promotional costs	Time and effort
Cost of goods sold	Time and effort
Professional services and consultants	Time and effort

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, 2019, PETA has evaluated subsequent events for potential recognition and disclosure through November 26, 2019, the date the financial statements were available to be issued and believe there to be no further potential recognition or disclosure.

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

Note 2: Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

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. (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, 2020 and interim periods therein. As such, PETA will be required to adopt the standard on August 1, 2021. 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.

On June 21, 2018, the FASB issued ASU 2018-08, Not-for-Profit entities (Topic 958) intended to clarify and improve the scope and accounting guidance for contributions received and made, primarily by not-for-profit organizations. The amendments in this ASU provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The effective date for a public company or a not-for-profit organization that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, is annual reporting periods beginning after June 15, 2018, including interim periods within that annual period. All other entities should apply the amendments for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption of the amendments in this ASU is permitted. The organization has adopted this ASU effective August 1, 2019.

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

Note 2: Summary of Significant Accounting Policies (continued)

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addressed the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. PETA has adjusted the presentation of these statements accordingly.

Note 3: Availability and Liquidity

The following represents PETA’s financial assets at July 31, 2019:

Financial Assets at year-end:	
Cash and cash equivalents	\$ 841,759
Legacy and Accounts receivable	823,578
Operating investments	7,415,680
Endowment investments	3,330,267
Property held for sale	<u>1,278,403</u>
Total financial assets	<u>13,689,687</u>
Less amounts not available to be used within one year:	
Endowment investments	(3,330,267)
Property held for sale	<u>(1,245,206)</u>
Total amounts not available to be used	<u>(4,575,473)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 9,114,214</u>

As part of PETA’s liquidity, management has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, PETA invests cash in excess of daily requirements in short- term investments. PETA also has endowments totaling \$3.3 million.

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

Note 4: Prepaid Hosting Arrangements

Prepaid hosting arrangements at July 31, 2019 consisted of the following:

Prepaid hosting arrangements	\$ 442,557
Less: accumulated amortization	<u>(242,662)</u>
	<u>\$ 199,895</u>

Amortization expense for the year ended July 31, 2019 was \$171,294.

Note 5: Property and Equipment

Property and equipment at July 31, 2019 consisted of the following:

Mobile spay/neuter clinics and other vehicles	\$ 1,735,280
Office furniture and equipment	339,067
Software	1,355,865
Buildings and improvements	211,957
Land	<u>91,170</u>
	3,733,339
Less: accumulated depreciation and amortization	<u>(2,599,062)</u>
Total property and equipment, net	<u>\$ 1,134,277</u>

Depreciation and amortization expense for the year ended July 31, 2019 was \$483,874.

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:

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

Note 6: Fair Value Measurements (continued)

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 equity securities, exchange traded funds, and stock funds with readily determinable fair values based on the daily redemption values. PETA invests in 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.

The carrying amount of cash held in money market accounts are accounted for at cost and not categorized in the fair value hierarchy below.

Financial assets measured at fair value on a recurring basis as of July 31, 2019 comprise of PETA's investments summarized in the following tables using the fair value hierarchy:

	<u>Operating Investments</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ --	\$ --	\$ --	\$ 673,809
Corporate bonds	--	2,781,273	--	2,781,273
Equity securities	3,561,889	--	--	3,561,889
Exchange traded funds	46,832	--	--	46,832
Real estate funds	--	351,877	--	351,877
	<u>\$ 3,608,721</u>	<u>\$ 3,133,150</u>	<u>\$ --</u>	<u>\$ 7,415,680</u>

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

Note 6: Fair Value Measurements (continued)

	<u>Endowment Investments</u>			Total
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Money Market Funds	\$ --	\$ --	\$ --	\$ 90,060
Corporate bonds	--	1,883,857	--	1,883,857
Equity securities	1,286,704	--	--	1,286,704
Exchange traded funds	16,505	--	--	16,505
Stock funds	18,523	--	--	18,523
Real estate investment trust	--	34,618	--	34,618
	<u>\$ 1,321,732</u>	<u>\$ 1,918,475</u>	<u>\$ --</u>	<u>\$ 3,330,267</u>

Note 7: Net Assets

Without Donor Restrictions

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.

With Donor Restrictions

Purpose restricted funds of \$2,065,863 are available for campaigns against animal testing, factory farming, and animal cruelty.

Endowments are comprised of five separate endowment funds with a total value of \$3,288,063 as of July 31, 2019. 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. Under the terms of the second endowment fund ordinary earnings from one half of the endowment shall be used for capital expenditures. Under the terms of the third endowment 10% of the earnings is retained to grow the fund, the remaining 90% is available for unrestricted use. Earnings on the remaining two endowment funds are unrestricted.

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

Note 7: Net Assets (continued)

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

Endowment Net Asset Composition by Type of Fund
As of July 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
With Donor Restriction endowment funds	\$ --	\$ 3,288,063	\$ 3,288,063

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

Note 7: Net Assets (continued)

**Changes in Endowment Net Assets
for the Fiscal Year Ended July 31, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ --	\$ 3,227,673	\$ 3,227,673
Investment return:			
Investment income	--	20,390	20,390
Total investment Return	--	20,390	20,390
Contributions	--	40,000	40,000
Endowment net assets, end of year	\$ --	\$ 3,288,063	\$ 3,288,063

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.

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, 2019 were \$133,514.

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

Note 9: Related Party Transactions

The Foundation to Support Animal Protection (“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 FSAP during fiscal year 2019 were \$1,289,310. FSAP also donated \$24,000 of space to PETA during the fiscal year. In addition, the Foundation provided \$14,237,846 in services to PETA during the fiscal year. The Foundation also donated \$1,250,000 to PETA during the year. At year end, PETA owed FSAP \$2,045,762.

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, Australia, and Switzerland to which during the fiscal year PETA donated \$2,622,532 of cash and \$16,075 of in-kind contributions 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, 2019, PETA exceeded insured levels by \$626,953.

Note 11: Donated Professional Services and Materials

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

	Program Services	Management and General	Fundraising and Development	Total
Legal Services	\$ 617,227	\$ --	\$ 448	\$ 617,675
Professional services	457,844	27,529	449,627	935,000
Advertising	675,335	--	5,522	680,857
Goods	<u>127,542</u>	<u>363</u>	<u>86,918</u>	<u>214,823</u>
	<u>\$ 1,877,948</u>	<u>\$ 27,892</u>	<u>\$ 542,515</u>	<u>\$ 2,448,355</u>

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Notes to Financial Statements

Note 12: Allocation of Joint Costs

During the fiscal year, PETA incurred joint costs of \$8,966,234 for educational material and activities that included fund-raising appeals. Based on an analysis of the content of these mailings, \$2,853,526 was allocated to membership development and \$6,112,708 was allocated to program expenses. Of the amount allocated to program expenses, \$1,832,683 was allocated to international grassroots campaigns, \$1,707,746 was allocated to public outreach and education, and \$2,572,279 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 July 2029. Future minimum rental payments under the non-cancelable operating leases are:

Year ending July 31,	
2020	\$ 1,308,210
2021	1,308,210
2022	1,091,560
2023	945,171
2024	956,875
Thereafter	<u>3,928,604</u>
	<u>\$ 9,538,630</u>

Rent expense for the year ended July 31, 2019 was \$1,335,458.

Note 14: Cash Flows

Supplemental disclosure of cash flow information

PETA paid \$131,024 of interest during the fiscal year.

Note 15: Legal

From time to time, and in the ordinary course of business, the Company is involved in various legal disputes in which it finds itself as a defendant. Company management is of the opinion that no contingent liability exists as result of any legal dispute.