

**People for the Ethical Treatment of Animals, Inc.
Financial Statements and
Supplementary Information
July 31, 2013**

With Independent Auditors' Report Thereon

People for the Ethical Treatment of Animals, Inc.

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Independent Auditors' Report

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

We have audited the accompanying statements of People for the Ethical Treatment of Animals, Inc. (a non-profit organization) which comprise the statement of financial position as of July 31, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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

Rockville, Maryland
December 2, 2013
except for Note 14, as to
which the date is January 9, 2014

Saggar + Rosenberg, PC

People for the Ethical Treatment of Animals, Inc.
Statement of Financial Position
July 31, 2013

Assets

Current Assets	
Cash	\$ 715,475
Short-term investments	2,311,537
Legacies receivable	400,907
Other receivables	990,427
Inventory	95,949
Prepaid expenses	<u>304,505</u>
Total Current Assets	<u>4,818,800</u>
Property and Equipment, Net	<u>1,729,231</u>
Other Assets	
Investments	9,442,611
Legacies receivable	128,370
Deposits	<u>6,011</u>
Total Other Assets	<u>9,576,992</u>
Total Assets	<u>\$ 16,125,023</u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 1,310,301
Accrued expenses	479,641
Deferred revenue	8,368
Deferred rent	266,250
Annuities payable, current portion	<u>205,982</u>
Total Current Liabilities	<u>2,270,542</u>
Long-term Liabilities	
Annuities payable, net of current portion	<u>1,922,715</u>
Total Liabilities	<u>4,193,257</u>
Net Assets	
Unrestricted	
Designated by Governing Board for legal matters	\$ 1,000,000
Undesignated	<u>3,890,227</u>
Temporarily restricted	3,887,380
Permanently restricted	<u>3,154,159</u>
Total Net Assets	<u>11,931,766</u>
Total Liabilities and Net Assets	<u>\$ 16,125,023</u>

See Auditors' Report and Notes

People for the Ethical Treatment of Animals, Inc
Statement of Activities
For the Year Ended July 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Public Support				
Contributions and donations	\$ 20,982,852	\$ 6,089,898	\$ -	\$ 27,072,750
Legacies and bequests	5,386,554	20,976	-	5,407,530
Special event	720,910	-	-	720,910
Less: direct costs of special event	(212,867)	-	-	(212,867)
Federated and nonfederated campaigns	879,418	-	-	879,418
Total Public Support	<u>27,756,867</u>	<u>6,110,874</u>	<u>-</u>	<u>33,867,741</u>
Other Revenue				
Merchandise sales	474,250	-	-	474,250
Investment and other income	954,205	-	13,392	967,597
Total Other Revenue	<u>1,428,455</u>	<u>-</u>	<u>13,392</u>	<u>1,441,847</u>
Net Assets Released from Restrictions				
Satisfaction of time restrictions	16,055	(16,055)	-	-
Satisfaction of program restrictions	5,227,514	(5,227,514)	-	-
Total Support and Revenue	<u>34,428,891</u>	<u>867,305</u>	<u>13,392</u>	<u>35,309,588</u>
Expenses				
Program Services				
Public Outreach and Education	9,698,326	-	-	9,698,326
International Grassroots Campaigns	7,453,706	-	-	7,453,706
Research, Investigations, and Rescue	11,837,179	-	-	11,837,179
Cruelty-Free Merchandise	710,169	-	-	710,169
Total Program Services	<u>29,699,380</u>	<u>-</u>	<u>-</u>	<u>29,699,380</u>
Supporting Services				
Membership Development	5,225,984	-	-	5,225,984
Management and General	412,217	-	-	412,217
Total Supporting Services	<u>5,638,201</u>	<u>-</u>	<u>-</u>	<u>5,638,201</u>
Total Expenses	<u>35,337,581</u>	<u>-</u>	<u>-</u>	<u>35,337,581</u>
Change in Net Assets	<u>(908,690)</u>	<u>867,305</u>	<u>13,392</u>	<u>(27,993)</u>
Net Assets at Beginning of Year as Previously Reported	5,007,836	3,020,075	3,140,767	11,168,678
Prior Period Adjustment	791,081	-	-	791,081
Net Assets at Beginning of Year as Restated	<u>5,798,917</u>	<u>3,020,075</u>	<u>3,140,767</u>	<u>11,959,759</u>
Net Assets at End of Year	<u>\$ 4,890,227</u>	<u>\$ 3,887,380</u>	<u>\$ 3,154,159</u>	<u>\$ 11,931,766</u>

See Auditors' Report and Notes

People for the Ethical Treatment of Animals, Inc.
Statement of Cash Flows
For the Year Ended July 31, 2013

Cash Flows From Operating Activities:	
Change in net assets	\$ (27,993)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	553,570
Amortized interest	(29,286)
Accrued interest payable	14,452
Non-cash donations	(250,556)
Net realized and unrealized gains and losses	(2,643)
Gain on sale of property and equipment	(1,070)
Change in assets and liabilities:	
Decrease in legacies receivable	259,638
Increase in contributions and other receivables	(163,555)
Increase in inventory	(56,450)
Decrease in prepaid expenses	294
Decrease in deposits	4,095
Decrease in accounts payable and accrued expenses	(526,462)
Decrease in deferred revenue	(1,244)
Decrease in deferred rent	(18,000)
Net Cash Used In Operating Activities	<u>(245,210)</u>
Cash Flows From Investing Activities:	
Reinvestment of matured securities and purchases of investments	(7,501,625)
Maturities and proceeds from sales of investments	9,225,036
Proceeds from sales of property and equipment	21,870
Purchase of property and equipment	<u>(1,584,269)</u>
Net Cash Provided By Investing Activities	<u>161,012</u>
Cash Flows From Financing Activities:	
Proceeds from annuity contracts	43,023
Gain on permanently restricted assets	(13,392)
Principal payments on annuity contracts	<u>(214,341)</u>
Net Cash Used In Financing Activities	<u>(184,710)</u>
Net Decrease in Cash	(268,908)
Cash at Beginning of Year	<u>984,383</u>
Cash at End of Year	<u>\$ 715,475</u>
Supplemental Disclosure of Cash Flow Information:	
Interest paid during the year	<u>\$ 111,350</u>

See Auditors' Report and Notes

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

Note 1: Organization

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

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

- Research, Investigations, and Rescue – PETA receives complaints of cruelty to animals; works for the release of and obtains care for abused, neglected, and at risk animals; investigates cruelty cases; conducts undercover investigations; gathers evidence of law violations; and takes action to ensure the enforcement of laws and regulations in an effort to protect the animals involved. PETA released undercover footage captured inside Southern Quality Meats (SQM), a pig slaughterhouse in Pontotoc, Mississippi that showed a worker jabbing pigs with electric prongs; a whistleblower also saw SQM workers beat down mother pigs on the face and head with chains, drag pigs to the kill floor, and electro-shock and jab injured pigs for up to 30 minutes. PETA contacted the USDA, and since SQM supplies sausage to Mississippi schools, PETA has called on the Mississippi Department of Education to end its contract with SQM. Responding to pressure from PETA, the USDA fined several universities that experiment on animals for violations of the federal Animal Welfare Act, including the University of Texas Medical Branch at Galveston for failing to supply veterinary care to a sheep who had been used in experimental back surgery and could not stand up; a goat who died on an operating table; and three other sheep; and Washington University in St. Louis announced that it will stop abusing cats for intubation training exercises. PETA also got animals replaced with human patient simulators in nonmedical personnel Army training courses, and at the Carolinas Association of Neonatal Nurse Practitioners; persuaded dozens of high schools and universities to stop animal dissections in biology classes, convinced the Washington, D.C., Baltimore, and Connecticut school districts to implement dissection choice policies, and donated virtual dissection software to dozens of schools. As a result of PETA’s efforts and funding of scientific experts, a test that could replace the use of guinea pigs and mice in determining allergic reactions to chemicals is under review for use by the European government; and PETA US and its affiliates launched the PETA International Science Consortium (PISC), an accredited stakeholder in the European Chemicals Agency, which allows PISC scientists access to major decisions involving government-mandated animal testing. PETA was instrumental in pushing the EU and Indian governments to ban animal-tested cosmetics; helped rescue dozens of Beagles destined for painful poisoning tests in an Indian laboratory; convinced the National Institutes of Health (NIH) to cut funding for most current federally funded biomedical experiments on chimpanzees and retire at least 310 of the 360 federally-owned chimpanzees

See Auditors’ Report

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

Note 1: Organization (continued)

currently in laboratories; pressured Harvard to close its controversial and beleaguered New England Primate Research Center; and persuaded Philippines Airlines, Air Canada, United Airlines, and Vietnam Airlines to stop transporting primates to any country for use in experiments; and UPS, DHL, and FedEx, the top three cargo shipping companies, to ban the shipping of any live animals for use in experiments. PETA—along with the Animal Legal Defense Fund, filed a groundbreaking lawsuit in the U.S. District Court of Utah, challenging the state’s “ag-gag” law, which prohibits documenting animal abuse at agricultural operations. The lawsuit is the first to challenge the constitutionality of ag-gag laws, which aim to criminalize the collection of evidence of animal abuse on factory farms, by punishing the whistleblowers and investigators who expose inhumane and illegal conduct on factory farms and at slaughterhouses. After years of pressure by PETA, 11 bears who had been imprisoned in concrete pits at Chief Saunooke bear Park in Cherokee, North Carolina were finally freed. PETA’s investigator had recorded workers admitting that they denied bears food; the bears were in constant confinement in barren concrete pits, where they turned in tight circles, paced endlessly, and sustained painful, broken teeth gnawing at metal cage bars. Following the investigation, the roadside zoo paid a fine and surrendered its exhibitor’s license to settle more than a dozen charges for violations of the Animal Welfare Act. PETA’s investigation of Bunny Magic Wildlife & Rabbit Rescue, Inc., where rabbits with severe infections and abscesses as big as eggs lived in their own filth, resulted in the seizure of more than 200 rabbits as well as the conviction of the operator; and Angel’s Gate, Inc., a scam sanctuary, where investigators found suffering, death, and cruel conditions, was closed by court order after PETA submitted evidence to the New York Attorney General’s Office. As the result of a PETA undercover investigation, nearly 16,000 rats and more than 600 reptiles were seized from Global Captive Breeders, LLC, a filthy California facility where PETA’s investigator documented workers slamming and bludgeoning rats to death; freezing rats alive; and shooting rats with a BB gun. Based on PETA’s evidence, the owner and former manager were arrested on a total of 223 felony cruelty-to-animals charges. Because of PETA’s efforts, a 70 year-old “Turkey Drop” tradition in Yellville, Arkansas , in which live turkeys are thrown out of a plane to their deaths, was stopped for the second year in a row; a Texas couple who made videos showing puppies and kittens being stabbed, choked, crushed with high heels, and more, was tracked down within 48 hours, arrested, and charged with felony animal torture—making them the first people in US history to be indicted by a federal grand jury for creating and distributing crush videos; and Oklahoma hoarders at Cajun Country Animal Rescue Ranch pleaded guilty to cruelty to animals and had 93 animals taken from them, and other individuals around the nation were detained, convicted, and/or stopped in their tracks for abusing animals. PETA’s Community Animal Project—which provides hands-on help to animals in the Hampton Roads, Virginia area—handled more than 2,000 calls for assistance, rescued more than 2,000 animals, built and delivered more than 285

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

Note 1: Organization (continued)

free doghouses and bagged 1,000 bales of straw, providing dry shelter to dogs forced to live outdoors. PETA's Mobile Clinics Division spayed and neutered 10,422 cats and dogs in Southeastern Virginia and Northeastern North Carolina, including 951 feral cats and 712 pit bulls at a discounted rate or free of charge. Total expenses incurred in this program were \$11,837,179.

- Public Outreach and Education – PETA conducts educational campaigns and publishes materials that are distributed to students, teachers, the general public, and supporters. These efforts include materials made available through our programs for younger children, high school and college students, and educators as well as publications such as factsheets, booklets, fliers, posters, and PETA's magazine, Animal Times. Campaigns involve renowned celebrities, extensive media attention, interactive social networking, Web site features and blogs that reach millions of viewers, and public service announcements, which are typically placed for free in high-exposure outlets. In fiscal year 2013, PETA booked more than 4,000 radios, TV, online, and print interviews, had more than 27 million people visit its various websites. Total expenses incurred in this program were \$9,698,326.
- International Grassroots Campaigns – PETA organizes campaigns to inform the public how animals are abused in the food, clothing, experimentation, and entertainment industries, among other places. In 2013, PETA organized more than 900 demonstrations and PETA members and supporters sent over 11.4 million e-mails to urge companies and individuals to make changes that benefit animals. PETA helped score a major victory for seals by urging the General Court of the EU to uphold the EU's ban on seal fur imports. PETA also convinced Wendy's fast food chain to drop foie gras from its menus in Japan and American Airlines to remove the product from its International flight menu offerings; and Simon Property Group to join the growing list of property companies that have banned Pocket Pets—which sells squirrel-like marsupials called sugar gliders. PETA's youth division, peta2, reached more than 123,000 young people at colleges, music festivals, and other events, who signed pledges to make animal-friendly choices. peta2's travelling "Glass Walls" factory farming exhibit visited more than 50 major campuses, reaching and influencing tens of thousands of students. PETA worked on putting New York City's horse drawn carriages out to pasture, with ads, engaging in public discourse, and supporting legislation to phase out the cruel carriages. Ann Taylor, a clothing retailer with more than 900 stores nationwide, banned the use of fur and exotic skins in its product lines, and Stein Mart, a retailer with 264 stores in 29 states banned fur after hearing from PETA. PETA also convinced Kmart and Sears to pull all fur items from their websites. As a result of PETA's down campaign, Woodley's Fine Furniture, Colorado's leading hardwood furniture manufacturer, stated that it "will not buy any products with down going forward," and Sport Authority, stated: "Our private label product is

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

Note 1: Organization (continued)

down free.” PETA also got numerous events, including goldfish giveaways and swallowing contests, a “Pee Wee Rodeo” that included children jumping on goats and tying them down, and donkey basketball games cancelled; convinced The Richards Group, the largest independent ad agency in the nation, to pledge not to use great apes in advertising and sign PETA's Great Ape Humane Pledge after hearing about the abuse and neglect associated with the entertainment industry; urged to convince Great Clips, to pull an ad using chimpanzees; and pursued various avenues so that *Animal Practice*, an NBC sitcom that featured a monkey and other animals, was canceled after only five episodes. Among other things, PETA also succeeded in getting the Millennium Partners Sports Club Management, 2 of the top 5 self-storage companies, and 29 of the top 50 financial institutions to stop using sticky glue traps. Total expenses incurred in this program were \$7,453,706.

- Cruelty-Free Merchandise Program – PETA encourages and facilitates cruelty-free living by providing educational materials and consumer products, such as cosmetics and household cleaners that are not tested on animals, animal care products, message T-shirts, educational videos and books, animal rescue equipment, and campaign materials that are used by concerned people around the world. These items are available online through the PETA Mall and the PETA Catalog. Total expenses incurred in this program were \$710,169.

Note 2: Operating Expenses

Of the total operating expenses incurred for the year, PETA incurred 84.04% for charitable program activities, 14.79% for membership development, and 1.17% for management and general.

Note 3: Summary of Significant Accounting Policies

Basis of Accounting

PETA maintains its records on the accrual basis of accounting.

Investments

Investments in marketable securities are stated at their fair values in the Statement of Financial Position. Purchases and sales of investments are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

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

Note 3: Summary of Significant Accounting Policies (continued)

Property and Equipment

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 major acquisitions or betterments with useful lives greater than one year. Depreciation is calculated using the straight-line method over estimated lives of the assets as follows:

Mobile spay/neuter clinics and other vehicles	5 years
Office furniture and equipment	3-7 years
Software	1-10 years
Buildings and improvements	7-40 years

Inventory

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

Deferred Rent Liability

PETA received rent abatement under the term of its office space lease. Accounting principles generally accepted in the United States of America require that rent expense be straight-lined over the life of the lease. The Organization is amortizing the abatement over the life of the lease. The deferred rent liability as of July 31, 2013 was \$266,250.

Revenue Recognition

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

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Donated assets are recorded at fair market value as of the date of gift. Cruelty-free merchandise sales revenue is recognized upon shipment of goods.

See Auditors' Report

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

Note 3: Summary of Significant Accounting Policies (continued)

Investment Advisory Fees

Investment advisory fees represent fees and commissions paid to agents, advisors, brokers and dealers. PETA did not incur any investment advisory fees during the year.

Functional Allocation of Expenses

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

Estimates

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

Subsequent Events

For the year ended July 31, 2013, the Organization has evaluated subsequent events for potential recognition and disclosure through December 2, 2013, the date of financial statement issuance.

Note 4: Legacies Receivable

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

Legacies receivable consisted of the following at July 31, 2013:

Receivable within one year	\$ 400,907
Receivable in one to five years	<u>161,560</u>
Total legacies receivable	562,467
Less: net present value discount	<u>(33,190)</u>
Net legacies receivable	529,277
Less: current portion	<u>(400,907)</u>
Legacies receivable, net of current portion	<u>\$ 128,370</u>

See Auditors' Report

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

Note 5: Property and Equipment

Property and equipment at July 31, 2013 consisted of the following:

Mobile spay/neuter clinics and other vehicles	\$ 1,035,602
Office furniture and equipment	191,594
Software	1,281,075
Buildings and improvements	199,262
Land	<u>91,170</u>
	2,798,703
Less: accumulated depreciation and amortization	<u>(1,362,375)</u>
Net property and equipment	1,436,328
Property and equipment held for resale	<u>292,903</u>
Total Property and Equipment, net	<u>\$ 1,729,231</u>

Depreciation and amortization expense for the year ended July 31, 2013 was \$553,570.

Note 6: Investments and Fair Value Measurements

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at July 31, 2013.

Money market funds – Valued at cost plus accrued interest.

Certificates of deposit – Valued at amortized cost.

Corporate bonds and equity securities – Valued at the closing price reported on the active markets on which the individual securities are traded.

Mutual funds – Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

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

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

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

See Auditors' Report

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

Note 6: Investments and Fair Value Measurements (continued)

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.

	<u>Investments at Fair Value as of July 31, 2013</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ --	\$ 2,904,509	\$ --	\$ 2,904,509
Corporate bonds	--	5,082,411	--	5,082,411
Equity securities	246,450	--	--	246,450
Money market funds	2,397,813	--	--	2,397,813
Mutual funds	<u>1,122,965</u>	<u>--</u>	<u>--</u>	<u>1,122,965</u>
Total investments,				
at fair value	<u>\$ 3,767,228</u>	<u>\$ 7,986,920</u>	<u>\$ --</u>	<u>\$11,754,148</u>

Realized gains and unrealized losses were approximately \$6,000 and \$3,500, respectively.

Note 7: Outstanding Letters of Credit

At July 31, 2013, PETA had a \$19,343 outstanding letter of credit.

Note 8: Net Assets

Board Designated

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

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

Note 8: Net Assets (continued)

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes:

Campaigns against animal testing, factory farming, and animal cruelty	\$ 3,759,010
For periods after July 31, 2013	<u>128,370</u>
Total temporarily restricted net assets	<u>\$ 3,887,380</u>

Permanently Restricted

Permanently restricted net assets are comprised of four separate endowment funds with a total value of \$3,154,159 as of July 31, 2013. Under terms of the first endowment fund, 20% of the ordinary earnings from investments are permanently restricted while 35% are available for unrestricted use and the remaining 45% are donated to other organizations. Earnings on the second, third and fourth endowment fund are unrestricted.

Interpretation of Relevant Law

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

- (1) The duration and preservation of the fund
- (2) The purposes of PETA and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of PETA
- (7) The investment policies of PETA

See Auditors' Report

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

Note 8: Net Assets (continued)

**Endowment Net Asset Composition by Type of Fund
As of July 31, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ --	--	3,154,159	\$ 3,154,159

**Changes in Endowment Net Assets
for the Fiscal Year Ended July 31, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ --	\$ --	\$ 3,140,767	\$ 3,140,767
Investment return:				
Investment income	--	--	13,392	13,392
Net appreciation (realized/unrealized)	--	--	--	--
Total investment return	--	--	13,392	13,392
Contributions	--	--	--	--
Appropriation of endowment assets for expenditure	--	--	--	--
Endowment net assets, end of year	\$ --	\$ --	\$ 3,154,159	\$ 3,154,159

Return Objectives and Risk Parameters

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

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

Note 9: Defined Contribution Retirement Plan

PETA is a participating employer in a defined contribution plan. To be an eligible participant of the plan, full time employees (working at least 1,000 hours during the plan year) must be 21 years of age and complete one year of service. Employer matching contributions to the plan are at the discretion of the Board of Directors of PETA. Employer contributions for the year ended July 31, 2013 were \$15,912.

Note 10: Related Party Transactions

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

PETA has entered into agreements to lease office space, tangible and intangible assets from the Foundation as more fully described in Note 13. Rental payments to the Foundation during the fiscal year were \$1,073,583. In addition, PETA paid approximately \$10,525,000 to the Foundation for services provided by the Foundation to PETA. During the year, PETA also purchased \$940,192 worth of software from the Foundation in an arm's length transaction.

A PETA director serves on the boards of directors of affiliated animal rights organizations in France, the Asia-Pacific region, India, Netherlands, The United Kingdom, Germany, and Australia to which during the fiscal year PETA donated approximately \$921,000 to assist in their operations.

Note 11: Concentration of Credit Risk

The Dodd-Frank Wall Street Reform and Consumer Protection Act provides insurance coverage on bank accounts up to \$250,000 at all Federal Deposit Insurance Corporation (FDIC) insured institutions. At July 31, 2013, the Organization maintained a cash balance exceeding insured levels in the amount of \$379,956.

Note 12: Allocation of Joint Costs

During the fiscal year, PETA incurred joint costs of \$8,297,661 for educational material and activities that included fund-raising appeals. Based on an analysis of the content of these mailings, \$109,292 was allocated to management and general, \$2,453,567 was allocated to membership development and \$5,734,802 was allocated to program expenses. Of the amount allocated to program expenses, \$1,572,844 was allocated to international grassroots campaigns, \$1,349,967 was allocated to public outreach and education, \$2,781,864 was allocated to research, investigations and rescue and \$30,127 was allocated to merchandise.

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Notes to Financial Statements

Note 13: Operating Leases

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

Year ending July 31,	
2014	\$ 1,102,200
2015	1,120,200
2016	1,120,200
2017	1,130,700
2018	978,950
Thereafter	<u>1,669,500</u>
	<u>\$ 7,121,750</u>

Rent expense for the year ended July 31, 2013 was \$1,115,655.

Note 14: Prior Period Adjustment

A service provider processing donations on behalf of PETA had not fully remitted donations related to receipts prior to August 1, 2012, amounting to \$791,081. The service provider has remitted \$530,360, and is making 8 payments of \$32,590 each to fully tender the unremitted funds.

People for the Ethical Treatment of Animals, Inc.
Schedule of Functional Expenses
For the Year Ended July 31, 2013

	Program Services					Supporting Services			Total Expenses
	Public Outreach and Education	International Grassroots Campaigns	Research, Investigations and Rescue	Cruelty-Free Merchandise	Total	Membership Development	Management and General	Total	
Professional services and consultant:	\$ 3,924,466	\$ 1,616,679	\$ 4,389,537	\$ 192,286	\$ 10,122,968	\$ 1,844,501	\$ 376,754	\$ 2,221,255	\$ 12,344,223
Salaries and related expenses	2,446,115	2,283,820	2,601,349	8,136	7,339,420	11,928	11,659	23,587	7,363,007
Education and promotional costs	1,002,219	1,198,470	1,957,451	4,684	4,162,824	2,565,084	41	2,565,125	6,727,949
General operating expenses	802,056	287,839	1,439,668	32,473	2,562,036	318,023	8,632	326,655	2,888,691
Donations to charitable organizations	200	892,911	635,697	-	1,528,808	-	-	-	1,528,808
Rent and other building expenses	415,588	446,732	339,792	77,632	1,279,744	18,170	5,754	23,924	1,303,668
Media and press support	630,781	247,112	14,000	280	892,173	136,822	384	137,206	1,029,379
Travel and transportation	187,907	254,172	348,598	76	790,753	126,750	7,664	134,414	925,167
Postage	236,885	134,670	32,501	195,609	599,665	201,771	556	202,327	801,992
Telephone and office expenses	52,109	91,301	78,586	4,747	226,743	2,935	773	3,708	230,451
Cost of goods sold	-	-	-	194,246	194,246	-	-	-	194,246
Total expenses	\$ 9,698,326	\$ 7,453,706	\$ 11,837,179	\$ 710,169	\$ 29,699,380	\$ 5,225,984	\$ 412,217	\$ 5,638,201	\$ 35,337,581
Percent of total expenses	27.44%	21.09%	33.50%	2.01%	84.04%	14.79%	1.17%	15.96%	100.00%

See Auditors' Report and Notes