

PET PARTNERS AND SUBSIDIARY

Consolidated Financial Statements

For the Year Ended December 31, 2017

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Independent Auditor's Report

**To the Board of Directors
Pet Partners and Subsidiary
Bellevue, Washington**

We have audited the accompanying consolidated financial statements of Pet Partners and Subsidiary, a nonprofit corporation, which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pet Partners and Subsidiary as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Prior Year Summarized Comparative Information

We have previously audited Pet Partners and Subsidiary's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 15, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information included in the consolidated statement of financial position and consolidated statement of activities 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 relating to the consolidated financial statements as a whole.

Certified Public Accountants
March 27, 2018

PET PARTNERS AND SUBSIDIARY

Consolidated Statement of Financial Position with Consolidating Information

December 31, 2017

(With Comparative Totals for December 31, 2016)

	Pet Partners	PPB LLC	Eliminations	2017 Total	2016 Total
Current Assets:					
Cash and cash equivalents	\$ 169,310	\$ 23,365	\$ -	\$ 192,675	\$ 399,267
Accounts receivable	5,491	888		6,379	19,010
Contributions receivable, net	255,332			255,332	154,444
Inventory	29,959			29,959	21,875
Prepaid expenses	69,967	3,115		73,082	63,953
Deferred rent		1,696		1,696	70,085
Total Current Assets	530,059	29,064		559,123	728,634
Long-term portion of contributions receivable					90,000
Investments	4,584,690			4,584,690	2,929,667
Investment in PPB LLC	3,338,407		(3,338,407)		
Property, equipment and software	401,677	3,326,675		3,728,352	3,352,546
Total Assets	\$ 8,854,833	\$ 3,355,739	\$ (3,338,407)	\$ 8,872,165	\$ 7,100,847
Current Liabilities:					
Accounts payable and accrued liabilities	\$ 106,030	\$ 17,332	\$ -	\$ 123,362	\$ 148,780
Deferred revenue	294,035			294,035	306,641
Total Current Liabilities	400,065	17,332		417,397	455,421
Net Assets:					
Unrestricted- Designated					726,651
Undesignated	5,836,575	3,338,407	(3,338,407)	5,836,575	3,507,931
Total Unrestricted Net Assets	5,836,575	3,338,407	(3,338,407)	5,836,575	4,234,582
Temporarily restricted	1,341,559			1,341,559	1,274,151
Permanently restricted	1,276,634			1,276,634	1,136,693
Total Net Assets	8,454,768	3,338,407	(3,338,407)	8,454,768	6,645,426
Total Liabilities and Net Assets	\$ 8,854,833	\$ 3,355,739	\$ (3,338,407)	\$ 8,872,165	\$ 7,100,847

See accompanying notes.

PET PARTNERS AND SUBSIDIARY

Consolidated Statement of Activities with Consolidating Information
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	Pet Partners			Total	PPB LLC	Eliminations	2017 Total	2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted					
Operating								
Support and Revenue:								
Individual contributions Corporation and foundation contributions	\$ 518,400	\$ 2,850	\$ -	\$ 521,250	\$ -	\$ -	\$ 521,250	\$ 499,128
In-kind contributions	651,329	257,080		908,409			908,409	531,146
Registrations and workshops	366,204			366,204			366,204	10,470
Merchandise sales	591,889			591,889			591,889	520,921
Investment income	80,734			80,734			80,734	108,083
Other income	26,719	24,750	14,918	66,387			66,387	69,411
Net assets released from restrictions-	18,751			18,751			18,751	22,368
Expiration of program restrictions	306,609	(306,609)						
Expiration of time restrictions	122,600	(122,600)						
Total Support and Revenue	2,683,235	(144,529)	14,918	2,553,624			2,553,624	1,761,527
Expenses:								
Program services	2,604,791			2,604,791			2,604,791	1,886,670
Management and general	382,231			382,231			382,231	433,819
Fundraising	489,065			489,065			489,065	513,794
Total Operating Expenses	3,476,087			3,476,087			3,476,087	2,834,283
Change in Net Assets From Operations	(792,852)	(144,529)	14,918	(922,463)			(922,463)	(1,072,756)

See accompanying notes.

PET PARTNERS AND SUBSIDIARY

Consolidated Statement of Activities (Continued)
 For the Year Ended December 31, 2017
 (With Comparative Totals for 2016)

	Pet Partners			Total	PPB LLC	Eliminations	2017 Total	2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted					
Nonoperating Activities								
Gain on investment in LLC	2,361,420			2,361,420		(2,361,420)		
Investment (losses) gains	32,425	211,937	125,023	369,385			369,385	215,417
Building rental income					163,771		163,771	178,318
Other income	1,000			1,000			1,000	
Gain on the sale of property					2,472,333		2,472,333	424
Distributions of capital to Pet Partners, net					(1,899,749)	1,899,749		
LLC expenses-								
Operating expenses					(188,538)		(188,538)	(112,926)
Depreciation					(86,146)		(86,146)	(89,811)
Change in Net Assets From Nonoperating Activities	2,394,845	211,937	125,023	2,731,805	461,671	(461,671)	2,731,805	191,422
Change in Net Assets	1,601,993	67,408	139,941	1,809,342	461,671	(461,671)	1,809,342	(881,334)
Net assets, beginning of year	4,234,582	1,274,151	1,136,693	6,645,426	2,876,736	(2,876,736)	6,645,426	7,526,760
Net Assets, End of Year	\$ 5,836,575	\$ 1,341,559	\$ 1,276,634	\$ 8,454,768	\$ 3,338,407	\$ (3,338,407)	\$ 8,454,768	\$ 6,645,426

See accompanying notes.

PET PARTNERS AND SUBSIDIARY

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	Supporting Services				2017 Total	2016 Total	
	Program Services	Management and General	Fundraising	Third Party Tenancy			Total Supporting
Personnel costs	\$ 1,298,369	\$ 211,032	\$ 127,276	\$ -	\$ 338,308	\$ 1,636,677	\$ 1,583,574
Professional and contract services	436,526	71,580	225,179		296,759	733,285	617,498
Public relations	369,912	468	444		912	370,824	6,631
Printing and publishing	55,948	39,103	63,763		102,866	158,814	140,931
Depreciation and amortization	113,071	20,609	12,706		33,315	146,386	136,820
Miscellaneous	107,206	2,896	22,207		25,103	132,309	63,197
Meetings and conferences	87,916	8,543	5,402		13,945	101,861	71,079
Postage and mailing	51,963	17,419	25,386		42,805	94,768	87,731
Cost of sales	33,107					33,107	36,245
Insurance	22,389	3,776	2,329		6,105	28,494	27,007
Telephone	14,296	3,056	2,316		5,372	19,668	22,105
Office supplies	7,799	2,603	1,350		3,953	11,752	33,260
Equipment rental and maintenance	6,289	1,146	707		1,853	8,142	8,205
Total Expenses Before LLC Depreciation and LLC Operating Expenses	2,604,791	382,231	489,065		871,296	3,476,087	2,834,283
LLC operating expenses	76,092	13,869	8,550	90,027	112,446	188,538	112,926
LLC depreciation	34,881	6,357	3,920	40,988	51,265	86,146	89,811
Total Expenses	\$ 2,715,764	\$ 402,457	\$ 501,535	\$ 131,015	\$ 1,035,007	\$ 3,750,771	\$ 3,037,020

See accompanying notes.

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Consolidated Statement of Cash Flows
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
Reconciliation of Change in Net Assets to		
Cash Flows From Operating Activities:		
Change in net assets	\$ 1,809,342	\$ (881,334)
Adjustments to reconcile change in net assets to net cash used by operating activities-		
Depreciation and amortization	232,532	226,631
Reinvested investment income	(51,469)	(50,678)
Gain on investments	(369,385)	(215,417)
Gain on sale of capital assets	(2,778,718)	
Changes in assets and liabilities:		
Accounts receivable	12,631	12,162
Contributions receivable	(10,888)	90,708
Prepaid expenses and deposits	(9,129)	(5,568)
Inventory	(8,084)	2,049
Deferred rent	68,389	(37,574)
Accounts payable and accrued liabilities	(25,418)	39,027
Deferred revenue	(12,606)	30,180
Net Cash Used by Operating Activities	(1,142,803)	(789,814)
Cash Flows From Investing Activities:		
Proceeds from the sale of investments	1,032,154	864,850
Purchase of investments	(2,251,405)	
Proceeds from sale of capital assets	5,557,436	
Purchase of capital assets	(3,387,056)	(32,965)
Net Cash Provided by Investing Activities	951,129	831,885
Cash Flows From Financing Activities:		
Investment earnings restricted to endowment	(14,918)	(14,660)
Net Cash Used by Financing Activities	(14,918)	(14,660)
Changes in Cash and Cash Equivalents	(206,592)	27,411
Cash and cash equivalents, beginning of year	399,267	371,856
Cash and Cash Equivalents, End of Year	\$ 192,675	\$ 399,267

See accompanying notes.

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Notes to Consolidated Financial Statements For the Year Ended December 31, 2017

Note 1 - Organization and Summary of Significant Accounting Policies

Organization - Pet Partners (formerly Delta Society) is a not-for-profit corporation whose mission is to help lead the world in positive human-animal interactions to improve people's physical, psychological and emotional health. Pet Partners' largest program is its Therapy Animal Program. This program trains and screens people, along with their pets, for visiting-animal programs in hospitals, nursing homes, rehabilitation centers, schools and other facilities.

In April 2004, Pet Partners incorporated 875 Building LLC, a wholly-owned for-profit subsidiary. In 2008, the Internal Revenue Service approved the 875 Building LLC's request to be classified as a nonprofit title holding company. The 875 Building LLC's purpose was to own Pet Partners' International Training Center and Headquarters building (Building) in Bellevue, Washington. In September 2017, Pet Partners sold its Headquarters building, and purchased a smaller building, located in Bellevue, Washington. In December 2017, Pet Partners formed a new single member LLC, named PPB LLC (the LLC). 875 Building LLC was then merged into PPB LLC.

Pet Partners was originally incorporated in 1981 under the name Delta Society and changed its name in March 2013.

Basis of Accounting - The consolidated financial statements of Pet Partners and the LLC (collectively referred to as Pet Partners) are presented on the accrual basis of accounting. The presentation of financial information for the LLC has been conformed with the basis of presentation for Pet Partners. All appropriate transactions have been eliminated as a result of the consolidation.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Pet Partners and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions. Included in unrestricted net assets at December 31, 2016 are board designated net assets \$726,651. There were no board designated net assets at December 31, 2017.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that will be met either by actions of Pet Partners or the passage of time.

Temporarily restricted net assets consisted of the following as of December 31:

	2017	2016
Time restricted endowment earnings	\$ 1,087,376	\$ 850,689
Time restricted contributions	188,900	199,500
Purpose restricted contributions	65,283	223,962
	<u>\$ 1,341,559</u>	<u>\$ 1,274,151</u>

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions requiring that they be maintained permanently by Pet Partners. The donors of these assets permit Pet Partners to use portions of the income earned on related investments for unrestricted purposes. Pet Partners has permanently restricted net assets of \$1,276,634 and \$1,136,693 at December 31, 2017 and 2016, respectively.

PET PARTNERS AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2017

Note 1 - Continued

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reported in the consolidated statement of activities as net assets released from restrictions.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes - The Internal Revenue Service has recognized Pet Partners as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The LLC is disregarded for tax purposes.

Comparative Amounts for 2016 - For comparative purposes, the consolidated financial statements include certain prior-year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Pet Partners' financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Reclassifications - Certain reclassifications have been made to prior year amounts presented in financial statements to conform with current year presentation. There has been no impact to changes in net assets or total net assets as a result of these reclassifications.

Cash and Cash Equivalents - Cash and cash equivalents consist of highly liquid investments with an original maturity of three months or less. Pet Partners maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. Pet Partners has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Investments - Investments are reported at their fair values in the statement of financial position. Market risk could occur and is dependent on the future changes in market prices of the various investments held.

Accounts Receivable - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Contributions Receivable - Contributions receivable are recorded in the consolidated financial statements when Pet Partners is notified of the unconditional promise to give. If material, amounts to be received over future periods are valued at the estimated present value of the future cash flows using a discount rate that market participants would expect on similar assets.

PET PARTNERS AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2017

Note 1 - Continued

Contributions receivable at December 31 are as follows:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 256,432	\$ 155,544
Less allowance for uncollectible pledges	<u>(1,100)</u>	<u>(1,100)</u>
Contributions receivable, current	255,332	154,444
Receivable in one to five years	<u> </u>	<u>90,000</u>
Total Contributions Receivable	<u>\$ 255,332</u>	<u>\$ 244,444</u>

Inventory - Inventory consists primarily of books, animal wearables and other merchandise and is recorded at lower of cost (FIFO method) or market.

Property, Equipment and Software - Pet Partners capitalized assets with a cost or donated value greater than \$1,000 and a useful life greater than one year. Depreciation is computed using the straight-line method over estimated useful lives.

Property and equipment consist of the following at December 31:

	<u>Useful Life</u>	<u>2017</u>	<u>2016</u>
Building	30 years	\$ 2,177,091	\$ 2,887,320
Furniture, equipment and software	3 - 5 years	<u>989,670</u>	<u>1,101,078</u>
		3,166,761	3,988,398
Accumulated depreciation		<u>(611,710)</u>	<u>(2,117,466)</u>
		2,555,051	1,870,932
Land		<u>1,173,301</u>	<u>1,481,614</u>
		<u>\$ 3,728,352</u>	<u>\$ 3,352,546</u>

Deferred Revenue - Income from registrations and workshop fees is deferred and recognized over the period to which it relates.

Contributions - Contributions, which include unconditional promises to give (pledges), are recognized as support and revenue in the period received.

In-Kind Goods and Services - Contributed materials have been recorded on the basis of rates that otherwise would have been paid for similar goods. Donated services are recorded as in-kind contributions and are recognized as revenue at estimated values at the date of receipt if they (a) create or enhance nonfinancial assets, or (b) require specialized skills and would need to be purchased if not provided by donation. Corresponding expenses are recognized as the assets and services are utilized.

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Notes to Consolidated Financial Statements For the Year Ended December 31, 2017

Note 1 - Continued

For the years ended December 31, in-kind contributions consisted of the following:

	<u>2017</u>	<u>2016</u>
Advertising	\$ 361,428	\$ -
Professional fees, travel expenses and other	<u>4,776</u>	<u>10,470</u>
	<u><u>\$ 366,204</u></u>	<u><u>\$ 10,470</u></u>

Contributed advertising of \$361,428 has been included in unrestricted contributions and program service expense for the year ended December 31, 2017. Management believes that this allocation is appropriate given the nature of the advertising to help legitimize the role of animal-assisted therapies.

A substantial number of volunteers have made significant contributions of time to Pet Partners' program services. The value of this contributed time does not meet the criteria for recognition of contributed services and, accordingly, is not reflected in the accompanying consolidated financial statements.

Functional Allocation of Expenses - The costs of providing the various program services have been summarized on a functional basis in the consolidated statements of activities and of functional expenses. Accordingly, certain costs have been allocated among program services, management and general and fundraising on the basis of benefits received.

Much of Pet Partners' program services are performed by volunteers whose contributed time do not meet the criteria for recognition of contributed services. Therefore, the proportion of management and general, and fundraising expenses may be higher than for other nonprofit organizations that operate with more paid program staff.

Subsequent Events - Management has evaluated events occurring subsequent through March 27, 2018, the date on which the financial statements were available to be issued.

Note 2 - Fair Value Measurements

Fair Value Measurements - In accordance with U.S GAAP, a three-tiered hierarchy of input levels is used for measuring fair value. U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

Level 1 - Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2 - Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

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Notes to Consolidated Financial Statements For the Year Ended December 31, 2017

Note 2 - Continued

Level 3 - Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Fair value of assets measured on a recurring basis are:

	Investments at Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Equity securities	\$ 2,373,919	\$ -	\$ -	\$ 2,373,919
Bond funds	2,210,771			2,210,771
Total Assets at Fair Value	\$ 4,584,690	\$ -	\$ -	\$ 4,584,690

	Investments at Fair Value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Equity securities	\$ 2,109,078	\$ -	\$ -	\$ 2,109,078
Bond funds	820,589			820,589
Total Assets at Fair Value	\$ 2,929,667	\$ -	\$ -	\$ 2,929,667

Note 3 - Endowment Funds

Pet Partners' endowment consisted of one fund established primarily by two donors for the preservation of Pet Partners' mission. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of Directors of Pet Partners has reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, having reviewed its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, 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 determination, Pet Partners classifies as permanently restricted net assets the original value of gifts to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. 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 Pet Partners in a manner consistent with the standard of prudence prescribed by PMIFA.

In accordance with PMIFA, Pet Partners considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of Pet Partners and the donor-restricted endowment fund;

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Notes to Consolidated Financial Statements For the Year Ended December 31, 2017

Note 3 - Continued

- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of Pet Partners; and
- The investment policies of Pet Partners.

Return Objectives and Risk Parameters - Pet Partners 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 Pet Partners must hold in perpetuity.

Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that match the price and yield results of the Russell 3000 Index and Barclays U.S. Aggregate Fixed Income Index, according to the weighted average asset allocation in effect during a year and while assuming a moderate level of risk. Pet Partners expects its endowment funds, over time, to provide an average rate of return of approximately 8 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, Pet Partners relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Pet Partners targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objective Relates to Spending Policy - Pet Partners has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, Pet Partners considered the long-term expected return on its endowment. Accordingly, over the long term, Pet Partners expects the current spending policy to allow its endowment to grow at an average of 3 percent annually. This is consistent with Pet Partners' objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Endowment net assets by fund type and change in endowment net assets as of and for the year ended December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment net assets, December 31, 2016	\$ -	\$ 850,689	\$ 1,136,693	\$ 1,987,382
Investment return-				
Investment income		24,750	14,918	39,668
Net gains		211,937	125,023	336,960
Donor-Restricted Endowment Net Assets, December 31, 2017	\$ -	\$ 1,087,376	\$ 1,276,634	\$ 2,364,010

PET PARTNERS AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended December 31, 2017**

Note 3 - Continued

Endowment net assets by fund type and change in endowment net assets as of and for the year ended December 31, 2016 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment net assets, December 31, 2015	\$ -	\$ 822,406	\$ 1,062,424	\$ 1,884,830
Investment return-				
Investment income		24,779	14,660	39,439
Net gains		101,079	59,609	160,688
Spend/transfer		<u>(97,575)</u>		<u>(97,575)</u>
Donor-Restricted Endowment Net Assets, December 31, 2016	<u>\$ -</u>	<u>\$ 850,689</u>	<u>\$ 1,136,693</u>	<u>\$ 1,987,382</u>

Note 4 - Line of Credit

Pet Partners has a \$250,000 revolving line of credit with a bank, which bears interest at prime rate plus 1/2% and expires August 2018. Collateral of this line of credit is comprised of property and assets as determined by the bank at the time the line of credit is used. There were no advances at December 31, 2017 or 2016.

Note 5 - Tenant Lease

Minimum rental payments to be received each year from third-party tenants in the Building are as follows:

For the Year Ending December 31,

2018	\$ 137,079
2019	89,071
2020	81,314
2021	<u>9,144</u>
	<u>\$ 316,608</u>

Note 6 - Retirement Plan

Pet Partners maintains a tax-sheltered annuity retirement plan under Internal Revenue Code Section 403(b) which covers substantially all employees. Pet Partners contributes 8% of an employee's base salary. Total employer contributions for the years ended December 31, 2017 and 2016 amounted to \$88,120 and \$75,475, respectively.