

PET PARTNERS AND SUBSIDIARY

Consolidated Financial Statements

For the Year Ended December 31, 2018

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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 (collectively, Pet Partners), a nonprofit corporation, which comprise the consolidated statement of financial position as of December 31, 2018, 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 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 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.



T: 425-454-4919
T: 800-504-8747
F: 425-454-4620

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pet Partners as of December 31, 2018, 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.

Effect of Adopting New Accounting Standard

As discussed in Note 1, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

Report on Prior Year Summarized Comparative Information

We have previously audited Pet Partners' 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 5, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, 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 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.

Clark Nuber P.S.

Certified Public Accountants
March 20, 2019

PET PARTNERS AND SUBSIDIARY

Consolidated Statement of Financial Position With Consolidating Information
December 31, 2018
(With Comparative Totals for December 31, 2017)

	Pet Partners	PPB LLC	Eliminations	2018 Total	2017 Total
Current Assets:					
Cash and cash equivalents	\$ 372,142	\$ 37,617	\$ -	\$ 409,759	\$ 192,675
Bequest receivable	13,684,308			13,684,308	
Contributions receivable, net	153,920			153,920	255,332
Accounts receivable	984			984	6,379
Inventory	25,818			25,818	29,959
Prepaid expenses	128,721	3,373		132,094	73,082
Deferred rent		5,541		5,541	1,696
Total Current Assets	14,365,893	46,531		14,412,424	559,123
Investments	3,815,142			3,815,142	4,584,690
Investment in PPB LLC	3,284,317		(3,284,317)		
Property, equipment and software	461,552	3,252,592		3,714,144	3,728,352
Total Assets	\$ 21,926,904	\$ 3,299,123	\$ (3,284,317)	\$ 21,941,710	\$ 8,872,165
Current Liabilities:					
Accounts payable and accrued liabilities	\$ 237,034	\$ 14,806	\$ -	\$ 251,840	\$ 123,362
Deferred revenue	283,566			283,566	294,035
Total Current Liabilities	520,600	14,806		535,406	417,397
Net Assets:					
Without donor restrictions	19,100,654	3,284,317	(3,284,317)	19,100,654	5,836,575
With donor restrictions-					
Other donor-restricted funds	254,750			254,750	254,183
Endowment funds	2,050,900			2,050,900	2,364,010
Total net assets with donor restrictions	2,305,650			2,305,650	2,618,193
Total Net Assets	21,406,304	3,284,317	(3,284,317)	21,406,304	8,454,768
Total Liabilities and Net Assets	\$ 21,926,904	\$ 3,299,123	\$ (3,284,317)	\$ 21,941,710	\$ 8,872,165

See accompanying notes.

PET PARTNERS AND SUBSIDIARY

**Consolidated Statement of Activities With Consolidating Information
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)**

	Pet Partners		Total	PPB LLC	Eliminations	2018 Total	2017 Total
	Without Donor Restrictions	With Donor Restrictions					
Operating							
Support and Revenue:							
Individual contributions	\$ 494,745	\$ 124,186	\$ 618,931	\$ -	\$ -	\$ 618,931	\$ 521,250
Bequests	14,395,337		14,395,337			14,395,337	179,737
Corporation and foundation contributions	481,430	292,550	773,980			773,980	728,672
In-kind contributions	135,771		135,771			135,771	366,204
Registrations and workshops	555,025		555,025			555,025	591,889
Merchandise sales	60,553		60,553			60,553	80,734
Investment income	53,541	43,280	96,821			96,821	66,387
Other income	14,695		14,695			14,695	18,751
Net assets released from restrictions-							
Expiration of program restrictions	462,687	(462,687)					
Expiration of time restrictions	150,000	(150,000)					
Total Support and Revenue	16,803,784	(152,671)	16,651,113			16,651,113	2,553,624
Expenses:							
Program services	2,512,476		2,512,476			2,512,476	2,604,791
Management and general	349,072		349,072			349,072	382,231
Fundraising	583,906		583,906			583,906	489,065
Total Operating Expenses	3,445,454		3,445,454			3,445,454	3,476,087
Change in Net Assets From Operations	13,358,330	(152,671)	13,205,659			13,205,659	(922,463)

See accompanying notes.

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Consolidated Statement of Activities With Consolidating Information (Continued)
 For the Year Ended December 31, 2018
 (With Comparative Totals for 2017)

	Pet Partners		Total	PPB LLC	Eliminations	2018 Total	2017 Total
	Without Donor Restrictions	With Donor Restrictions					
Nonoperating Activities							
Loss on investment in LLC	(54,090)		(54,090)		54,090		
Investment (losses) gains	(42,033)	(159,872)	(201,905)			(201,905)	369,385
Building rental income				141,411		141,411	163,771
Other income	1,872		1,872			1,872	1,000
Gain on the sale of property							2,472,333
LLC expenses-							
Operating expenses				(117,516)		(117,516)	(188,538)
Depreciation				(77,985)		(77,985)	(86,146)
Change in Net Assets From Nonoperating Activities	(94,251)	(159,872)	(254,123)	(54,090)	54,090	(254,123)	2,731,805
Change in Net Assets	13,264,079	(312,543)	12,951,536	(54,090)	54,090	12,951,536	1,809,342
Net assets, beginning of year	5,836,575	2,618,193	8,454,768	3,338,407	(3,338,407)	8,454,768	6,645,426
Net Assets, End of Year	\$ 19,100,654	\$ 2,305,650	\$ 21,406,304	\$ 3,284,317	\$ (3,284,317)	\$ 21,406,304	\$ 8,454,768

See accompanying notes.

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**Consolidated Statement of Cash Flows
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)**

	<u>2018</u>	<u>2017</u>
Reconciliation of Change in Net Assets to		
Cash Flows From Operating Activities:		
Change in net assets	\$ 12,951,536	\$ 1,809,342
Adjustments to reconcile change in net assets to net cash used by operating activities-		
Depreciation and amortization	246,204	232,532
Reinvested investment income	(80,951)	(51,469)
Loss (gain) on investments	201,905	(369,385)
Gain on sale of capital assets		(2,778,718)
Changes in assets and liabilities:		
Bequest receivable	(13,684,308)	
Contributions receivable	101,412	(10,888)
Accounts receivable	5,395	12,631
Inventory	4,141	(8,084)
Prepaid expenses	(59,012)	(9,129)
Deferred rent	(3,845)	68,389
Accounts payable and accrued liabilities	128,478	(25,418)
Deferred revenue	(10,469)	(12,606)
Net Cash Used by Operating Activities	(199,514)	(1,142,803)
Cash Flows From Investing Activities:		
Proceeds from the sale of investments	664,464	1,032,154
Purchase of investments		(2,251,405)
Proceeds from sale of capital assets		5,557,436
Purchase of capital assets	(231,996)	(3,387,056)
Net Cash Provided by Investing Activities	432,468	951,129
Cash Flows From Financing Activities:		
Investment earnings restricted to endowment	(15,870)	(14,918)
Net Cash Used by Financing Activities	(15,870)	(14,918)
Changes in Cash and Cash Equivalents	217,084	(206,592)
Cash and cash equivalents, beginning of year	192,675	399,267
Cash and Cash Equivalents, End of Year	\$ 409,759	\$ 192,675

See accompanying notes.

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**Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)**

	Program Services	Supporting Services			Total Supporting	2018 Total	2017 Total
		Management and General	Fundraising	Third Party Tenancy			
Personnel costs	\$ 1,581,109	\$ 184,647	\$ 176,673	\$ -	\$ 361,320	\$ 1,942,429	\$ 1,636,677
Professional and contract services	453,843	61,013	216,002		277,015	730,858	733,285
Printing and publishing	56,183	42,409	110,996		153,405	209,588	158,814
Depreciation and amortization	132,413	18,103	17,703		35,806	168,219	146,386
Postage and mailing	68,296	19,958	30,017		49,975	118,271	94,768
Meetings and conferences	95,944	9,475	3,860		13,335	109,279	101,861
Miscellaneous	36,940	3,801	23,761		27,562	64,502	132,309
Insurance	27,136	3,448	1,728		5,176	32,312	28,494
Cost of sales	24,112					24,112	33,107
Telephone	11,866	1,218	1,253		2,471	14,337	19,668
Office supplies	6,511	4,116	688		4,804	11,315	11,752
Public relations	11,657		361		361	12,018	370,824
Equipment rental and maintenance	6,466	884	864		1,748	8,214	8,142
Total Expenses Before LLC Depreciation and LLC Operating Expenses	2,512,476	349,072	583,906		932,978	3,445,454	3,476,087
LLC operating expenses	43,476	5,944	5,813	62,283	74,040	117,516	188,538
LLC depreciation	28,851	3,944	3,857	41,333	49,134	77,985	86,146
Total Expenses	\$ 2,584,803	\$ 358,960	\$ 593,576	\$ 103,616	\$ 1,056,152	\$ 3,640,955	\$ 3,750,771

See accompanying notes.

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Notes to Consolidated Financial Statements For the Year Ended December 31, 2018

Note 1 - Organization and Summary of Significant Accounting Policies

Organization - Pet Partners 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.

Basis of Accounting - The financial statements of Pet Partners and the LLC (collectively referred to as Pet Partners) are presented on the accrual basis of accounting. All appropriate transactions have been eliminated.

Net assets and revenues, 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:

Net Assets Without Donor Restriction - Net assets that are not subject to or are no longer subject to donor-imposed restrictions.

Net Assets With Donor Restriction - Net assets whose use is limited by donor-imposed time and or purpose restrictions.

Donor-restricted support is reported as an increase in net assets with donor restriction, depending on the nature of the restriction. Expiration of donor restrictions on the net assets (i.e., the donor-stipulated purpose had been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

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 2017 - For comparative purposes, the 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Pet Partners' financial statements for the year ended December 31, 2017, from which the summarized information was derived.

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Notes to Consolidated Financial Statements For the Year Ended December 31, 2018

Note 1 - Continued

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 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.

Contributions receivable at December 31 are as follows:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 155,020	\$ 256,432
Less allowance for uncollectible pledges	<u>(1,100)</u>	<u>(1,100)</u>
Total Contributions Receivable	<u>\$ 153,920</u>	<u>\$ 255,332</u>

Bequests Receivable - Pet Partners was named the beneficiary of one and two trusts, during the years ended December 31, 2018 and 2017, respectively. During the year ended December 31, 2018, Pet Partners recognized revenue of \$14,395,337 which represented 86% of total operating support and revenue.

Bequests receivable at December 31 are as follows:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 13,684,308	\$ -
Total Bequest Receivable	<u>\$ 13,684,308</u>	<u>\$ -</u>

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Notes to Consolidated Financial Statements For the Year Ended December 31, 2018

Note 1 - Continued

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, equipment, and software consist of the following at December 31:

	Useful Life	2018	2017
Building	30 years	\$ 2,180,995	\$ 2,177,091
Furniture, equipment and software	3 - 5 years	1,217,762	989,670
		3,398,757	3,166,761
Accumulated depreciation		(857,914)	(611,710)
		2,540,843	2,555,051
Land		1,173,301	1,173,301
		<u>\$ 3,714,144</u>	<u>\$ 3,728,352</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.

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

	2018	2017
Advertising	\$ -	\$ 361,428
Professional fees, travel expenses and other	525	4,776
Donated goods	135,246	
	<u>\$ 135,771</u>	<u>\$ 366,204</u>

PET PARTNERS AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2018

Note 1 - Continued

During the year ended December 31, 2018, Pet Partners received donated goods totaling \$135,246. These goods included donated dog treat holiday gift boxes valued at \$132,840, to be distributed to Pet Partner's handlers. Donated goods also included postage stamps valued at \$2,406 as part of a bequest. Pet Partners also received an in-kind donation of facility space value at \$75, as well as a donation of professional photography services valued at \$450.

For the year ended December 31, 2017, contributed advertising of \$361,428 has been included in contributions without donor restrictions and program service expense. 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 financial statements.

Functional Allocation of Expenses - The financial statements report certain categories of expenses that are attributable to programs and to supporting services of Pet Partners. Those expenses include personnel costs, depreciation, information technology, and office expenses. Personnel costs, depreciation and office expenses are allocated based on one-week long time studies that are done by all employees twice a year. Information technology is allocated based on a study of the specific technology being utilized. Variable direct mail expenses of printing, postage and professional fees are allocated based on a line count of all appeals.

New Accounting Pronouncement - During the year ended December 31, 2018, Pet Partners implemented the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14) required for fiscal years ending 2018. This update addresses 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 between not-for-profit entities. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amount previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amount previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added (Note 8).

Subsequent Events - Management has evaluated events occurring subsequent through March 20, 2019, the date on which the financial statements were available to be issue.

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.

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**Notes to Consolidated Financial Statements
For the Year Ended December 31, 2018**

Note 2 - Continued

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.

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, 2018			
	Level 1	Level 2	Level 3	Total
Equity securities	\$ 2,155,070	\$ -	\$ -	\$ 2,155,070
Bond funds	1,660,072			1,660,072
Total Assets at Fair Value	\$ 3,815,142	\$ -	\$ -	\$ 3,815,142

	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

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Notes to Consolidated Financial Statements For the Year Ended December 31, 2018

Note 3 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted as follows at December 31:

	<u>2018</u>	<u>2017</u>
Subject to the passage of time or expenditure for specified purpose	\$ 254,750	\$ 254,183
Endowment fund-		
Original gifts and required retained earnings (corpus)	1,260,764	1,276,634
Unappropriated endowment earnings	<u>790,136</u>	<u>1,087,376</u>
Total endowment fund	<u>2,050,900</u>	<u>2,364,010</u>
Total Net Assets With Donor Restrictions	<u>\$ 2,305,650</u>	<u>\$ 2,618,193</u>

Note 4 - 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 with donor restriction 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. Any accumulated earnings on the permanent endowment are classified as with donor restriction net assets until, and if available, amounts are appropriated for expenditure by Pet Partners in a manner consistent with the standard of prudence prescribed by PMIFA. Pet Partners has interpreted PMIFA to permit spending from deficient funds in accordance with the prudent measures required under the law.

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;
- 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.

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Notes to Consolidated Financial Statements For the Year Ended December 31, 2018

Note 4 - Continued

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, 2018 were as follows:

	<u>Endowment Corpus</u>	<u>Accumulated Earnings</u>	<u>Total</u>
Endowment net assets, December 31, 2017	\$ 1,276,634	\$ 1,087,376	\$ 2,364,010
Investment return-			
Investment income	16,100	27,180	43,280
Net losses	(59,472)	(100,400)	(159,872)
Appropriations and transfers	<u>27,502</u>	<u>(224,020)</u>	<u>(196,518)</u>
Endowment Net Assets, December 31, 2018	<u>\$ 1,260,764</u>	<u>\$ 790,136</u>	<u>\$ 2,050,900</u>

PET PARTNERS AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2018

Note 4 - Continued

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

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

Note 5 - Line of Credit

During the year ended December 31, 2017 Pet Partners had a \$250,000 revolving line of credit with a bank, which bears interest at prime rate plus 1/2%. Collateral of this line of credit 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, 2018. The line was not renewed during 2018.

Note 6 - 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,

2019	\$ 148,417
2020	97,585
2021	<u>48,607</u>
	<u>\$ 294,609</u>

Note 7 - 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, 2018 and 2017 amounted to \$95,773 and \$88,120, respectively.

Note 8 - Liquidity and Availability of Financial Assets

Liquidity - As part of Pet Partners' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Pet Partners invests cash in excess of daily requirements in short-term investments.

PET PARTNERS AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended December 31, 2018**

Note 8 - Continued

At a time when interest in animal-assisted interventions is rapidly growing, Pet Partners is exceptionally well positioned to grow our leadership position and influence the professionalism of the field and uphold the highest standards for animal welfare and client safety. Relying on financial support from individuals, corporations and foundations, Pet Partners has sufficient resources to invest in our own infrastructure and capacity to significantly grow the organization's size and influence. We have enough cash on hand to fund the board approved strategic direction to start local chapters. These local chapters will increase our ability to recruit, support and match teams to facilities while upholding standards. The chapter structure will also increase our ability to attract people, corporations and foundations who wish to support the more impactful organization and to build sustainable resource generation at the national and community levels.

This expansion is possible because Pet Partners received notification of a bequest of \$14,368,805, recorded in 2018, with a receivable balance of \$13,660,174 as of December 31, 2018. The funds will be received sometime in 2019. Pet Partners intends to use a portion of the funds to expand our mission outreach through the establishment of pilot chapters and an expansion of services to health professionals practicing animal-assisted interventions (AAI) and programming for animal-assisted crisis response to support handlers responding to a crisis in their community. Pet Partners' crisis response programming is being created in collaboration with thought leaders on trauma counseling and AAI to ensure that the introduction of a therapy animal team post-crisis or trauma supports the necessary work led by a mental health professional. This expansion work is a multi-year plan. A portion of the funds received will be used to create a quasi-endowment that will play a part in sustaining our ability to continue to expand our outreach in future years.

Availability - The following reflects Pet Partners' financial assets as of the date of the consolidated statement of financial position, reduced by amounts not available for general use within one year because of contractual or donor-imposed restrictions or internal designations. Amount available include donor-restricted amounts that are available for expenditure in the following year. Pet Partners is supported in part by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Pet Partners must maintain sufficient resources to meet those responsibilities to its donors.

	Pet Partners		PPB, LLC (875 LLC in 2017)	
	2018	2017	2018	2017
Cash and cash equivalents	\$ 372,142	\$ 169,310	\$ 37,617	\$ 23,365
Bequest receivable	13,684,308			
Contribution receivable	153,920	255,332		
Accounts receivable	984	5,491		888
Investments	3,815,142	4,584,690		
Total financial assets	18,026,496	5,014,823	37,617	24,253
Contractual or donor-imposed restrictions-				
Endowment funds	(2,050,900)	(2,364,010)		
Add back: current year endowment appropriation	108,037	102,162		
Other donor restricted funds	(254,750)	(254,183)		
Financial Assets Available to Meet Cash Needs For General Expenditures Within One Year	\$ 15,828,883	\$ 2,498,792	\$ 37,617	\$ 24,253