

**PET PARTNERS AND SUBSIDIARY**

Consolidated Financial Statements

For the Year Ended December 31, 2019

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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, 2019, 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.



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## **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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Prior Year Summarized Comparative Information**

We have previously audited Pet Partners' 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 20, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, 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 18, 2020

**PET PARTNERS AND SUBSIDIARY**

**Consolidated Statement of Financial Position With Consolidating Information  
December 31, 2019  
(With Comparative Totals for December 31, 2018)**

	Pet Partners	PPB LLC	Eliminations	2019 Total	2018 Total
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 326,425	\$ 81,017	\$ -	\$ 407,442	\$ 409,759
Bequest receivable	70,000			70,000	13,684,308
Contributions receivable, net	52,377			52,377	153,920
Accounts receivable	79,511	88		79,599	984
Inventory	20,276			20,276	25,818
Prepaid expenses	167,231	1,951		169,182	132,094
Deferred rent		5,358		5,358	5,541
<b>Total Current Assets</b>	<b>715,820</b>	<b>88,414</b>		<b>804,234</b>	<b>14,412,424</b>
Contributions receivable, net	34,000			34,000	
Investments	16,684,820			16,684,820	3,815,142
Investment in PPB LLC	3,260,452		(3,260,452)		
Property, equipment and software	338,790	3,192,107		3,530,897	3,714,144
<b>Total Assets</b>	<b>\$ 21,033,882</b>	<b>\$ 3,280,521</b>	<b>\$ (3,260,452)</b>	<b>\$ 21,053,951</b>	<b>\$ 21,941,710</b>
<b>Current Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 246,101	\$ 20,069	\$ -	\$ 266,170	\$ 251,840
Deferred revenue	261,268			261,268	283,566
<b>Total Current Liabilities</b>	<b>507,369</b>	<b>20,069</b>		<b>527,438</b>	<b>535,406</b>
<b>Net Assets:</b>					
Without donor restrictions-					
Other funds without donor restrictions	12,392,454	3,260,452	(3,260,452)	12,392,454	19,100,654
Quasi-endowment	5,478,287			5,478,287	
Total net assets without donor restrictions	17,870,741	3,260,452	(3,260,452)	17,870,741	19,100,654
With donor restrictions-					
Other donor-restricted funds	127,452			127,452	254,750
Endowment funds	2,528,320			2,528,320	2,050,900
Total net assets with donor restrictions	2,655,772			2,655,772	2,305,650
<b>Total Net Assets</b>	<b>20,526,513</b>	<b>3,260,452</b>	<b>(3,260,452)</b>	<b>20,526,513</b>	<b>21,406,304</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 21,033,882</b>	<b>\$ 3,280,521</b>	<b>\$ (3,260,452)</b>	<b>\$ 21,053,951</b>	<b>\$ 21,941,710</b>

See accompanying notes.

**PET PARTNERS AND SUBSIDIARY**

**Consolidated Statement of Activities With Consolidating Information  
For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)**

	Pet Partners		Total	PPB LLC	Eliminations	2019 Total	2018 Total
	Without Donor Restrictions	With Donor Restrictions					
<b>Operating</b>							
<b>Support and Revenue:</b>							
Individual contributions	\$ 526,433	\$ 64,338	\$ 590,771	\$ -	\$ -	\$ 590,771	\$ 618,931
Bequests	1,356,750		1,356,750			1,356,750	14,395,337
Corporation and foundation contributions	489,257	148,541	637,798			637,798	773,980
In-kind contributions	23,860		23,860			23,860	135,771
Registrations and workshops	666,208		666,208			666,208	555,025
Merchandise sales	64,807		64,807			64,807	60,553
Investment income	217,176	46,736	263,912			263,912	96,821
Other income	13,434		13,434			13,434	14,695
Net assets released from restrictions-							
Expiration of program restrictions	439,844	(439,844)					
Expiration of time restrictions	8,370	(8,370)					
<b>Total Support and Revenue</b>	<b>3,806,139</b>	<b>(188,599)</b>	<b>3,617,540</b>			<b>3,617,540</b>	<b>16,651,113</b>
<b>Expenses:</b>							
Program services	4,022,289		4,022,289			4,022,289	2,512,476
Management and general	590,105		590,105			590,105	349,072
Fundraising	753,893		753,893			753,893	583,906
<b>Total Operating Expenses</b>	<b>5,366,287</b>		<b>5,366,287</b>			<b>5,366,287</b>	<b>3,445,454</b>
<b>Change in Net Assets From Operations</b>	<b>(1,560,148)</b>	<b>(188,599)</b>	<b>(1,748,747)</b>			<b>(1,748,747)</b>	<b>13,205,659</b>

See accompanying notes.

PET PARTNERS AND SUBSIDIARY

Consolidated Statement of Activities With Consolidating Information (Continued)  
 For the Year Ended December 31, 2019  
 (With Comparative Totals for 2018)

	Pet Partners		Total	PPB LLC	Eliminations	2019 Total	2018 Total
	Without Donor Restrictions	With Donor Restrictions					
<b>Nonoperating Activities</b>							
Loss on investment in LLC	(23,865)		(23,865)		23,865		
Investment gains (losses)	354,100	538,721	892,821			892,821	(201,905)
Building rental income				149,747		149,747	141,411
Other income							1,872
LLC expenses-							
Operating expenses				(93,442)		(93,442)	(117,516)
Depreciation				(80,170)		(80,170)	(77,985)
<b>Change in Net Assets From Nonoperating Activities</b>	<b>330,235</b>	<b>538,721</b>	<b>868,956</b>	<b>(23,865)</b>	<b>23,865</b>	<b>868,956</b>	<b>(254,123)</b>
<b>Change in Net Assets</b>	<b>(1,229,913)</b>	<b>350,122</b>	<b>(879,791)</b>	<b>(23,865)</b>	<b>23,865</b>	<b>(879,791)</b>	<b>12,951,536</b>
Net assets, beginning of year	19,100,654	2,305,650	21,406,304	3,284,317	(3,284,317)	21,406,304	8,454,768
<b>Net Assets, End of Year</b>	<b>\$ 17,870,741</b>	<b>\$ 2,655,772</b>	<b>\$ 20,526,513</b>	<b>\$ 3,260,452</b>	<b>\$ (3,260,452)</b>	<b>\$ 20,526,513</b>	<b>\$ 21,406,304</b>

See accompanying notes.

**PET PARTNERS AND SUBSIDIARY**

**Consolidated Statement of Cash Flows  
For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)**

	<u>2019</u>	<u>2018</u>
<b>Reconciliation of Change in Net Assets to</b>		
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ (879,791)	\$ 12,951,536
Adjustments to reconcile change in net assets to net cash provided (used by) operating activities-		
Depreciation and amortization	286,923	246,204
Reinvested investment income	(499,884)	(80,951)
(Gain) loss on investments	(892,821)	201,905
Changes in assets and liabilities:		
Bequest receivable	13,614,308	(13,684,308)
Contributions receivable	67,543	101,412
Accounts receivable	(78,615)	5,395
Inventory	5,542	4,141
Prepaid expenses	(37,088)	(59,012)
Deferred rent	183	(3,845)
Accounts payable and accrued liabilities	14,330	128,478
Deferred revenue	(22,298)	(10,469)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>11,578,332</b>	<b>(199,514)</b>
<b>Cash Flows From Investing Activities:</b>		
Proceeds from the sale of investments	3,853,327	664,464
Purchase of investments	(15,566,272)	
Purchase of capital assets	(103,676)	(231,996)
<b>Net Cash (Used) Provided by Investing Activities</b>	<b>(11,816,621)</b>	<b>432,468</b>
<b>Cash Flows From Financing Activities:</b>		
Investment return restricted to endowment	235,972	(15,870)
<b>Net Cash Provided (Used) by Financing Activities</b>	<b>235,972</b>	<b>(15,870)</b>
<b>Changes in Cash and Cash Equivalents</b>	<b>(2,317)</b>	<b>217,084</b>
Cash and cash equivalents, beginning of year	409,759	192,675
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 407,442</b>	<b>\$ 409,759</b>

See accompanying notes.



PET PARTNERS AND SUBSIDIARY

**Consolidated Statement of Functional Expenses  
For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)**

	Program Services	Supporting Services			Total Supporting	2019 Total	2018 Total
		Management and General	Fundraising	Third Party Tenancy			
Personnel costs	\$ 2,343,490	\$ 311,139	\$ 181,224	\$ -	\$ 492,363	\$ 2,835,853	\$ 1,942,429
Professional and contract services	701,268	90,783	300,995		391,778	1,093,046	730,858
Printing and publishing	114,765	78,059	138,407		216,466	331,231	209,588
Miscellaneous	256,651	23,210	24,713		47,923	304,574	64,502
Meetings and conferences	198,749	7,061	23,308		30,369	229,118	109,279
Depreciation and amortization	164,840	27,620	14,293		41,913	206,753	168,219
Postage and mailing	74,087	27,470	47,133		74,603	148,690	118,271
Telephone	42,888	2,687	2,085		4,772	47,660	14,337
Public relations	19,972	10,907	15,883		26,790	46,762	12,018
Insurance	39,731	4,602	2,389		6,991	46,722	32,312
Office supplies	33,393	5,172	2,923		8,095	41,488	11,315
Cost of sales	26,146					26,146	24,112
Equipment rental and maintenance	6,309	1,395	540		1,935	8,244	8,214
<b>Total Expenses Before LLC Depreciation and LLC Operating Expenses</b>	<b>4,022,289</b>	<b>590,105</b>	<b>753,893</b>		<b>1,343,998</b>	<b>5,366,287</b>	<b>3,445,454</b>
LLC operating expenses	35,015	5,867	3,036	49,524	58,427	93,442	117,516
LLC depreciation	30,041	5,034	2,605	42,490	50,129	80,170	77,985
<b>Total Expenses</b>	<b>\$ 4,087,345</b>	<b>\$ 601,006</b>	<b>\$ 759,534</b>	<b>\$ 92,014</b>	<b>\$ 1,452,554</b>	<b>\$ 5,539,899</b>	<b>\$ 3,640,955</b>

See accompanying notes.

## PET PARTNERS AND SUBSIDIARY

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2019

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#### 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 (Headquarters building) in Bellevue, Washington. In September 2017, Pet Partners sold its Headquarters building, and purchased a smaller building, located in Bellevue, Washington (Building). 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.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has lapsed) 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 2018** - 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, 2018, from which the summarized information was derived.

## PET PARTNERS AND SUBSIDIARY

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2019

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#### 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.

**Bequests Receivable** - Pet Partners was named the beneficiary of one trust, during the years ended December 31, 2019, and 2018. During the year ended December 31, 2019, Pet Partners recognized bequest revenue of \$1,356,750 which represented 38% of total operating support and revenue. During the year ended December 31, 2018, Pet Partners recognized bequest revenue of \$14,395,337 which represented 86% of total operating support and revenue.

Bequests receivable at December 31 are as follows:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 70,000	\$ 13,684,308
<b>Total Bequest Receivable</b>	<b><u>\$ 70,000</u></b>	<b><u>\$ 13,684,308</u></b>

**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.

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

## PET PARTNERS AND SUBSIDIARY

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2019

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#### Note 1 - Continued

**Contributions** - Contributions are recognized in the period received, including unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Those that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using the risk-adjusted interest rate applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are recognized as revenue when the conditions on which they depend are substantially met. At December 31, 2019 and 2018, there were no conditional contributions. Donated securities are recorded at their fair values on the date of receipt.

**Registrations and workshops** - Pet Partners charges a fee to register volunteers and their animal or animals as a therapy animal team. Payment is made at the time of registration and the handler receives a confirmation that they are registered. Additionally, Pet Partners charges a fee for anyone who wishes to take one of its online courses. After the fee is paid, access to the online course materials is granted. The transaction price for registration varies and the online course revenue is a fixed fee for each course purchased. Registration revenue is recognized over a period of two years, which is how long the registration is valid before a volunteer wishing to continue must be re-evaluated with their animal. Course revenue is recognized at the time of the sale, except for bulk purchases. Those are recorded as deferred revenue and recognized as revenue when the course is taken. The bulk discount is recognized at that time also.

**Merchandise sales** - Pet Partners sells various merchandise such as t-shirts, starter kits, and water bottles online. Payment is made at the time of the order and the item is then delivered to the customer. Revenue is recognized when payment is received and the merchandise is shipped.

**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.

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.

**Subsequent Events** - Management has evaluated events occurring subsequent through March 18, 2019, the date on which the financial statements were available to be issued.

## PET PARTNERS AND SUBSIDIARY

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2019

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#### Note 2 - Contributions Receivable

Contributions receivable at December 31 are as follows:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 54,977	\$ 155,020
Receivable in more than than one year	40,000	
Less allowance for uncollectible pledges	<u>(8,600)</u>	<u>(1,100)</u>
<b>Total Contributions Receivable, Net</b>	<b><u>\$ 86,377</u></b>	<b><u>\$ 153,920</u></b>

#### Note 3 - Property, Equipment and Software

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

	<u>Useful Life</u>	<u>2019</u>	<u>2018</u>
Building	30 years	\$ 2,200,680	\$ 2,180,995
Furniture, equipment and software	3 - 5 years	<u>1,301,753</u>	<u>1,217,762</u>
		3,502,433	3,398,757
Accumulated depreciation		<u>(1,144,837)</u>	<u>(857,914)</u>
		2,357,596	2,540,843
Land		<u>1,173,301</u>	<u>1,173,301</u>
		<b><u>\$ 3,530,897</u></b>	<b><u>\$ 3,714,144</u></b>

#### Note 4 - In-Kind Goods and Services

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

	<u>2019</u>	<u>2018</u>
Professional fees, travel expenses and other	\$ 4,850	\$ 525
Donated goods and facilities	<u>19,010</u>	<u>135,246</u>
	<b><u>\$ 23,860</u></b>	<b><u>\$ 135,771</u></b>

During the year ended December 31, 2019, Pet Partners received donated goods totaling \$19,010. These goods included donated rental space in Arizona valued at \$18,000. Donated goods also included dog and cat treats valued at \$950. Pet Partners also received an in-kind donation of gift cards valued at \$50, as well as a donation of stamps valued at \$10.

**PET PARTNERS AND SUBSIDIARY**

**Notes to Consolidated Financial Statements  
For the Year Ended December 31, 2019**

**Note 4 - 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.

**Note 5 - Investments and 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.

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, 2019			
	Level 1	Level 2	Level 3	Total
Money market	\$ 1,919,045	\$ -	\$ -	1,919,045
Equity securities	7,693,425			7,693,425
Bond funds	349,437			349,437
Fixed income		6,722,913		6,722,913
<b>Total Investments at Fair Value</b>	<b>\$ 9,961,907</b>	<b>\$ 6,722,913</b>	<b>\$ -</b>	<b>\$ 16,684,820</b>

	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
<b>Total Investments at Fair Value</b>	<b>\$ 3,815,142</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,815,142</b>

## PET PARTNERS AND SUBSIDIARY

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2019

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#### Note 6 - Net Assets With Donor Restrictions

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

	<u>2019</u>	<u>2018</u>
Subject to the passage of time or expenditure for specified purpose	\$ 127,452	\$ 254,750
Endowment fund-		
Original gifts and required retained earnings (corpus)	1,496,736	1,260,764
Unappropriated endowment earnings	<u>1,031,584</u>	<u>790,136</u>
Total endowment fund	<u>2,528,320</u>	<u>2,050,900</u>
<b>Total Net Assets With Donor Restrictions</b>	<b><u>\$ 2,655,772</u></b>	<b><u>\$ 2,305,650</u></b>

#### Note 7 - Endowment Funds

Pet Partners' endowments include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Donor-restricted endowments 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.

A quasi-endowment without donor restrictions in the amount of \$5,000,000 was designated by the Board of Directors for long-term investment during the year ended December 31, 2019. The quasi-endowment will play a part in sustaining Pet Partners' ability to continue to expand its outreach in future years. Earnings and losses on this quasi-endowment are recorded as net assets without donor restrictions. The quasi-endowment fund balance totaled \$5,478,287 at December 31, 2019.

**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.

## PET PARTNERS AND SUBSIDIARY

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2019

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#### Note 7 - Continued

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.

**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 funds. Donor-restricted endowment assets include those assets 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 donor-restricted 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.



**PET PARTNERS AND SUBSIDIARY**

**Notes to Consolidated Financial Statements  
For the Year Ended December 31, 2019**

**Note 7 - Continued**

Endowment net assets by fund type and change in endowment net assets as of and for the years ended December 31, 2019 were as follows:

	Without Donor	With Donor Restrictions		Total
	Restrictions	Endowment	Accumulated	
	Quasi- Endowment	Corpus	Earnings	
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 gains		(59,472)	(100,400)	(159,872)
Appropriations and transfers		27,502	(224,020)	(196,518)
Endowment net assets, December 31, 2018		1,260,764	790,136	2,050,900
Board-designation of assets	5,000,000			5,000,000
Investment return-				
Investment income	66,006	17,386	29,350	112,742
Net gains	412,281	218,586	320,135	951,002
Appropriations and transfers			(108,037)	(108,037)
<b>Endowment Net Assets, December 31, 2019</b>	<b>\$ 5,478,287</b>	<b>\$ 1,496,736</b>	<b>\$ 1,031,584</b>	<b>\$ 8,006,607</b>

**Note 8 - 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,

2020	\$ 97,585
2021	48,607
	<b>\$ 146,192</b>

## PET PARTNERS AND SUBSIDIARY

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2019

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#### Note 9 - Future Lease Payments

Pet partners leases office space, a copier, and a postage machine. Future payments to be made each on these leases are as follows:

For the Year Ending December 31,

2020	\$	39,636
2021		29,793
2022		29,098
2023		6,355
2024		4,414
Thereafter		<u>1,103</u>
	\$	<u><u>110,399</u></u>

#### Note 10 - 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, 2019 and 2018 amounted to \$123,122 and \$95,773, respectively.

#### Note 11 - 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.

At a time when interest in animal-assisted interventions is rapidly growing, Pet Partners is exceptionally well positioned to grow its 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 its own infrastructure and capacity to significantly grow the organization's size and influence. Pet Partners has enough cash on hand to fund the board approved strategic direction to start local chapters. These local chapters will increase Pet Partners' ability to recruit, support and match teams to facilities while upholding standards. The chapter structure will also increase Pet Partners' 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 \$13,684,308 as of December 31, 2018. The funds were received in 2019. Pet Partners intends to use a portion of the funds to expand its mission outreach through the establishment of pilot chapters and an expansion of services to health professionals practicing animal-assisted interventions (AAI) and programing 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.

**PET PARTNERS AND SUBSIDIARY**

**Notes to Consolidated Financial Statements  
For the Year Ended December 31, 2019**

**Note 11 - Continued**

**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	
	2019	2018	2019	2018
Cash and cash equivalents	\$ 326,425	\$ 372,142	\$ 81,017	\$ 37,617
Bequest receivable	70,000	13,684,308		
Contribution receivable	86,377	153,920		
Accounts receivable	79,511	984	88	
Investments	16,684,820	3,815,142		
<b>Total financial assets</b>	<b>17,247,133</b>	<b>18,026,496</b>	<b>81,105</b>	<b>37,617</b>
Contractual or donor-imposed restrictions-				
Endowment funds	(2,528,320)	(2,050,900)		
Add back current year endowment appropriation	116,615	108,037		
Other donor restricted funds	(127,452)	(254,750)		
Quasi-endowment	(5,478,287)			
<b>Financial Assets Available to Meet Cash Needs For General Expenditures Within One Year</b>	<b>\$ 9,229,689</b>	<b>\$ 15,828,883</b>	<b>\$ 81,105</b>	<b>\$ 37,617</b>