

PET PARTNERS AND SUBSIDIARIES

Consolidated Financial Statements

For the Year Ended December 31, 2020

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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, 2020, 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, 2020, 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' 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 18, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, 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 relation to the consolidated financial statements as a whole.

Clark Nuber P.S.

Certified Public Accountants
March 17, 2021

PET PARTNERS AND SUBSIDIARY

Consolidated Statement of Financial Position With Consolidating Information
December 31, 2020
(With Comparative Totals for December 31, 2019)

	Pet Partners	PPB LLC	Eliminations	2020 Total	2019 Total
Current Assets:					
Cash and cash equivalents	\$ 618,209	\$ 71,145	\$ -	\$ 689,354	\$ 407,442
Bequests receivable	250,000			250,000	70,000
Contributions receivable, current portion	168,838			168,838	52,377
Accounts receivable	5,898			5,898	79,599
Inventory	23,127			23,127	20,276
Prepaid expenses	168,483	6,362		174,845	169,182
Deferred rent		2,568		2,568	5,358
Total Current Assets	1,234,555	80,075		1,314,630	804,234
Bequests receivable, net of current portion	50,000			50,000	
Contributions receivable, net of current portion	57,500			57,500	34,000
Investments	16,355,598			16,355,598	16,684,820
Investment in PPB LLC	3,182,815		(3,182,815)		
Property, equipment and software	194,429	3,111,133		3,305,562	3,530,897
Total Assets	\$ 21,074,897	\$ 3,191,208	\$ (3,182,815)	\$ 21,083,290	\$ 21,053,951
Current Liabilities:					
Accounts payable and accrued liabilities	\$ 264,744	\$ 8,393	\$ -	\$ 273,137	\$ 266,170
Deferred revenue	130,740			130,740	261,268
Total Current Liabilities	395,484	8,393		403,877	527,438
Net Assets:					
Without donor restrictions-					
Other funds without donor restrictions	11,414,788	3,182,815	(3,182,815)	11,414,788	12,392,454
Quasi-endowment	6,150,257			6,150,257	5,478,287
Total net assets without donor restrictions	17,565,045	3,182,815	(3,182,815)	17,565,045	17,870,741
With donor restrictions-					
Other donor-restricted funds	228,556			228,556	127,452
Endowment funds	2,885,812			2,885,812	2,528,320
Total net assets with donor restrictions	3,114,368			3,114,368	2,655,772
Total Net Assets	20,679,413	3,182,815	(3,182,815)	20,679,413	20,526,513
Total Liabilities and Net Assets	\$ 21,074,897	\$ 3,191,208	\$ (3,182,815)	\$ 21,083,290	\$ 21,053,951

See accompanying notes.

PET PARTNERS AND SUBSIDIARY

**Consolidated Statement of Activities With Consolidating Information
For the Year Ended December 31, 2020
(With Comparative Totals for 2019)**

	Pet Partners			PPB LLC	Eliminations	2020 Total	2019 Total
	Without Donor Restrictions	With Donor Restrictions	Total				
Operating							
Support and Revenue:							
Individual contributions	\$ 517,719	\$ 56,560	\$ 574,279	\$ -	\$ -	\$ 574,279	\$ 590,771
Bequests	1,728,801		1,728,801			1,728,801	1,356,750
Corporation and foundation contributions	448,407	266,500	714,907			714,907	637,798
In-kind contributions	501,209		501,209			501,209	23,860
Registrations and workshops	394,242		394,242			394,242	666,208
Merchandise sales	23,690		23,690			23,690	64,807
Investment income	354,244	43,407	397,651			397,651	263,912
Other income	5,613		5,613			5,613	13,434
Net assets released from restrictions-							
Expiration of program restrictions	288,073	(288,073)					
Expiration of time restrictions	50,498	(50,498)					
Total Support and Revenue	4,312,496	27,896	4,340,392			4,340,392	3,617,540
Expenses:							
Program services	4,067,998		4,067,998			4,067,998	4,022,289
Management and general	604,706		604,706			604,706	590,105
Fundraising	603,940		603,940			603,940	753,893
Total Operating Expenses	5,276,644		5,276,644			5,276,644	5,366,287
Change in Net Assets From Operations	(964,148)	27,896	(936,252)			(936,252)	(1,748,747)

See accompanying notes.

PET PARTNERS AND SUBSIDIARY

Consolidated Statement of Activities With Consolidating Information (Continued)
 For the Year Ended December 31, 2020
 (With Comparative Totals for 2019)

	Pet Partners		Total	PPB LLC	Eliminations	2020 Total	2019 Total
	Without Donor Restrictions	With Donor Restrictions					
Nonoperating Activities							
Loss on investment in LLC	(77,637)		(77,637)		77,637		
Investment gains	733,364	430,700	1,164,064			1,164,064	892,821
Building rental income				96,620		96,620	149,747
Other income	2,725		2,725			2,725	
LLC expenses-							
Operating expenses				(93,281)		(93,281)	(93,442)
Depreciation				(80,976)		(80,976)	(80,170)
Change in Net Assets From Nonoperating Activities	658,452	430,700	1,089,152	(77,637)	77,637	1,089,152	868,956
Change in Net Assets	(305,696)	458,596	152,900	(77,637)	77,637	152,900	(879,791)
Net assets, beginning of year	17,870,741	2,655,772	20,526,513	3,260,452	(3,260,452)	20,526,513	21,406,304
Net Assets, End of Year	\$ 17,565,045	\$ 3,114,368	\$ 20,679,413	\$ 3,182,815	\$ (3,182,815)	\$ 20,679,413	\$ 20,526,513

See accompanying notes.

PET PARTNERS AND SUBSIDIARY

**Consolidated Statement of Cash Flows
For the Year Ended December 31, 2020
(With Comparative Totals for 2019)**

	<u>2020</u>	<u>2019</u>
Reconciliation of Change in Net Assets to		
Cash Flows From Operating Activities:		
Change in net assets	\$ 152,900	\$ (879,791)
Adjustments to reconcile change in net assets to net cash provided (used by) operating activities-		
Depreciation and amortization	246,794	286,923
Reinvested investment income	(598,006)	(499,884)
Gain on investments	(1,164,064)	(892,821)
Changes in assets and liabilities:		
Bequests receivable	(230,000)	13,614,308
Contributions receivable	(139,961)	67,543
Accounts receivable	73,701	(78,615)
Inventory	(2,851)	5,542
Prepaid expenses	(5,663)	(37,088)
Deferred rent	2,790	183
Accounts payable and accrued liabilities	6,967	14,330
Deferred revenue	(130,528)	(22,298)
Net Cash (Used) Provided by Operating Activities	(1,783,512)	11,578,332
Cash Flows From Investing Activities:		
Proceeds from the sale of investments	4,617,346	3,853,327
Purchase of investments	(2,726,409)	(15,566,272)
Purchase of capital assets	(25,868)	(103,676)
Net Cash Provided (Used) by Investing Activities	1,865,069	(11,816,621)
Cash Flows From Financing Activities:		
Investment return restricted to endowment	200,355	235,972
Net Cash Provided by Financing Activities	200,355	235,972
Changes in Cash and Cash Equivalents	281,912	(2,317)
Cash and cash equivalents, beginning of year	407,442	409,759
Cash and Cash Equivalents, End of Year	\$ 689,354	\$ 407,442

See accompanying notes.

PET PARTNERS AND SUBSIDIARY

**Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2020
(With Comparative Totals for 2019)**

	Program Services	Supporting Services			Total Supporting	2020 Total	2019 Total
		Management and General	Fundraising	Third Party Tenancy			
Personnel costs	\$ 2,264,766	\$ 370,673	\$ 167,204	\$ -	\$ 537,877	\$ 2,802,643	\$ 2,835,853
Professional and contract services	828,744	108,366	238,172		346,538	1,175,282	1,093,046
Public relations and marketing	501,949	10,686	69,783		80,469	582,418	46,762
Depreciation and amortization	130,178	25,688	9,952		35,640	165,818	206,753
Printing and publishing	53,140	33,745	51,335		85,080	138,220	331,231
Miscellaneous	70,393	29,169	29,055		58,224	128,617	304,574
Postage and mailing	45,275	9,468	27,143		36,611	81,886	148,690
Rent, utilities, and telephone	69,579	2,329	5,242		7,571	77,150	47,660
Insurance	51,072	5,991	3,323		9,314	60,386	46,722
Meetings and conferences	18,300	4,416	1,223		5,639	23,939	229,118
Office supplies	17,224	3,081	1,032		4,113	21,337	41,488
Cost of sales	11,157					11,157	26,146
Equipment rental and maintenance	6,221	1,094	476		1,570	7,791	8,244
Total Expenses Before LLC Depreciation and LLC Operating Expenses	4,067,998	604,706	603,940		1,208,646	5,276,644	5,366,287
LLC operating expenses	34,415	6,796	2,631	49,439	58,866	93,281	93,442
LLC depreciation	29,875	5,900	2,284	42,917	51,101	80,976	80,170
Total Expenses	\$ 4,132,288	\$ 617,402	\$ 608,855	\$ 92,356	\$ 1,318,613	\$ 5,450,901	\$ 5,539,899

See accompanying notes.

PET PARTNERS AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2020

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 December 2017, Pet Partners formed a single member LLC, named PPB LLC (the LLC), a nonprofit title holding company. The purpose of the LLC was to own Pet Partners' Headquarters located in Bellevue, Washington (Building).

In September 2020, Pet Partners incorporated Association of Animal Assisted Intervention Professionals (AAAIP). AAAIP is a not-for-profit association whose mission is for health care providers, educators, and others to gain the knowledge needed to safely and ethically practice animal-assisted interventions while advancing the field. AAAIP had \$13,777 of expenses during the year ended December 31, 2020.

Basis of Accounting - The financial statements of Pet Partners, AAAIP, 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 (IRS) has recognized Pet Partners as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). AAAIP has been classified by the IRS as a nonprofit organization exempt from federal income taxes under Section 501(c)(6) of the IRC. The LLC is disregarded for tax purposes.

PET PARTNERS AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2020

Note 1 - Continued

Comparative Amounts for 2019 - 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, 2019, from which the summarized information was derived.

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 - 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, 2020 and 2019, there were no conditional contributions. Donated securities are recorded at their fair values on the date of receipt.

Bequests Receivable - During the year ended December 31, 2020, Pet Partners recognized bequest revenue of \$1,728,801, from two trusts, which represented 40% of total operating support and revenue. During the year ended December 31, 2019, Pet Partners recognized bequest revenue of \$1,356,750, from one trust, which represented 38% of total operating support and revenue. Bequests receivable outstanding at December 31, 2020 and 2019 were \$300,000 and \$70,000 respectively.

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, 2020

Note 1 - Continued

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 17, 2021, the date on which the financial statements were available to be issued.

Note 2 - Contributions Receivable

Contributions receivable at December 31 are as follows:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 171,438	\$ 54,977
Receivable in more than than one year	57,500	40,000
Less allowance for uncollectible pledges	<u>(2,600)</u>	<u>(8,600)</u>
Total Contributions Receivable, Net	<u>\$ 226,338</u>	<u>\$ 86,377</u>

PET PARTNERS AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2020

Note 3 - Property, Equipment and Software

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

	Useful Life	2020	2019
Building	30 years	\$ 2,200,680	\$ 2,200,680
Furniture, equipment and software	3 - 5 years	1,322,400	1,301,753
		3,523,080	3,502,433
Accumulated depreciation		(1,390,819)	(1,144,837)
		2,132,261	2,357,596
Land		1,173,301	1,173,301
		<u>\$ 3,305,562</u>	<u>\$ 3,530,897</u>

Note 4 - In-Kind Goods and Services

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

	2020	2019
Digital advertising	\$ 477,778	\$ -
Professional fees, travel expenses and other		4,850
Donated goods and facilities	23,431	19,010
	<u>\$ 501,209</u>	<u>\$ 23,860</u>

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; or

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.

PET PARTNERS AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended December 31, 2020**

Note 5 - Continued

Fair value of assets measured on a recurring basis are:

	Investments at Fair Value as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Money market	\$ 1,334,954	\$ -	\$ -	\$ 1,334,954
Equity mutual funds	5,451,908			5,451,908
Equity securities	2,798,534			2,798,534
Fixed income mutual funds	980,349			980,349
Fixed income securities		5,789,853		5,789,853
Total Investments at Fair Value	\$ 10,565,745	\$ 5,789,853	\$ -	\$ 16,355,598

	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 mutual funds	3,450,039			3,450,039
Equity securities	4,243,386			4,243,386
Fixed income mutual funds	349,437			349,437
Fixed income securities		6,722,913		6,722,913
Total Investments at Fair Value	\$ 9,961,907	\$ 6,722,913	\$ -	\$ 16,684,820

Note 6 - Net Assets With Donor Restrictions

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

	2020	2019
Subject to the passage of time or expenditure for specified purpose	\$ 228,556	\$ 127,452
Endowment fund-		
Original gifts and required retained earnings (corpus)	1,697,091	1,496,736
Unappropriated endowment earnings	1,188,721	1,031,584
Total endowment fund	2,885,812	2,528,320
Total Net Assets With Donor Restrictions	\$ 3,114,368	\$ 2,655,772

PET PARTNERS AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2020

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 \$6,150,257 at December 31, 2020.

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.

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.

PET PARTNERS AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended December 31, 2020**

Note 7 - Continued

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 years ended December 31, 2020 were as follows:

	Without Donor Restrictions	With Donor Restrictions		
	Quasi- Endowment	Endowment Corpus	Accumulated Earnings	Total
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)
Endowment Net Assets, December 31, 2019	5,478,287	1,496,736	1,031,584	8,006,607
Investment return-				
Investment income	96,005	16,147	27,260	139,412
Net gains	575,965	184,208	246,492	1,006,665
Appropriations and transfers			(116,615)	(116,615)
Endowment Net Assets, December 31, 2020	\$ 6,150,257	\$ 1,697,091	\$ 1,188,721	\$ 9,036,069

PET PARTNERS AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended December 31, 2020**

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,

2021	\$ 48,607
	<u>\$ 48,607</u>

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,

2021	\$ 16,203
2022	5,802
2023	4,414
2024	4,414
2025	1,103
	<u>\$ 31,936</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, 2020 and 2019 amounted to \$129,207 and \$123,122, 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. In 2019, Pet Partners started four local test chapters in the United States. However due to the COVID-19 pandemic in 2020, Pet Partners was faced with the challenge, like many non-profits, where community-based fundraising was not an option. Consequently, Pet Partners closed the four test chapters. The uncertainty of knowing when individuals could gather for fundraising events made it too high of a risk and investment to carry the associated chapter expenses.

PET PARTNERS AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended December 31, 2020**

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	
	2020	2019	2020	2019
Cash and cash equivalents	\$ 618,209	\$ 326,425	\$ 71,145	\$ 81,017
Bequests receivable	300,000	70,000		
Contributions receivable	226,338	86,377		
Accounts receivable	5,898	79,511		88
Investments	16,355,598	16,684,820		
Total financial assets	17,506,043	17,247,133	71,145	81,105
Contractual or donor-imposed restrictions-				
Endowment funds	(2,885,812)	(2,528,320)		
Add back current year endowment appropriation	122,853	116,615		
Other donor restricted funds	(228,556)	(127,452)		
Quasi-endowment	(6,150,257)	(5,478,287)		
Financial Assets Available to Meet Cash Needs For General Expenditures Within One Year	\$ 8,364,271	\$ 9,229,689	\$ 71,145	\$ 81,105