

PET PARTNERS AND SUBSIDIARIES

Consolidated Financial Statements

For the Year Ended December 31, 2023

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Pet Partners and Subsidiaries (collectively, Pet Partners), which comprise the consolidated statement of financial position, as of December 31, 2023, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Pet Partners as of December 31, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pet Partners and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report on Summarized Comparative Information

We have previously audited Pet Partner's December 31, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 12, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.



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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Pet Partner's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pet Partner's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pet Partner's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Clark Nuber P.S.

Certified Public Accountants
March 19, 2024

PET PARTNERS AND SUBSIDIARIES

**Consolidated Statement of Financial Position
December 31, 2023
(With Comparative Totals for December 31, 2022)**

| | <u>2023</u> | <u>2022</u> |
|---|-----------------------------|-----------------------------|
| Cash and cash equivalents | \$ 520,904 | \$ 668,009 |
| Contributions receivable, net | 97,840 | 53,582 |
| Accounts receivable | 39,545 | 38,009 |
| Inventory | | 13,135 |
| Prepaid expenses and other current assets | 287,450 | 207,443 |
| Right-of-use asset - operating lease | 23,380 | 63,405 |
| Investments | 14,875,437 | 15,026,994 |
| Property, equipment, and software, net | 285,952 | 113,751 |
| Total Assets | <u>\$ 16,130,508</u> | <u>\$ 16,184,328</u> |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 287,121 | \$ 322,787 |
| Operating lease obligation | 24,141 | 64,752 |
| Deferred revenue | 232,329 | 212,093 |
| Total Liabilities | 543,591 | 599,632 |
| Net Assets: | | |
| Without donor restrictions- | | |
| Other funds without donor restrictions | 5,087,401 | 6,891,785 |
| Quasi-endowment | 7,316,229 | 6,081,983 |
| Total net assets without donor restrictions | 12,403,630 | 12,973,768 |
| With donor restrictions- | | |
| Other donor-restricted funds | 177,678 | 101,677 |
| Endowment funds | 3,005,609 | 2,509,251 |
| Total net assets with donor restrictions | 3,183,287 | 2,610,928 |
| Total Net Assets | <u>15,586,917</u> | <u>15,584,696</u> |
| Total Liabilities and Net Assets | <u>\$ 16,130,508</u> | <u>\$ 16,184,328</u> |

See accompanying notes.

PET PARTNERS AND SUBSIDIARIES

**Consolidated Statement of Activities
For the Year Ended December 31, 2023
(With Comparative 2022)**

| | Without Donor Restrictions | With Donor Restrictions | 2023 | 2022 |
|--|-------------------------------|----------------------------|----------------------|----------------------|
| Operating | | | | |
| Support and Revenue: | | | | |
| Individual contributions | \$ 330,427 | \$ 6,500 | \$ 336,927 | \$ 525,033 |
| Bequests | 175,187 | | 175,187 | 397,816 |
| Corporation and foundation contributions | 591,354 | 186,025 | 777,379 | 727,770 |
| Special events | 137,753 | | 137,753 | 219,123 |
| In-kind contributions | 372,357 | | 372,357 | 478,946 |
| Registrations and workshops | 682,373 | | 682,373 | 491,312 |
| Merchandise sales | 13,067 | | 13,067 | 31,817 |
| Investment income | 416,323 | 77,840 | 494,163 | 336,037 |
| Net assets released from restrictions- | | | | |
| Expiration of program restrictions | 183,454 | (183,454) | | |
| Expiration of time restrictions | 82,992 | (82,992) | | |
| Total Support and Revenue | 2,985,287 | 3,919 | 2,989,206 | 3,207,854 |
| Expenses: | | | | |
| Program services | 3,463,445 | | 3,463,445 | 4,188,550 |
| Management and general | 521,857 | | 521,857 | 682,415 |
| Fundraising | 833,489 | | 833,489 | 693,662 |
| Total Expenses | 4,818,791 | | 4,818,791 | 5,564,627 |
| Change in Net Assets From Operations | (1,833,504) | 3,919 | (1,829,585) | (2,356,773) |
| Nonoperating Activities | | | | |
| Investment gains (losses) | 1,261,512 | 568,440 | 1,829,952 | (2,476,133) |
| Other income | 3,581 | | 3,581 | 3,645 |
| LLC expenses- | | | | |
| Operating expenses | (1,727) | | (1,727) | 17,459 |
| Change in Net Assets From Nonoperating Activities | 1,263,366 | 568,440 | 1,831,806 | (2,455,029) |
| Change in Net Assets | (570,138) | 572,359 | 2,221 | (4,811,802) |
| Net assets, beginning of year | 12,973,768 | 2,610,928 | 15,584,696 | 20,396,498 |
| Net Assets, End of Year | \$ 12,403,630 | \$ 3,183,287 | \$ 15,586,917 | \$ 15,584,696 |

See accompanying notes.

PET PARTNERS AND SUBSIDIARIES

**Consolidated Statement of Cash Flows
For the Year Ended December 31, 2023
(With Comparative Totals for 2022)**

| | <u>2023</u> | <u>2022</u> |
|--|--------------------|--------------------|
| Reconciliation of Change in Net Assets to Cash Flows From Operating Activities: | | |
| Change in net assets | \$ 2,221 | \$ (4,811,802) |
| Adjustments to reconcile change in net assets to net cash used in operating activities- | | |
| Depreciation and amortization | 54,153 | 69,054 |
| Reinvested investment income | (263,381) | (69,792) |
| (Gain) loss on investments | (1,829,952) | 2,476,133 |
| Changes in assets and liabilities: | | |
| Contributions receivable | (44,258) | 33,694 |
| Accounts receivable | (1,536) | 10,652 |
| Inventory | 13,135 | 9,912 |
| Prepaid expenses and other current assets | (80,007) | (33,125) |
| Accounts payable and accrued liabilities | (35,666) | 52,359 |
| Operating lease obligation, net of right-of-use asset | (586) | 1,347 |
| Deferred revenue | 20,236 | 95,300 |
| Net Cash Used in Operating Activities | (2,165,641) | (2,166,268) |
| Cash Flows From Investing Activities: | | |
| Proceeds from the sale of investments | 2,469,788 | 2,709,699 |
| Purchase of investments | (488,279) | |
| Purchase of capital assets | (226,354) | (30,536) |
| Net Cash Provided by Investing Activities | 1,755,155 | 2,679,163 |
| Cash Flows From Financing Activities: | | |
| Investment return restricted to endowment | 263,381 | (266,245) |
| Net Cash Provided by (Used in) Financing Activities | 263,381 | (266,245) |
| Changes in Cash and Cash Equivalents | (147,105) | 246,650 |
| Cash and cash equivalents, beginning of year | 668,009 | 421,359 |
| Cash and Cash Equivalents, End of Year | \$ 520,904 | \$ 668,009 |

See accompanying notes.

PET PARTNERS AND SUBSIDIARIES

**Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2023
(With Comparative Totals for 2022)**

| | Program Services | Supporting Services | | | 2023 Total | 2022 Total |
|--|---------------------|---------------------|---------------------------|---------------------|---------------------|---------------------|
| | | Fundraising | Management and General | Total Supporting | | |
| Personnel costs | \$ 2,174,643 | \$ 310,710 | \$ 540,651 | \$ 851,361 | \$ 3,026,004 | \$ 2,948,562 |
| Professional and contract services | 560,169 | 59,877 | 148,262 | 208,139 | 768,308 | 1,123,978 |
| Public relations and marketing | 354,755 | 30,450 | 38,311 | 68,761 | 423,516 | 649,987 |
| Miscellaneous | 33,088 | 68,379 | 35,631 | 104,010 | 137,098 | 120,153 |
| Insurance | 82,913 | 11,613 | 26,968 | 38,581 | 121,494 | 79,581 |
| Volunteer benefits | 72,048 | | | | 72,048 | 99,338 |
| Meetings and conferences | 40,696 | 14,399 | 15,860 | 30,259 | 70,955 | 93,380 |
| Depreciation and amortization | 38,989 | 5,578 | 9,585 | 15,163 | 54,152 | 69,054 |
| Rent, utilities and telephone | 34,617 | 4,890 | 8,403 | 13,293 | 47,910 | 55,481 |
| Postage and mailing | 35,529 | 8,731 | 1,469 | 10,200 | 45,729 | 93,048 |
| Printing and publishing | 12,656 | 5,348 | 5,426 | 10,774 | 23,430 | 198,245 |
| Cost of sales | 15,285 | | | | 15,285 | 20,207 |
| Equipment rental and maintenance | 6,110 | 874 | 1,502 | 2,376 | 8,486 | 8,655 |
| Office supplies | 1,947 | 1,008 | 1,421 | 2,429 | 4,376 | 4,958 |
| Total Expenses Before LLC Depreciation and LLC Operating Expenses | 3,463,445 | 521,857 | 833,489 | 1,355,346 | 4,818,791 | 5,564,627 |
| LLC operating expenses | 1,243 | 178 | 306 | 484 | 1,727 | (17,459) |
| Total Expenses | \$ 3,464,688 | \$ 522,035 | \$ 833,795 | \$ 1,355,830 | \$ 4,820,518 | \$ 5,547,168 |

See accompanying notes.

PET PARTNERS AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2023 (With Comparative Totals for 2022)

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). The Building was sold during the year ended December 31, 2021; however, the LLC continues to exist as of December 31, 2023.

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.

Principles of Consolidation - The accompanying financial statements include the accounts of Pet Partners and its wholly owned subsidiaries. Intra-entity transactions and balances have been eliminated in consolidation. The consolidated entity is referred to as Pet Partners in the notes to the consolidated financial statements.

Basis of Presentation - 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 SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2023 (With Comparative Totals for 2022)

Note 1 - Continued

Comparative Amounts for 2022 - 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, 2022, 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, 2023 and 2022, there were no conditional contributions. Donated securities are recorded at their fair values on the date of receipt.

Inventory - Inventory consists primarily of books, animal wearables and other merchandise and is recorded at lower of cost (FIFO method) or market. All inventory was disposed of during the year ended December 31, 2023.

Property, Equipment and Software - Pet Partners capitalizes 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 SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2023 (With Comparative Totals for 2022)

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 ratably 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. Bulk purchases are recorded as deferred revenue and recognized along with the related bulk discount when the course is taken.

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. As of the year ended December 31, 2023, merchandise sales have ceased.

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.

Special Events - Pet Partners had fundraising events with gross revenues of \$137,753 and \$219,123 and expenses of \$53,400 and \$49,594 during the years ended December 31, 2023 and 2022, respectively. The revenues are included as special event revenue on the consolidated statement of activities and the expenses are included in the applicable categories on the consolidated statement of functional expenses.

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 19, 2024, the date on which the financial statements were available to be issued.

PET PARTNERS AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2023 (With Comparative Totals for 2022)

Note 2 - Contributions Receivable

Contributions receivable at December 31 are as follows:

| | <u>2023</u> | <u>2022</u> |
|--|-------------------------|-------------------------|
| Receivable in less than one year | \$ 61,742 | \$ 51,992 |
| Receivable in more than than one year | 46,198 | 4,190 |
| Less allowance for uncollectible pledges | <u>(10,100)</u> | <u>(2,600)</u> |
| Total Contributions Receivable, Net | <u>\$ 97,840</u> | <u>\$ 53,582</u> |

Note 3 - Property, Equipment and Software

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

| | <u>Useful Life</u> | <u>2023</u> | <u>2022</u> |
|-----------------------------------|--------------------|--------------------------|--------------------------|
| Furniture, equipment and software | 3 - 5 years | \$ 1,427,283 | \$ 1,317,432 |
| Construction in progress | | <u>172,733</u> | <u>56,230</u> |
| | | 1,600,016 | 1,373,662 |
| Accumulated depreciation | | <u>(1,314,064)</u> | <u>(1,259,911)</u> |
| | | <u>\$ 285,952</u> | <u>\$ 113,751</u> |

Note 4 - In-Kind Goods and Services

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

| | <u>2023</u> | <u>2022</u> |
|------------------------------|--------------------------|--------------------------|
| Digital advertising | \$ 363,930 | \$ 475,489 |
| Donated goods and facilities | <u>8,427</u> | <u>3,457</u> |
| | <u>\$ 372,357</u> | <u>\$ 478,946</u> |

Fair values of goods and services received are based on management's estimates of the amount that Pet Partners would pay for the goods and services if they had not been donated. Donations of digital advertising are valued at the amount that the donor would sell the same advertisements to Pet Partner's for if they had not been donated. All nonfinancial assets were utilized during the year they were received.

PET PARTNERS AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2023 (With Comparative Totals for 2022)

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.

Fair value of assets measured on a recurring basis are:

| | Investments at Fair Value as of December 31, 2023 | | | |
|--|---|-------------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Money market | \$ 1,976,996 | \$ - | \$ - | \$ 1,976,996 |
| Equity mutual funds | 8,515,349 | | | 8,515,349 |
| Fixed income mutual funds | 3,389,872 | | | 3,389,872 |
| Fixed income securities | | 993,220 | | 993,220 |
| Total Investments at Fair Value | \$ 13,882,217 | \$ 993,220 | \$ - | \$ 14,875,437 |

| | Investments at Fair Value as of December 31, 2022 | | | |
|--|---|---------------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Money market | \$ 3,087,554 | \$ - | \$ - | \$ 3,087,554 |
| Equity mutual funds | 8,596,141 | | | 8,596,141 |
| Fixed income mutual funds | 1,373,221 | | | 1,373,221 |
| Fixed income securities | | 1,970,078 | | 1,970,078 |
| Total Investments at Fair Value | \$ 13,056,916 | \$ 1,970,078 | \$ - | \$ 15,026,994 |

PET PARTNERS AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2023 (With Comparative Totals for 2022)

Note 6 - Net Assets With Donor Restrictions

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

| | <u>2023</u> | <u>2022</u> |
|---|----------------------------|----------------------------|
| Subject to the passage of time or expenditure for specified purpose | \$ 177,678 | \$ 101,677 |
| Endowment fund- | | |
| Original gifts and required retained earnings (corpus) | 2,010,373 | 1,718,905 |
| Unappropriated endowment earnings | <u>995,236</u> | <u>790,346</u> |
| Total endowment fund | <u>3,005,609</u> | <u>2,509,251</u> |
| Total Net Assets With Donor Restrictions | <u>\$ 3,183,287</u> | <u>\$ 2,610,928</u> |

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 \$7,316,229 at December 31, 2023.

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 SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2023 (With Comparative Totals for 2022)

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 an equal emphasis on equity-based investments and securities 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 SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2023 (With Comparative Totals for 2022)

Note 7 - Continued

Endowment net assets by fund type and change in endowment net assets as of and for the years ended December 31, 2023 and 2022, were as follows:

| | Without Donor | With Donor Restrictions | | Total |
|--|-------------------------------------|-------------------------|-------------------------|----------------------|
| | Restrictions Quasi- Endowment | Endowment Corpus | Accumulated Earnings | |
| Endowment net assets, December 31, 2021 | \$ 7,315,274 | \$ 1,985,150 | \$ 1,474,043 | \$ 10,774,467 |
| Investment return- | | | | |
| Investment income | 102,668 | 17,633 | 29,767 | 150,068 |
| Net losses | (1,335,959) | (283,878) | (571,686) | (2,191,523) |
| Appropriations and transfers | | | (141,778) | (141,778) |
| Endowment Net Assets, December 31, 2022 | 6,081,983 | 1,718,905 | 790,346 | 8,591,234 |
| Investment return- | | | | |
| Investment income | 183,901 | 28,087 | 49,753 | 261,741 |
| Net gains (losses) | 1,050,345 | 263,381 | 305,059 | 1,618,785 |
| Appropriations and transfers | | | (149,922) | (149,922) |
| Endowment Net Assets, December 31, 2023 | \$ 7,316,229 | \$ 2,010,373 | \$ 995,236 | \$ 10,321,838 |

Note 8 - Future Lease Payments

In August 2021, Pet Partners entered into an operating lease agreement for office space in Bellevue, Washington. The term of the lease is three years, ending July 31, 2024, and includes lease payments that escalate annually. These arrangements where Pet Partners is the lessee create right-of-use (ROU) assets and lease liabilities. The obligation for this lease has been recognized as a liability in the consolidated Statements of Financial Positions based on future lease payments, discounted by the incremental borrowing rate or risk-free rate. Lease terms may include options to extend or terminate the lease when it is reasonably certain that Pet Partners will exercise that option. Pet Partner's policy is not to record a ROU asset and lease liability for leases with terms less than one year for operating leases. The remaining lease term remaining on Pet Partners office space lease is 0.5 years, and the discount rate is 0.16%.

Pet Partners also leases copier and postage equipment.

Future payments to be made on these leases are as follows:

For the Year Ending December 31,

| | |
|------|------------------|
| 2024 | \$ 30,461 |
| 2025 | 1,577 |
| | <u>\$ 32,038</u> |

PET PARTNERS AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended December 31, 2023 (With Comparative Totals for 2022)

Note 9 - 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.

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.

| | <u>2023</u> | <u>2022</u> |
|---|----------------------------|----------------------------|
| Cash and cash equivalents | \$ 520,904 | \$ 668,009 |
| Contributions receivable due within one year, less allowance | 51,642 | 49,392 |
| Accounts receivable | 39,545 | 38,009 |
| Investments | <u>14,875,437</u> | <u>15,026,994</u> |
| Total financial assets | 15,487,528 | 15,782,404 |
| Contractual or donor-imposed restrictions- | | |
| Endowment funds | (3,005,609) | (2,509,251) |
| Add back current year endowment appropriation | 169,252 | 149,922 |
| Other donor restricted funds | (177,678) | (101,677) |
| Quasi-endowment | <u>(7,316,229)</u> | <u>(6,081,983)</u> |
| Financial Assets Available to Meet Cash Needs For General Expenditures Within One Year | <u>\$ 5,157,264</u> | <u>\$ 7,239,415</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, 2023 and 2022 amounted to \$170,505 and \$152,774, respectively.