

PET PARTNERS AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025
(WITH COMPARATIVE TOTALS FOR 2024)



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**PET PARTNERS AND SUBSIDIARY
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YEAR ENDED DECEMBER 31, 2025
(WITH COMPARATIVE TOTALS FOR 2024)**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pet Partners and Subsidiary
Bellevue, Washington

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Pet Partners and Subsidiary (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2025, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Pet Partners and Subsidiary as of December 31, 2025, 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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of Pet Partners and Subsidiary 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.

Responsibilities of Management for the Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated 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 consolidated 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 Partners and Subsidiary'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pet Partners and Subsidiary'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.

Board of Directors
Pet Partners and Subsidiary

Reports on Summarized Comparative Information

The summarized comparative information as of and for the year ended December 31, 2024 has been derived from the audited financial statements of Pet Partners and Subsidiaries for that year. Those consolidated financial statements were audited by other auditors, whose report dated April 2, 2025 expressed an unmodified opinion on those consolidated financial statements. In our opinion, the summarized comparative information presented herein is consistent, in all material respects, with the audited consolidated financial statements from which it has been delivered.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
April 15, 2026

PET PARTNERS AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2025
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2024)

	2025	2024
ASSETS		
Cash and Cash Equivalents	\$ 479,936	\$ 524,004
Contributions Receivable, Net	344,900	67,900
Accounts Receivable	31,053	49,531
Prepaid Expenses and Other Current Assets	152,386	162,086
Right-of-Use Asset - Operating Lease	72,904	115,027
Investments	14,169,898	14,422,849
Property, Equipment, and Software, Net	172,710	226,725
Total Assets	\$ 15,423,787	\$ 15,568,122
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 180,306	\$ 190,169
Current Lease Liability - Operating	46,952	44,639
Long-Term Lease Liability - Operating	28,198	71,503
Deferred Revenue	254,744	246,449
Total Liabilities	510,200	552,760
NET ASSETS		
Without Donor Restrictions:		
Other Funds Without Donor Restrictions	1,379,880	3,367,641
Quasi-Endowment	9,515,696	8,238,386
Total Net Assets Without Donor Restrictions	10,895,576	11,606,027
With Donor Restrictions:		
Other Donor-Restricted Funds	476,784	173,526
Endowment Funds	3,541,227	3,235,809
Total Net Assets With Donor Restrictions	4,018,011	3,409,335
Total Net Assets	14,913,587	15,015,362
Total Liabilities and Net Assets	\$ 15,423,787	\$ 15,568,122

See accompanying Notes to Consolidated Financial Statements.

PET PARTNERS AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2025
(WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2024)

	Without Donor Restrictions	With Donor Restrictions	2025	2024
OPERATIONS				
Support and Revenue:				
Individual Contributions	\$ 301,925	\$ 2,450	\$ 304,375	\$ 437,061
Bequests	133,036	-	133,036	51,393
Corporation And Foundation Contributions	584,680	357,500	942,180	765,872
Special Events	149,440	-	149,440	127,370
Contributed Nonfinancial Assets	219,970	-	219,970	169,981
Registrations And Workshops	640,027	-	640,027	574,427
Membership Fees	132,401	-	132,401	117,429
Merchandise Sales	781	-	781	1,025
Investment Income	487,632		487,632	412,632
Net Assets Released from Restrictions:				
Expiration of Program Restrictions	26,968	(26,968)	-	-
Expiration of Time Restrictions	7,500	(7,500)	-	-
Total Support and Revenue	2,684,360	325,482	3,009,842	2,657,190
Expenses:				
Program Services	3,490,528	-	3,490,528	3,217,465
Management and General	824,489	-	824,489	732,187
Fundraising	303,651	-	303,651	449,958
Total Expenses	4,618,668	-	4,618,668	4,399,610
CHANGE IN NET ASSETS FROM OPERATIONS	(1,934,308)	325,482	(1,608,826)	(1,742,420)
NONOPERATING ACTIVITIES				
Investment Gains	1,218,925	283,194	1,502,119	1,167,227
Other Income	4,932	-	4,932	5,146
LLC Expenses:				
Operating Expenses		-	-	(1,508)
CHANGE IN NET ASSETS FROM NONOPERATING ACTIVITIES	1,223,857	283,194	1,507,051	1,170,865
CHANGE IN NET ASSETS	(710,451)	608,676	(101,775)	(571,555)
Net Assets - Beginning of Year	11,606,027	3,409,335	15,015,362	15,586,917
NET ASSETS - END OF YEAR	\$ 10,895,576	\$ 4,018,011	\$ 14,913,587	\$ 15,015,362

See accompanying Notes to Consolidated Financial Statements.

PET PARTNERS AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2025
(WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2024)

	Program Services	Supporting Services			2025 Total	2024 Total
		Fundraising	Management and General	Total Supporting		
Personnel Costs	\$ 2,305,250	\$ 140,923	\$ 458,854	\$ 599,777	\$ 2,905,027	\$ 2,895,997
Professional and Contract Services	618,001	53,627	227,062	280,689	898,690	736,622
Public Relations and Marketing	231,725	22,150	28,493	50,643	282,368	228,896
Miscellaneous	39,896	29,953	35,869	65,822	105,718	93,197
Insurance	94,506	5,511	25,425	30,936	125,442	140,976
Volunteer Benefits	50,295	-	-	-	50,295	43,682
Meetings and Conferences	36,907	12,849	24,387	37,236	74,143	58,843
Depreciation and Amortization	53,731	3,276	10,681	13,957	67,688	75,863
Rent, Utilities, and Telephone	42,503	2,591	8,449	11,040	53,543	50,411
Postage and Mailing	11,075	8,193	963	9,156	20,231	22,340
Printing and Publishing	352	24,117	2,481	26,598	26,950	30,711
Building Entity Dissolution Costs	-	-	-	-	-	10,482
Equipment Rental and Maintenance	5,784	353	1,150	1,503	7,287	8,965
Office Supplies	503	108	675	783	1,286	2,625
Total Expenses Before LLC Depreciation And LLC Operating Expenses	3,490,528	303,651	824,489	1,128,140	4,618,668	4,399,610
LLC Operating Expenses	-	-	-	-	-	1,508
Total Expenses	\$ 3,490,528	\$ 303,651	\$ 824,489	\$ 1,128,140	\$ 4,618,668	\$ 4,401,118

See accompanying Notes to Consolidated Financial Statements.

PET PARTNERS AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2025
(WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2024)

	<u>2025</u>	<u>2024</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO		
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (101,775)	\$ (571,555)
Adjustments to Reconcile Change in Net Assets to		
Net Cash (Used) by Operating Activities:		
Depreciation and Amortization	67,688	75,863
Reinvested Investment Income	(466,570)	(148,296)
(Gain) on Investments	(1,502,119)	(1,167,227)
Changes in Assets and Liabilities:		
Contributions Receivable	(277,000)	29,940
Accounts Receivable	18,478	(9,986)
Prepaid Expenses and Other Current Assets	9,700	125,364
Accounts Payable and Accrued Liabilities	(9,863)	(96,952)
Operating Lease Obligation, Net of Right-of-Use Asset	1,131	354
Deferred Revenue	8,295	14,120
Net Cash Used by Operating Activities	<u>(2,252,035)</u>	<u>(1,748,375)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	3,105,070	2,050,292
Purchase of Investments	(1,350,221)	(430,477)
Purchase of Property, Equipment, and Software	(13,452)	(16,636)
Net Cash Provided by Investing Activities	<u>1,741,397</u>	<u>1,603,179</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Investment Return Restricted to Endowment	466,570	148,296
Net Cash Provided by Financing Activities	<u>466,570</u>	<u>148,296</u>
CHANGES IN CASH AND CASH EQUIVALENTS	(44,068)	3,100
Cash and Cash Equivalents - Beginning of Year	<u>524,004</u>	<u>520,904</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 479,936</u>	<u>\$ 524,004</u>

See accompanying Notes to Consolidated Financial Statements.

PET PARTNERS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2024)

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Pet Partners is a nonprofit 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 (the Building). The Building was sold during the year ended December 31, 2021; and, the LLC was dissolved during the year ended December 31, 2024.

In September 2020, Pet Partners incorporated Association of Animal Assisted Intervention Professionals (AAAIP). AAAIP is a nonprofit 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 consolidated financial statements have been prepared on the accrual basis of accounting. Pet Partners has presented an unclassified statement of financial position which sequences assets according to their nearness of conversion to cash and sequences liabilities according to the nearness of their maturity and use of cash. 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 Restrictions – Net assets that are not subject to or are no longer subject to donor-imposed restrictions.

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

PET PARTNERS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2024)

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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 consolidated 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 consolidated 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.

Nonoperating Activities

Pet partners considers realized and unrealized gains and losses from investments and expenses related to the LLC to be nonoperating activities.

Comparative Amounts for 2024

The accompanying consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2024, 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.

PET PARTNERS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2024)

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are reported at their fair values in the consolidated 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 consolidated 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, 2025 and 2024, there were no conditional contributions. Donated securities are recorded at their fair values on the date of receipt.

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, workshop fees, and memberships is deferred and recognized over the period to which it relates.

PET PARTNERS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2024)

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (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.

Membership Fees

Pet Partners recognizes membership fees over the period of the annual membership.

Contributed Nonfinancial Assets

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 consolidated financial statements.

Special Events

Pet Partners had fundraising events with gross revenues of \$149,440 and \$127,370 and expenses of \$33,366 and \$43,774 during the years ended December 31, 2025 and 2024, 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 consolidated 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.

PET PARTNERS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2024)

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Pet Partners determines if an arrangement contains a lease at inception. Operating leases are included in right-of-use (ROU) assets and lease obligations in the consolidated statement of financial position. ROU assets represent a right to use an underlying asset for the lease term and operating lease obligations represent Pet Partner's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Pet Partner's leases do not provide an implicit rate of return; thus Pet Partners uses a rate of .16%, determined using a period comparable with that of the lease term from the later of the lease commencement date or implementation date. The ROU asset does not include prepaid lease payments, unamortized initial direct costs, or lease incentives. Pet Partners has lease agreements with lease and nonlease components which are accounted for as a single lease component. Lease terms may include options to extend or terminate the lease when it is reasonably certain that Pet Partners will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. An ROU asset and operating lease obligation is not recognized for leases with an initial term of 12 months or less or when total lease payments are less than \$5,000.

Subsequent Events

Management has evaluated events occurring subsequent through April 15, 2026, the date on which the consolidated financial statements were available to be issued.

NOTE 2 CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31 are as follows:

	2025	2024
Receivable in Less Than One Year	\$ 343,000	\$ 65,500
Receivable in More Than One Year	3,000	3,500
Less: Allowance for Uncollectible Pledges	(1,100)	(1,100)
Total Contributions Receivable, Net	<u>\$ 344,900</u>	<u>\$ 67,900</u>

NOTE 3 PROPERTY, EQUIPMENT, AND SOFTWARE

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

	<u>Useful Life</u>	2025	2024
Property, Equipment, and Software	3 to 5 Years	\$ 1,630,325	\$ 1,616,653
Less: Accumulated Depreciation		(1,457,615)	(1,389,928)
Total		<u>\$ 172,710</u>	<u>\$ 226,725</u>

PET PARTNERS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2024)

NOTE 4 CONTRIBUTED NONFINANCIAL ASSETS

For the years ended December 31, contributed nonfinancial assets consisted of the following:

	2025	2024
Digital Advertising	\$ 211,409	\$ 168,393
Donated Goods and Facilities	8,561	1,588
Total	\$ 219,970	\$ 169,981

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.

NOTE 5 INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair Value Measurements

U.S. GAAP defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP, and requires disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, the guidance uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

PET PARTNERS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2024)

NOTE 5 INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value Measurements (Continued)

Fair value of assets measured on a recurring basis are:

	Investments at Fair Value as of December 31, 2025			
	Level 1	Level 2	Level 3	Total
Money Market	\$ 334,852	\$ -	\$ -	\$ 334,852
Equity Mutual Funds	13,831,821	-	-	13,831,821
Fixed Income Mutual Funds	-	-	-	-
Fixed Income Securities	3,225	-	-	3,225
Total Investments at Fair Value	\$ 14,169,898	\$ -	\$ -	\$ 14,169,898

	Investments at Fair Value as of December 31, 2024			
	Level 1	Level 2	Level 3	Total
Money Market	\$ 831,405	\$ -	\$ -	\$ 831,405
Equity Mutual Funds	9,578,240	-	-	9,578,240
Fixed Income Mutual Funds	3,621,579	-	-	3,621,579
Fixed Income Securities	-	391,625	-	391,625
Total Investments at Fair Value	\$ 14,031,224	\$ 391,625	\$ -	\$ 14,422,849

NOTE 6 NET ASSETS WITH DONOR RESTRICTIONS

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

	2025	2024
Subject to the Passage of Time or Expenditure for Specified Purpose Endowment Fund:		
Original Gifts and Required Retained Earnings (Corpus)	2,331,516	2,158,669
Unappropriated Endowment Earnings	1,209,711	1,077,140
Total Endowment Fund	3,541,227	3,235,809
Total Net Assets With Donor Restrictions	\$ 4,018,011	\$ 3,409,335

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.

PET PARTNERS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2024)

NOTE 7 ENDOWMENT FUNDS (CONTINUED)

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 \$9,515,695 at December 31, 2025.

Interpretation of Relevant Law

The board of directors of the Pet Partners has reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, having considered 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, the Pet Partners classifies as net assets restricted in perpetuity (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in net assets restricted in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the board in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, the board considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purposes of the Pet Partners and the donor-restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Pet Partners; and
7. The investment policies of the Pet Partners.

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or PMIFA requires the Pet Partners to retain as a fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2025 and 2024.

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.

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NOTE 7 ENDOWMENT FUNDS (CONTINUED)

Return Objectives and Risk Parameters (Continued)

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% 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% 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% 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, 2025 and 2024, were as follows:

	Without Donor Restrictions	With Donor Restrictions		
December 31, 2025	Quasi- Endowment	Endowment Corpus	Accumulated Earnings	Total
Endowment Net Assets -				
Beginning of Year	\$ 8,238,386	\$ 2,158,669	\$ 1,077,140	\$ 11,474,195
Investment Return:				
Investment Income	291,030	34,517	59,627	385,174
Net Gains	986,279	138,330	234,095	1,358,704
Appropriations and Transfers	-	-	(161,843)	(161,843)
Endowment Net Assets -				
End of Year	<u>\$ 9,515,695</u>	<u>\$ 2,331,516</u>	<u>\$ 1,209,019</u>	<u>\$ 13,056,230</u>

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NOTE 7 ENDOWMENT FUNDS (CONTINUED)

Spending Policy and How the Investment Objective Relates to Spending Policy
(Continued)

December 31, 2024	Without Donor Restrictions Quasi- Endowment	With Donor Restrictions		Total
		Endowment Corpus	Accumulated Earnings	
Endowment Net Assets -				
Beginning of Year	\$ 7,316,229	\$ 2,010,373	\$ 995,236	\$ 10,321,838
Investment Return:				
Investment Income	199,264	32,079	54,095	285,438
Net Gains	722,893	116,217	197,061	1,036,171
Appropriations and Transfers	-	-	(169,252)	(169,252)
Endowment Net Assets -				
End of Year	<u>\$ 8,238,386</u>	<u>\$ 2,158,669</u>	<u>\$ 1,077,140</u>	<u>\$ 11,474,195</u>

NOTE 8 LEASES

Pet Partners leases office space under a long-term, noncancelable lease agreement which expires in July 2027. The lease includes a renewal option that is excluded from the lease liability as it is not reasonably certain the option will be exercised.

Other information related to the Pet Partners's operating lease as of December 31 was as follows:

	2025	2024
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:		
Operating Cash Flows from Operating Leases	\$ 44,792	\$ 42,436
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	\$ 72,914	\$ 134,355
Weighted-Average Remaining Lease Term -		
Operating Lease	1.6 Years	2.5 Years
Weighted-Average Discount Rate - Operating Lease	0.16%	0.20%

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NOTE 8 LEASES (CONTINUED)

Future minimum payments required under the lease are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2026	\$ 47,032
2027	28,209
Total Lease Payments	75,241
Less: Present Value Discount	(91)
Total Operating Lease Obligation	<u>\$ 75,150</u>
Short-Term Lease Liabilities	\$ 46,952
Long-Term Lease Liabilities	28,198
Total	<u>\$ 75,150</u>

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. Amounts 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.

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NOTE 9 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (CONTINUED)

Availability (Continued)

	<u>2025</u>	<u>2024</u>
Cash and Cash Equivalents	\$ 479,936	\$ 524,004
Contributions Receivable Due Within One Year, Less Allowance	341,900	64,400
Accounts Receivable	31,053	49,531
Investments	14,169,898	14,422,849
Total Financial Assets	<u>15,022,787</u>	<u>15,060,784</u>
Contractual or Donor-Imposed Restrictions:		
Endowment Funds	(3,541,227)	(3,235,809)
Add Back Endowment Appropriation Available Within One Year	161,843	161,152
Other Donor-Restricted Funds	(476,784)	(173,526)
Quasi-Endowment	<u>(9,515,696)</u>	<u>(8,238,386)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures within One Year	<u>\$ 1,650,923</u>	<u>\$ 3,574,215</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, 2025 and 2024 amounted to \$167,007 and \$133,639, respectively.



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