KITSAP HUMANE SOCIETY

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2025

KITSAP HUMANE SOCIETY
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YEAR ENDED DECEMBER 31, 2025

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Kitsap Humane Society
Silverdale, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Kitsap Humane Society, which comprise the statement of financial position as of December 31, 2025, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Kitsap Humane Society 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 Financial Statements* section of our report. We are required to be independent of Kitsap Humane Society and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 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.

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 Kitsap Humane Society's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' 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 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 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 Kitsap Humane Society'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 Kitsap Humane Society'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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
July 30, 2026

KITSAP HUMANE SOCIETY
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2025

ASSETS

CURRENT ASSETS	
Cash and Cash Equivalents	
Undesignated	$ 761,824
Board-Designated	18,208
Restricted	71,444
Total Cash and Cash Equivalents	851,476
Investments - Board-Designated	1,258,512
Accounts Receivable	10,908
Prepaid Expenses	92,604
Inventory	29,967
Total Current Assets	2,243,467
CAPITAL CAMPAIGN ASSETS	
Cash and Cash Equivalents	8,461
Pledges Receivable	7,043
Total Capital Campaign Assets	15,504
PROPERTY AND EQUIPMENT, NET	16,321,341
FINANCING RIGHT-OF-USE ASSETS	49,913
ASSET HELD FOR SALE	394,250
Total Assets	$ 19,024,475

See accompanying Notes to Financial Statements.

KITSAP HUMANE SOCIETY
STATEMENT OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2025

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts Payable	$ 75,593
Accrued Vacation Payable	94,266
Accrued Payroll and Related Liabilities	83,101
Deferred Revenue	150,000
Financing Lease Obligation, Current Portion	19,920
Other Current Liabilities	4,200
Total Current Liabilities	427,080
LONG-TERM LIABILITIES	
Forgivable Loans	1,163,273
Financing Lease Obligation, Net of Current Portion	32,623
Total Liabilities	1,622,976
NET ASSETS	
Without Donor Restrictions	
Board-Designated	1,276,720
Undesignated	15,936,168
Total Net Assets Without Donor Restrictions	17,212,888
With Donor Restrictions	188,611
Total Net Assets	17,401,499
Total Liabilities and Net Assets	$ 19,024,475

See accompanying Notes to Financial Statements.

KITSAP HUMANE SOCIETY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2025

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING ACTIVITIES			
PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS			
Public Support			
Contributions	$ 1,591,471	$ 71,484	$ 1,662,955
Bequests	340,049	-	340,049
Grants	715,260	-	715,260
Special Events Income	664,220	-	664,220
Contributed Nonfinancial Assets	130,978	-	130,978
Total Public Support	3,441,978	71,484	3,513,462
Revenues			
Animal Control Contract Fees	1,003,500	-	1,003,500
License Revenues	94,647	-	94,647
Animal Adoptions, Net of Discounts of $15,641	445,899	-	445,899
Impound and Boarding Fees	48,636	-	48,636
Veterinary Services	728,361	-	728,361
Retail Sales and Other Income, Net of Costs of Goods $43,061	24,623	-	24,623
Interest and Dividend Income, Net of Investment Fees of $2,342	54,227	-	54,227
Unrealized Gain on Investments	23,232	-	23,232
Realized Gain on Investments, Net of Fees	7,821	-	7,821
Total Revenues	2,430,946	-	2,430,946
Satisfaction of Program Restrictions	21,435	(21,435)	-
Total Public Support, Revenues, and Reclassifications	5,894,359	50,049	5,944,408

See accompanying Notes to Financial Statements.

KITSAP HUMANE SOCIETY
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED DECEMBER 31, 2025

	Without Donor Restrictions	With Donor Restrictions	Total
EXPENSES			
Program Services			
Licensing	$ 69,753	$ -	$ 69,753
Animal Control	836,002	-	836,002
Shelter	1,895,129	-	1,895,129
Veterinary Services	2,444,419	-	2,444,419
Total Program Services Expenses	5,245,303	-	5,245,303
Supporting Services			
Administration	411,589	-	411,589
Development	687,326	-	687,326
Total Support Services Expenses	1,098,915	-	1,098,915
Total Expenses (See Page 7 and 8)	6,344,218	-	6,344,218
CHANGE IN NET ASSETS FROM OPERATIONS	(449,859)	50,049	(399,810)
NONOPERATING ACTIVITIES			
Capital Campaign Contributions	-	3,000	3,000
Gain on Donated Vehicle	34,189	-	34,189
Gain on Donated Land for Sale	394,250	-	394,250
Release of Net Assets for Capital Purposes	155,151	(155,151)	-
Total	583,590	(152,151)	431,439
CHANGE IN NET ASSETS	133,731	(102,102)	31,629
Net Assets - Beginning of Year, as Restated	17,079,157	290,713	17,369,870
NET ASSETS - END OF YEAR	$ 17,212,888	$ 188,611	$ 17,401,499

See accompanying Notes to Financial Statements.

KITSAP HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2025

	Program Services				
	Licensing	Animal Control	Shelter	Veterinary Services	Total
Salaries and Wages	$ 43,640	$ 494,032	$ 1,119,822	$ 1,215,923	$ 2,873,417
Payroll Taxes	4,366	50,909	122,538	121,119	298,932
Other Employee Benefits	3,472	41,343	96,452	79,573	220,840
Total	51,478	586,284	1,338,812	1,416,615	3,393,189
Fees - Veterinary Services	-	-	-	168,005	168,005
Fees - Management Services	-	-	-	-	-
Fees - Accounting	-	-	-	-	-
Fees - Legal	-	-	-	-	-
Information Technology	477	2,383	12,869	7,149	22,878
Program Expense - Licensing	5,485	-	-	-	5,485
Program Expense - Animal Control	-	12,956	-	-	12,956
Program Expense - Shelter	-	-	69,810	-	69,810
Program Expense - Veterinary Services	-	-	-	379,036	379,036
Telecommunications - 911 CENCOM	-	45,833	-	-	45,833
Vehicle Maintenance and Operation	78	43,707	5,953	1,166	50,904
Occupancy	4,190	20,949	114,166	62,846	202,151
Office Expense	2,546	4,628	26,251	14,225	47,650
Information Tech Expenses	235	1,175	11,505	8,521	21,436
Marketing and Advertising	-	-	-	-	-
Fundraising	-	-	-	-	-
Insurance	2,184	74,489	58,957	32,754	168,384
Memberships and Dues	31	157	4,262	5,250	9,700
Staff Development	61	4,947	4,850	9,524	19,382
Travel	10	107	407	152	676
Conference and Meeting	-	-	-	-	-
Bank Charges	2	11	-	10,306	10,319
Payroll Processing Costs	-	1,593	7,120	7,874	16,587
Business Taxes and Expenses	-	-	-	-	-
Noncash Contribution Expenses	-	-	38,647	-	38,647
Special Event Costs	-	-	-	-	-
Cost of Goods Sold	-	-	17,162	-	17,162
Investment Fees	-	-	-	-	-
Total	66,777	799,219	1,710,771	2,123,423	4,700,190
Depreciation	2,976	36,783	201,520	320,996	562,275
Total Functional Expenses	69,753	836,002	1,912,291	2,444,419	5,262,465
Less: Expenses Netted Against Revenues on the Statement of Activities:					
Investment Fees	-	-	-	-	-
Cost of Goods Sold	-	-	(17,162)	-	(17,162)
Total Expenses Included in the Expense Section of the Statement of Activities	$ 69,753	$ 836,002	$ 1,895,129	$ 2,444,419	$ 5,245,303

See accompanying Notes to Financial Statements.

KITSAP HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2025

	Supporting Services			
	Administration	Development	Total Supporting	Totals from Pages 7 and 8 2025
Salaries and Wages	$ 283,234	$ 324,038	$ 607,272	$ 3,480,689
Payroll Taxes	28,767	21,427	50,194	349,126
Other Employee Benefits	20,750	33,651	54,401	275,241
Total	332,751	379,116	711,867	4,105,056
Fees - Veterinary Services	-	-	-	168,005
Fees - Management Services	3,600	-	3,600	3,600
Fees - Accounting	22,452	-	22,452	22,452
Fees - Legal	4,116	-	4,116	4,116
Information Technology	477	477	954	23,832
Program Expense - Licensing	-	-	-	5,485
Program Expense - Animal Control	-	-	-	12,956
Program Expense - Shelter	-	-	-	69,810
Program Expense - Veterinary Services	-	-	-	379,036
Telecommunications - 911 CENCOM	-	-	-	45,833
Vehicle Maintenance and Operation	78	256	334	51,238
Occupancy	4,190	4,190	8,380	210,531
Office Expense	3,498	8,094	11,592	59,242
Information Tech Expenses	2,321	4,020	6,341	27,777
Marketing and Advertising	-	24,044	24,044	24,044
Fundraising	-	31,349	31,349	31,349
Insurance	2,184	2,184	4,368	172,752
Memberships and Dues	1,301	1,086	2,387	12,087
Staff Development	1,330	703	2,033	21,415
Travel	22	259	281	957
Conference and Meeting	-	27	27	27
Bank Charges	22,988	12,400	35,388	45,707
Payroll Processing Costs	1,489	3,289	4,778	21,365
Business Taxes and Expenses	5,817	-	5,817	5,817
Noncash Contribution Expenses	-	92,331	92,331	130,978
Special Event Costs	-	120,312	120,312	120,312
Cost of Goods Sold	-	-	-	17,162
Investment Fees	2,343	-	2,343	2,343
Total	410,957	684,137	1,095,094	5,795,284
Depreciation	2,975	3,189	6,164	568,439
Total Functional Expenses	413,932	687,326	1,101,258	6,363,723
Less: Expenses Netted Against Revenues on the Statement of Activities:				
Investment Fees	(2,343)	-	(2,343)	(2,343)
Cost of Goods Sold	-	-	-	(17,162)
Total Expenses Included in the Expense Section of the Statement of Activities	$ 411,589	$ 687,326	$ 1,098,915	$ 6,344,218

See accompanying Notes to Financial Statements.

KITSAP HUMANE SOCIETY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2025

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	$ 31,629
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Realized and Unrealized (Gains) on Investments	(21,691)
Depreciation and Amortization	568,439
Amortization of ROU asset	19,523
Donated Vehicle	(34,189)
Capital Campaign Contributions	(3,000)
Increase (Decrease) in:	
Receivables	4,953
Pledges Receivable	14,799
Inventory	(6,910)
Asset Held for Sale	(394,250)
Prepaid Expenses	(39,534)
Increase (Decrease) in:	
Accounts Payable	34,079
Accrued wages and Vacation payable	28,779
Deferred Revenue	(101,600)
Lease Liability - Financing	780
Other Current Liabilities	1,232
Net Cash Provided by Operating Activities	103,039
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sale of Investments	896,426
Purchase of Investments	(746,888)
Purchase of Property and Equipment	(300,877)
Net Cash Used by Investing Activities	(151,339)
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital Campaign Contributions	3,000
Payments on Financing Lease Obligations	(19,921)
Net Cash Provided (Used) by Financing Activities	(16,921)
CHANGE IN CASH, CASH EQUIVALENTS, AND CAPITAL CAMPAIGN CASH	(65,221)
Cash, Cash Equivalents, and Capital Campaign Cash - Beginning of Year	925,158
CASH, CASH EQUIVALENTS, AND CAPITAL CAMPAIGN CASH - END OF YEAR	$ 859,937
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Equipment Financed through Finance Lease Agreement	$ 49,913
Noncash Donation of Vehicle, Equipment, and Property	$ 34,189

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations

Our Vision: Every adoptable companion animal has a home.

Our Mission: Kitsap Humane Society (KHS or the Organization) is an independent nonprofit committed to providing positive life-changing solutions to people and companion animals. We do so by:

- Accepting, sheltering, and rehabilitating companion animals in need.
- Providing humane rescue, protection, prevention, adoption and education services.
- Implementing progressive lifesaving and life-affirming programs.
- Creatively collaborating and partnering with our region and supporters to build a model humane community.

KHS, as an animal welfare organization, exists to protect animals and promote their humane and responsible treatment. Founded in 1908, and located in Silverdale, Washington, KHS fills a unique role in our region as the principal animal shelter and safety net organization for lost and homeless animals in Kitsap County and neighboring counties. Our primary purpose is to advance animal welfare through compassionate, individualized, lifesaving veterinary care and sheltering to rescue, rehabilitate and rehome thousands of homeless animals every year.

KHS is in the top-tier of large, open-admission animal shelters. KHS exceeds the 90% save rate that is the "gold-standard" nationally in the field. (unaudited) Our comprehensive Veterinary Medicine, Behavior Rehabilitation, and Foster Care Programs follow best practices in the field and are examples of the specialized programs that enable KHS to rescue and save the lives of thousands of animals each year. It is with the support of our compassionate and generous community–adopters, donors, volunteers, and others–that we can achieve this level of success.

KHS's mission goes well beyond saving animals. Over 30,000 people come to KHS each year, most looking to adopt, including financially at-risk families seeking reduced-cost Veterinary Services and pet food supplies. We actively engage hundreds of citizens in meaningful volunteer work. We improve the lives of thousands of community residents by connecting them with animals, providing the documented benefits of pet ownership, such as decreased stress, improved heart health, development of emotional and social skills for children, and less loneliness and anxiety. Our reduced fee services and Pet Food Pantry provide considerable support to low-income households, helping them keep their pets, rather than surrender them due to lack in funds–the kind of safety net that helps people keep and responsibly care for their animals.

KHS operates animal control for Kitsap County and all incorporated municipalities within the County. Animal Control enforces laws and regulations regarding the care, treatment, control, impounding of pets and livestock. KHS is responsible for issuing pet licenses for unincorporated Kitsap County, city of Bremerton and the city of Poulsbo. KHS also issues licenses and collects fees for the city of Port Orchard and the city of Bainbridge Island for animals it adopts to residents of those cities. Licensing is part of KHS's responsibilities under its Animal Control contracts.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Operations (Continued)

In 2025 KHS:

- Rescued 3,795 animals from owner surrenders, at risk animals transferred in from other shelters, and stray animals
- Adopted 2,874 animals
- Placed 1,172 animals in foster care
- Provided 5,730 spay/neuter surgeries, included 2,164 low-cost spay/neuter surgeries
- Investigated 4,552 complaints through Animal Control

Veterinary Lifesaving Center

The Russ and Linda Young Veterinary Lifesaving Center was completed in September 2023. Opening this low-cost, fully operational veterinary clinic has allowed KHS to provide extensive support for the most vulnerable of animals and families. In 2025 KHS:

- Provided medical, surgical care, and spay/neuter services to more than 9,000 animals (both shelter and community pets)
- Performed 6,076 surgeries in the new surgical center, including 3,472 spay/neuter surgeries for the public
- Increased community spay/neuter services by 60% over 2024
- Provided more than 2,005 appointments that kept pets with their families

Financial Statement Presentation

Net assets and changes therein are classified and reported using two classes of net assets: with donor restrictions and without donor restrictions, based on the existence or absence of donor-imposed restrictions.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting.

Measure of Operations

The Organization classifies revenues, support, expenses, and gains and losses into operating and nonoperating categories in its statement of activities. Operating activities include revenues, support, expenses, and gains and losses that are an integral part of Organization’s programs and associated support services. Nonoperating activities are revenues, expenses, and gains and losses directly related to board-designated bequests for future capital needs and capital campaign activity.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Amounts included in capital campaign cash represents cash balances set aside for use in the capital campaign.

Financial Instruments and Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credits risk consist of cash and investments. Insured accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor, per insured bank, for each account ownership category. As of December 31, 2025, the Organization had approximately $509,747 in excess of FDIC insurance limits. To date, the Organization has not experienced losses in any of these accounts.

Investments

Investments consist primarily of assets invested in certificates of deposit and mutual funds. Investments are measured with readily determinable fair values based on quoted market prices. The realized and unrealized gains or losses are reported in the statement of changes in net assets as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

Account Receivables and Allowance for Credit Losses

No allowance for credit losses has been established based on management’s review and assessment of the collectability of the Organization’s receivables. Management considers the creditworthiness and past collection experience of its contributors in making this assessment. This assessment includes current and expected losses based on historical charge-off rates and anticipated future conditions that impact the collectability of receivables at December 31, 2025. Management determined the allowance for expected credit losses is immaterial.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

Pledges receivable are unconditional promises to give. Such promises that are expected to be collected within one year are recorded at expected net realizable value when the promise is received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Pledges receivable are discounted using fair value rates and an allowance for uncollectible pledges.

Inventories

Inventories are stated at the lower of cost determined by the first-in, first-out method or net realizable value.

Property and Equipment

Property and equipment with a cost over $2,500 are recorded at cost or fair value if donated to the Organization. Expenditures that materially increase estimated useful lives of assets are capitalized. Maintenance and repairs are expensed as incurred. Gains or losses on disposition of property are recognized as changes in unrestricted net assets.

Donated property, plant, and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Property, plant, and equipment restricted to a specific purpose, without a donor's stipulation as to how long the donated asset must be maintained, are released from restriction over time each year for the amount of depreciation expense related to that donated asset. Assets with a donor-imposed restriction are released based on that donor restriction.

Depreciation

Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 39 years.

Contributions

The Organization chooses to show contributions with donor restrictions whose restrictions are met in the same reporting period as contributions without donor restrictions. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. Subsequently, when a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Bequests

Bequests are not recognized until such time as the gift is irrevocable and the amount can be determined or upon actual receipt of funds.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Nonfinancial Assets

In accordance with financial accounting standards, the financial statements reflect only those contributed services requiring specific expertise that the Organization would otherwise need to purchase. Contributed services are recorded at rates that would have been paid for similar services if purchased. However, many individuals volunteer their time and perform a variety of tasks, such as assisting with adoptions, foster parenting, special events, and dog behavior and socialization. During the year ended December 31, 2025, the Organization received over 48,000 (unaudited) volunteer hours, which do not meet the requirements for recognition and are therefore, not recorded in the statement of activities. For the year ended December 31, 2025, in kind donations included pet food, pet treats, pet accessories, cleaning supplies, medical supplies, medical devices, and vehicles of $130,978. These donations are recorded at the value at the time of donation, which approximates fair value.

Leases

The Organization leases equipment. The Organization determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities on the statements of financial position.

ROU assets represent the Organization’s right to use an underlying asset for the lease term and lease liabilities represent the Organization’s obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As most of leases do not provide an implicit rate, the Organization uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right-of-use assets on the statements of financial position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Organization has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Salaries and direct costs are allocated to cost centers for the programs and other activities benefited. Utilities, depreciation, and other shared costs are based on the square footage and an estimate of the amount used by programs.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

Advertising costs are expensed as incurred.

Sales Tax

The Organization excludes from its sales and cost of sales all sales taxes collected from customers and remitted to the state.

Net Assets

The Organization reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Net assets are classified based on the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations but are controlled and designated by the board of directors. These include the general, operating, and equipment accounts. The board of directors has designated $1,276,720 for the year ended December 31, 2025 for these reserve funds.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. In 2025, these restricted assets primarily reflect all the cash donations for the capital campaign and pledges that had been received as of December 31, 2025 that have been set aside for that project, and not yet released, and additional restricted gifts and grants for other operating and capital purposes (other than the capital campaign) that had been received but not released by the end of 2025. These totaled $188,611 as of December 31, 2025.

Federal Income Taxes

The Organization is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Organization has been determined by the Internal Revenue Service (IRS) not to be a "private foundation" within the meaning of Section 509(a) of the IRC.

The Organization has analyzed the tax positions taken in its filings with the IRS and state jurisdictions where it operates. The Organization believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization's financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserve, or related accruals for interest and penalties for uncertain income tax at December 31, 2025.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government Contract – Animal Control Contract Fees

Government contracts for animal control services under exchange transactions are reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing services to their clients. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on monthly service contracts. The Organization believes that this method provides a faithful depiction of the transfer of services based on the inputs needed to satisfy the obligation.

Revenue recognized under exchange transactions totaled $1,003,500 for the year ended December 31, 2025.

Program Service Fees – License Revenues, Animal Adoptions, Impound and Boarding Fees, and Veterinary Services

Program service fees, including license revenues, animal adoptions, impound and boarding fees, and veterinary services are reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing services to their program participants. These amounts are due from individuals for program services such as classes and training. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided. Revenue for licenses, animal adoptions and veterinary services are recognized at a point in time as the performance obligation is completed. Revenue for performance obligations related to impound and boarding fees are satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. As such, revenue is recognized as the services is rendered. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

Subsequent Events

Management has evaluated subsequent events through July 30, 2026, the date the financial statements were available to be issued.

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as of December 31, 2025:

Cash on Hand	$	2,800
Noninterest Checking		408,383
Savings and Money Market Funds		448,754
Total	$	859,937

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

Cash and cash equivalents are presented in the accompanying financial statements as follows for the year ended December 31, 2025:

Cash and Cash Equivalents	$	851,476
Capital Campaign Cash and Cash Equivalents		8,461
Total Cash, Cash Equivalents, and Capital Campaign Cash Shown in the Statement of Cash Flows	$	859,937

NOTE 3 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS AND INVESTMENTS

The Organization follows the guidance of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements*. FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value, and expands disclosures about financial instruments. In addition, FASB ASC 820-10 establishes a hierarchy that classifies the inputs used to calculate fair value. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not considered to be active for identical assets or liabilities, quoted prices in active markets for similar assets or liabilities, and inputs other than quoted prices that are directly observable or indirectly through corroboration with observable market data;

Level 3 – Inputs that are both significant to the fair value measurement and unobservable, including investment specific inputs that are not derived from market data and inputs that cannot be corroborated by market data. The determination of fair value for investments included in the Level 3 category requires considerable subjectivity and estimation.

Investments are valued at the closing price reported on the active market on which the individual funds are traded. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 3 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS AND INVESTMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Organization's investment assets at fair value as of December 31, 2025:

	Level 1	Level 2	Level 3	Total
Mutual Funds	$ 1,258,512	$ -	$ -	$ 1,258,512
Total Investments at Fair Value	$ 1,258,512	$ -	$ -	$ 1,258,512

NOTE 4 PLEDGES RECEIVABLE

Unconditional promises to give to the Organization are recognized when the promises are made. Unconditional pledges to give due in subsequent years are reported at present value, using an interest rate of 5.0% and an allowance for uncollectible pledges using a rate of 3%. Pledges receivable related to the capital campaign described in Note 1 are $7,043 as of December 31, 2025.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at December 31, 2025:

Building and Improvements	$ 18,876,693
Land	23,031
Equipment and Computers	862,012
Vehicles	278,154
Leasehold Improvements	107,800
Software and Web Site Design	59,092
Construction in Progress	155,316
Total	20,362,098
Accumulated Depreciation and Amortization	(4,040,757)
Total Property and Equipment	$ 16,321,341

Depreciation on the construction in progress is related to the expansion project and will begin when the project is completed and placed in service or written off if the project is discontinued.

NOTE 6 LEASES

The Organization leases two copiers under long-term, noncancelable finance lease agreements expiring in 2028. Total lease cost of $21,982 is included in Office Expense on the Organization's statement of functional expenses.

NOTE 6 LEASES (CONTINUED)

Amounts reported on the statement of financial position as of December 31, 2025 are as follows:

Financing Lease Right-of-Use Asset	$	49,913
Financing Lease Obligation		52,543

The following is a schedule of total future minimum lease payments and the present value of future minimum lease payments for financing leases:

Year Ending December 31,		Finance
2026	$	21,600
2027		21,600
2028		12,020
Undiscounted Cash Flows		55,220
Less: Imputed Interest		2,676
Total Present Value		52,544
Short-Term Financing Lease Obligation		19,920
Long-Term Financing Lease Obligation	$	32,623

Other information related to the Organization’s leases as of December 31, 2025 was as follows:

Cash Paid for Amounts Included in the Measurement of Lease Liabilities:		
Operating Cash Flows from Finance Leases	$	2,459
Financing Cash Flows from Finance Leases	$	19,141
Weighted-Average Remaining Lease Term - Financing Leases		2.5 Years
Weighted-Average Discount Rate - Financing Leases		4.00%

NOTE 7 FORGIVABLE LOANS

During the year ended December 31, 2023, KHS received from the Washington State Department of Commerce (DOC) three grants totaling $1,134,900 of principal funding. An additional $28,373 of related forgivable interest was also granted, for a total potential funding amount of $1,163,273. These grants were used for the construction of veterinary facilities. The grants terms and conditions require KHS to use the facilities for veterinary services, made available to the public for a minimum of ten years. In accordance with the terms and conditions, the DOC required KHS to file a deed of trust on the facilities with a related promissory note for a period of 10 years. At the end of the period and upon satisfactory completion of the terms and conditions, the promissory notes will be forgiven. If KHS does not meet the terms and conditions of the notes, KHS will be required to repay the principal plus interest of 5% per annum. As of December 31, 2025, KHS was in compliance with the terms and conditions.

NOTE 7 FORGIVABLE LOANS (CONTINUED)

Maturities by year are as follows:

Year Ending December 31,	Amount
2026	$ -
2027	-
2028	-
2029	-
Thereafter	1,163,273
Total	$ 1,163,273

NOTE 8 CONCENTRATIONS

For December 31, 2025, the Organization has six contracts with Kitsap County and other local municipalities, which provided approximately 16% of the public support and revenue of the Organization. The contracts require the Organization to provide animal control services, animal licensing, and to enforce state, county and municipal laws, ordinances, and regulations regarding animal welfare and control. Contract payments are billed monthly.

The Organization has one collective bargaining agreement that covers two departments, Animal Control and Animal Care. Currently four employees have opted in as members. This agreement has been extended to December 31, 2025.

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are as follows at December 31, 2025:

Purpose Restricted	
Veterinary Services	$ 71,445
Critical Needs - Reserve Fund	109,102
Building Project	8,064
Total	$ 188,611

NOTE 10 LIQUIDITY AND AVAILABILITY

The Organization strives to maintain liquid financial assets sufficient to cover operating expenditures for the next year. All financial assets are currently maintained in checking and savings accounts as well as certificates of deposit.

NOTE 10 LIQUIDITY AND AVAILABILITY (CONTINUED)

The following table reflects the Organization's financial assets as of December 31, 2025, reduced by amounts that are due within the next year.

Cash and Cash Equivalents	$	859,937
Investments		1,258,512
Accounts Receivable		10,908
Pledges Receivable		7,043
Net Assets With Donor Restrictions		(188,611)
Board-Designated Cash and Investments		(1,276,720)
Total	$	671,069