

**KENTUCKY HUMANE SOCIETY –
ANIMAL RESCUE LEAGUE, INC.**

**FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2025 AND 2024
with
INDEPENDENT AUDITOR'S REPORT**



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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Kentucky Humane Society - Animal Rescue League, Inc.

Opinion

We have audited the accompanying financial statements of Kentucky Humane Society – Animal Rescue League, Inc. (a non-profit organization) (KHS), which comprise the statements of financial position as of September 30, 2025 and 2024, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KHS as of September 30, 2025 and 2024, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 Audits of the Financial Statements section of our report. We are required to be independent of KHS 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.

Management's Responsibilities 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 KHS's ability to continue as a going concern within one year after the date the financial statements are available to be issued.

Auditor's Responsibilities for the Audits 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 KHS'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 KHS'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.

Mathew + Co. CPAs, LLC

Louisville, Kentucky
February 12, 2026

	<u>2025</u>	<u>2024</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 227,363	\$ 166,513
Accrued expenses	223,123	504,593
Operating lease liabilities	<u>6,674</u>	<u>58,347</u>
Total liabilities	457,160	729,453
Net assets		
Without donor restrictions:		
Undesignated	16,477,603	13,238,778
Board designated endowment	175,688	158,710
Land, buildings, and equipment	<u>9,947,559</u>	<u>9,621,874</u>
Total without donor restrictions	26,600,850	23,019,362
With donor restrictions:		
Restricted by purpose or time	7,268,185	1,173,785
Restricted in perpetuity	<u>4,298,490</u>	<u>3,876,545</u>
Total with donor restrictions	<u>11,566,675</u>	<u>5,050,330</u>
Total net assets	<u>38,167,525</u>	<u>28,069,692</u>
Total liabilities and net assets	<u>\$ 38,624,685</u>	<u>\$ 28,799,145</u>

KENTUCKY HUMANE SOCIETY - ANIMAL RESCUE LEAGUE, INC.

STATEMENTS OF ACTIVITIES

Years ended September 30, 2025 and 2024

	2025			2024		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, support, gains, and reclassifications						
Contributions and bequests	\$ 4,913,946	\$ 7,215,443	\$ 12,129,389	\$ 4,474,473	\$ 1,166,454	\$ 5,640,927
Contributions of non-financial assets	62,430	-	62,430	178,976	-	178,976
Program fees	3,670,808	-	3,670,808	3,948,327	-	3,948,327
Net investment income	499,773	-	499,773	473,601	-	473,601
Net realized/unrealized gains on investments	1,017,715	-	1,017,715	1,186,959	-	1,186,959
Distribution from and change in value of perpetual trusts	214,371	421,945	636,316	152,853	430,742	583,595
Gain on sales of land, buildings, and equipment	908,928	-	908,928	-	-	-
Special events income	1,013,006	-	1,013,006	987,246	-	987,246
Special events expenses	(253,270)	-	(253,270)	(241,011)	-	(241,011)
Net assets released from donor restrictions	1,121,043	(1,121,043)	-	1,223,038	(1,223,038)	-
 Total revenues, support, gains and reclassifications	 13,168,750	 6,516,345	 19,685,095	 12,384,462	 374,158	 12,758,620
Expenses						
Program	8,025,296	-	8,025,296	8,179,405	-	8,179,405
Administration	725,409	-	725,409	692,978	-	692,978
Fundraising	836,557	-	836,557	797,596	-	797,596
 Total expenses	 9,587,262	 -	 9,587,262	 9,669,979	 -	 9,669,979
Change in net assets	3,581,488	6,516,345	10,097,833	2,714,483	374,158	3,088,641
Net assets at beginning of year	23,019,362	5,050,330	28,069,692	20,304,879	4,676,172	24,981,051
Net assets at end of year	\$ 26,600,850	\$ 11,566,675	\$ 38,167,525	\$ 23,019,362	\$ 5,050,330	\$ 28,069,692

See accompanying notes.

KENTUCKY HUMANE SOCIETY - ANIMAL RESCUE LEAGUE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Years ended September 30, 2025 and 2024

	2025				2024			
	<u>Program</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>	<u>Program</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 4,293,150	\$ 559,304	\$ 401,958	\$ 5,254,412	\$ 4,262,190	\$ 519,071	\$ 331,476	\$ 5,112,737
Employee benefits/taxes	<u>643,116</u>	<u>74,313</u>	<u>57,361</u>	<u>774,790</u>	<u>620,550</u>	<u>64,983</u>	<u>42,487</u>	<u>728,020</u>
Total payroll	4,936,266	633,617	459,319	6,029,202	4,882,740	584,054	373,963	5,840,757
Advertising/public relations	68,196	-	68,196	136,392	56,648	-	56,649	113,297
Medical/animal supplies	1,263,500	-	-	1,263,500	1,328,784	-	-	1,328,784
Merchandise	23,544	-	6,299	29,843	22,520	-	11,618	34,138
Office supplies	59,868	5,836	28,239	93,943	54,930	6,027	22,683	83,640
Telephone	11,018	5,109	1,688	17,815	12,905	6,013	1,523	20,441
Travel and transportation	40,043	8,489	4,448	52,980	38,979	7,358	4,788	51,125
Printing and publications	424,298	-	106,075	530,373	452,084	-	113,021	565,105
Insurance	138,922	3,905	2,231	145,058	147,748	7,972	2,955	158,675
Repairs and maintenance	202,760	21,020	15,107	238,887	241,787	23,348	14,910	280,045
Professional fees	56,890	7,412	5,327	69,629	56,917	6,932	4,427	68,276
Occupancy/utilities	169,925	11,841	8,509	190,275	216,235	11,032	7,045	234,312
Training	68,136	2,180	9,157	79,473	47,355	2,820	11,446	61,621
Taxes, fees and refunds	134,126	4,748	61,840	200,714	137,339	3,685	43,830	184,854
Fundraising	-	-	16,980	16,980	-	-	109,430	109,430
Capital campaign	-	-	22,816	22,816	-	-	-	-
Information technology	70,080	9,130	6,561	85,771	100,087	12,189	7,784	120,060
Depreciation	342,148	7,602	12,353	362,103	370,825	16,145	10,310	397,280
Miscellaneous	15,576	4,520	1,412	21,507	11,522	5,403	1,214	18,139
Direct costs of special events	<u>-</u>	<u>-</u>	<u>253,270</u>	<u>253,270</u>	<u>-</u>	<u>-</u>	<u>241,011</u>	<u>241,011</u>
Total expenses	8,025,296	725,409	1,089,827	9,840,531	8,179,405	692,978	1,038,607	9,910,990
Less special events expenses	<u>-</u>	<u>-</u>	<u>(253,270)</u>	<u>(253,270)</u>	<u>-</u>	<u>-</u>	<u>(241,011)</u>	<u>(241,011)</u>
Total expenses on statement of activities	<u>\$ 8,025,296</u>	<u>\$ 725,409</u>	<u>\$ 836,557</u>	<u>\$ 9,587,261</u>	<u>\$ 8,179,405</u>	<u>\$ 692,978</u>	<u>\$ 797,596</u>	<u>\$ 9,669,979</u>
Percent of total expenses	<u>83.71</u> %	<u>7.57</u> %	<u>8.72</u> %	<u>100.00</u> %	<u>84.58</u> %	<u>7.17</u> %	<u>8.25</u> %	<u>100.00</u> %

See accompanying notes.

KENTUCKY HUMANE SOCIETY - ANIMAL RESCUE LEAGUE, INC.

STATEMENTS OF CASH FLOWS Years ended September 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash flows from operating activities		
Change in net assets	\$ 10,097,833	\$ 3,088,641
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	362,103	397,280
Gain on sales of land, buildings, and equipment	(908,928)	-
Net realized/unrealized gains on investments	(1,017,715)	(1,186,959)
Reinvested dividend and interest income	(354,995)	(297,071)
Increase in value of perpetual trusts	(421,945)	(430,742)
Donor-restricted contributions for capital assets	(6,374,888)	(12,510)
Changes in operating assets and liabilities:		
Contributions receivable	(3,830,101)	269,961
Prepaid expenses and inventory	16,240	(5,073)
Accounts payable and accrued expenses	(220,620)	51,786
Net cash (used in) provided by operating activities	(2,653,016)	1,875,313
Cash flows from investing activities		
Payments for equipment and construction in process	(1,501,970)	(3,407,816)
Purchase of land and building	(596,890)	-
Proceeds from sales of land, buildings, and equipment	2,320,000	-
Proceeds from sales of investments	9,003,858	8,340,894
Purchases of investments	(13,148,151)	(8,422,102)
Net cash used in investing activities	(3,923,153)	(3,489,024)
Cash flows from financing activities		
Donor-restricted contributions for capital assets	6,374,888	12,510
Net cash provided by financing activities	6,374,888	12,510
Net decrease in cash	(201,281)	(1,601,201)
Cash at beginning of year	4,112,621	5,713,822
Cash at end of year	<u>\$ 3,911,340</u>	<u>\$ 4,112,621</u>

See accompanying notes.

KENTUCKY HUMANE SOCIETY - ANIMAL RESCUE LEAGUE, INC.

NOTES TO FINANCIAL STATEMENTS

Years ended September 30, 2025 and 2024

1. Nature of organization and summary of significant accounting policies

Nature of organization – The Kentucky Humane Society – Animal Rescue League, Inc. (KHS) is a Kentucky not-for-profit corporation that was founded in 1884 and incorporated in 1945. KHS advocates the humane treatment of companion animals through leadership and proactive solutions to pet overpopulation, including adoptions, education, and spay/neuter efforts.

Basis of presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Net assets, revenues, support, gains, losses, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, KHS's net assets and changes therein are classified as follows on the accompanying financial statements:

Net assets without donor restrictions – Net assets without donor restrictions represent net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing KHS's primary objectives. Net assets without donor restrictions may be designated for specific purposes by KHS's governing board. The portion of net assets without donor restrictions that are invested in land, buildings, and equipment are not readily available for the support of KHS operations.

Net assets with donor restrictions – Net assets with donor restrictions represent net assets whose use by KHS is subject to donor-imposed stipulations that may be fulfilled by actions of KHS pursuant to those stipulations, or that expire by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Estimates – Financial statements prepared in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and certain reported amounts of revenues, support, gains, losses, and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Fair value measurements – KHS applies the *Fair Value Measurement* topic of the Accounting Standards Codification (ASC) which requires determination of fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The *Fair Value Measurement* topic emphasizes that fair value is a market-based measurement, not an

entity-specific measurement, and applies in conjunction with other ASC topics that require or permit fair value measurements and disclosures. Impacted assets and liabilities are measured and disclosed in one of three categories based on the significance and source of the inputs to their valuation. The hierarchy consists of three broad levels: Level 1, Level 2, and Level 3. Level 1 inputs have the highest priority and consist of observable unadjusted quoted prices for identical assets or liabilities in active markets that KHS has the ability to access. Level 2 inputs include: a) quoted prices for similar assets or liabilities in active markets; b) quoted prices for identical or similar assets or liabilities in inactive markets; c) inputs other than quoted prices that are observable for the asset or liability; and d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs have the lowest priority, are unobservable, and include judgments about the assumptions that market participants would use in pricing the asset or liability.

An asset's or liability's fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to its fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. Management uses specific valuation techniques based on the available inputs to measure the fair values of KHS's impacted assets and liabilities. When available, management measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

The valuation methods used by KHS may produce fair value calculations that may not be indicative of net realizable values, or reflective of future fair values. Furthermore, while management believes the valuation methods utilized by KHS are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair values of certain assets and liabilities could result in different fair value measurements as of September 30, 2025 and 2024.

Revenues and support – KHS derives its revenue primarily from contributions and bequests, and program fees for pet adoptions, veterinary services, and boarding and daycare services.

KHS applies ASC Topic 606, *Revenue from Contracts with Customers* (ASC 606) for revenue generated from pet adoption fees, veterinary services, boarding services, and daycare services. Accordingly, such revenue is recognized when promised goods and services are transferred to pet owners in an amount that reflects consideration to which KHS expects to be entitled in exchange for those goods and services by utilizing the following five-step process whereby management 1) identifies the contract(s) with a pet owner; 2) identifies the performance obligations in each contract; 3) determines the transaction price; 4) allocates the transaction price to the performance obligations in each contract; and 5) recognizes revenue when or as a performance obligation is satisfied.

KHS recognizes revenue as follows:

Contributions and bequests are measured at their fair values and are reported as an increase in net assets in the year in which the related pledge is made. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (either when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are released and reclassified to net assets without donor restrictions and reported on the statements of activities as net assets released from donor restrictions. Donor-restricted net assets whose restrictions are met in the same period as the donation is recognized are reported as net assets without donor restrictions. Conditional promises to give (those with a measurable performance or other barrier and a right of return) are not recognized until the conditions on which they depend are substantially met.

Contributed services and materials are recorded at their estimated fair values at the date of receipt. Those services or materials for which there was no objective basis for valuation are not reflected on the accompanying financial statements. Contributions of donated services are recognized if the services create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A number of volunteers give significant time to KHS's programs, fundraising, and management. However, these services do not meet the criteria for recognition as contributed services described above and are not reflected on the accompanying statements of activities.

Contributions of long-lived assets, and donations of cash or other assets that must be used to acquire long-lived assets, are reported as contributions with donor restrictions and are reclassified from net assets with donor restrictions to net assets without donor restrictions when the related long-lived assets are placed in service. Contributions that are donor-restricted for long-term purposes are considered financing activities on the accompanying statements of cash flows.

KHS conducts special events where a portion of the gross proceeds paid by the participants represent payments for the direct cost of benefits received by the participants at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of the benefit provided at special events is measured at the actual cost to KHS. Special events revenue is recognized in the period the event takes place.

Contracts related to pet adoption are identified when potential pet owners apply for pet adoption. Related revenue is recognized at the completion of the pet adoption process and accounted for as a single performance obligation for each transaction.

Contracts for veterinary, boarding, and daycare services are identified when a pet owner agrees to utilize a provided service. Revenue is recognized at the point of sale and each provided service is considered a single performance obligation.

Lease income is derived from leasing certain properties. The lease income is recognized ratably as earned over the term of the related lease and is included in program fees on the accompanying statements of activities.

Functional expenses – The accompanying financial statements report certain expenses attributable to more than one program or support activity. Accordingly, those costs are allocated among activities benefited. Salaries and wages and employee benefits are allocated based on employees' direct time spent on program or support activities, or management's best estimate of time spent on such activities. Depreciation, utilities, and other similar items are allocated based on a square footage basis. Other expenses are based on management's best estimates. Expenses which can be identified as benefiting a specific program category or supporting activity are directly charged to the applicable category or activity.

Cash equivalents – For purposes of the statements of cash flows, cash equivalents include time deposits and money market accounts. Cash held temporarily by a custodian for investment purposes is included in investments and is not considered to be cash equivalents.

Contributions receivable, net – Contributions receivable represent pledges made by donors and are recorded as receivables in the year the promise is made. KHS provides for estimated uncollectible amounts through a charge to credit losses and an adjustment to the allowance for credit losses based on historical collection experience, type of contribution, and nature of fundraising activity. Contributions receivable are written-off through a charge to the allowance for credit losses after KHS has used reasonable collection efforts and deems them uncollectible. As of September 30, 2025 and 2024, all contributions receivable are expected to be collected. Therefore, no allowance for credit losses is recorded as of September 30, 2025 and 2024. Contributions receivable expected to be collected beyond one year are recorded at present value of their estimated future cash flows with related discounts on those amounts computed using risk-free interest rates applicable to the respective periods of collection at the respective dates the promises are made. Amortization of discounts, if any, is recorded as a reduction of the related contributions.

Inventories – Inventories consist primarily of veterinarian supplies which are stated at the lower of cost (first-in, first-out method) or net realizable value.

Investments – KHS's investments are valued at fair value as described in Note 3. Realized gains and losses on investments are recognized upon the sale of the related investments, and unrealized appreciation or depreciation is recognized at period end when the carrying values of the related investments are adjusted to their estimated fair values. Investment income, including gains and losses on investments, are reported as increases or decreases in net assets without donor restrictions unless a donor or law restricts their use, and include gains and losses on investments bought and sold, as well as held during the year.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Investment-related fees charged to KHS for its investments are deducted from income earned on the investments and are not separately reflected on the accompanying statements of activities. Consequently, investment return is reflected net of investment-related fees on the accompanying statements of activities.

Beneficial interests in perpetual trusts – Beneficial interests in perpetual trusts are funds held by outside trustees for the benefit of KHS in accordance with the terms of the irrevocable trusts. These funds are neither in the possession, nor under the control, of KHS. The fair value of the trusts are recognized as assets. Distributions from the trusts are recorded as income in the statements of activities and the carrying value of the assets is adjusted annually for changes in the fair value or the trusts.

Land, buildings, and equipment – Land, buildings, and equipment are stated at cost at the date of acquisition, or fair value at date of receipt if donated. KHS’s policy is to capitalize asset purchases exceeding \$1,000. Depreciation is provided using the straight-line method over the assets’ estimated useful lives. For purposes of computing depreciation, estimated useful lives are as follows:

Technology equipment	3 Years
Furniture and equipment	5 – 10 Years
Vehicles	5 Years
Buildings	27.5 – 40 Years
Building improvements	10 – 39 Years

The recoverability of land, buildings, and equipment is assessed by management whenever events or circumstances indicate that an asset, or group of related assets, may be impaired. Among the factors management continually evaluates are unfavorable changes in the economy, and KHS’s current period and forecasted operating results and cash flows. Recoverability is measured by a comparison of the carrying amount of an asset, or group of related assets, to estimated undiscounted future cash flows expected to be generated by the asset, or group of related assets. If the carrying amount of an asset, or group of related assets, exceeds its estimated future undiscounted cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset, or group of related assets, exceeds the related fair value. Fair value is determined utilizing discounted cash flow analysis, quoted market prices, and independent third-party appraisals, as considered necessary. Although management believes the estimates and assumptions used to evaluate the fair value of land, buildings, and equipment are reasonable, the use of different methodologies or assumptions to perform the evaluations could result in different fair value determinations. No asset impairment related to land, buildings, and equipment has been recognized for the years ended September 30, 2025 and 2024.

Operating leases – KHS recognizes operating lease right-of-use assets and liabilities related to its operating leases based on the present value of the future leases payments

over the lease term (which includes reasonably certain option periods) utilizing the risk-free discount rate practical expedient available for non-public entities under Accounting Standards Codification (ASC) Topic 842, *Leases*. KHS has also elected, for all underlying classes of leases, to not recognize lease right-of-use assets and liabilities for short-term leases that have a lease term of twelve months or less at lease commencement, and do not include an option to purchase the underlying asset that KHS is reasonably certain to exercise. KHS recognizes lease costs associated with any short-term leases on straight-line basis over the related lease terms.

Advertising – Advertising costs are expensed as incurred and are identified as advertising/public relations expense on the accompanying statements of functional expenses.

Subsequent events – KHS’s management has evaluated subsequent events through February 12, 2026, the date the financial statements were available for issue.

2. Contributions receivable, net

As of September 30, 2025 and 2024, contributions receivable, net consist of the following:

	<u>2025</u>	<u>2024</u>
Unrestricted promises	\$ 26,302	\$ 37,420
Restricted promises as to use and time	<u>3,901,219</u>	<u>60,000</u>
Total contributions receivable, net	<u>\$ 3,927,521</u>	<u>\$ 97,420</u>

As of September 30, 2025, contributions receivable, net are anticipated to be collected as follows:

Less than one year	\$ 809,479
One to five years	<u>3,118,042</u>
Total contributions receivable, net	<u>\$ 3,927,521</u>

3. Investments and fair value measurements

The following table presents information related to KHS's investments as of September 30, 2025 and 2024:

	<u>Cost Basis</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
<u>2025</u>			
Money market funds	\$ 4,692,866	\$ 4,692,866	\$ -
Mutual funds – equities	4,731,760	5,602,212	870,452
Mutual funds – fixed income	1,312,500	1,345,300	32,800
Mutual funds – international	1,431,894	1,793,071	361,177
U.S. Treasury Bills	1,052,424	1,073,292	20,868
ETFs – equities	343,325	495,902	152,577
ETFs – fixed income	1,207,858	1,245,978	38,120
Community Foundation of Louisville	<u>125,801</u>	<u>175,688</u>	<u>49,887</u>
Total investments, at fair value	<u>\$ 14,898,428</u>	<u>\$ 16,424,309</u>	<u>\$ 1,525,881</u>
<u>2024</u>			
Money market funds	\$ 121,166	\$ 121,166	\$ -
Certificates of deposit	535,000	535,324	324
Mutual funds – equities	3,767,899	4,425,830	657,931
Mutual funds – fixed income	650,312	675,392	25,080
Mutual funds – international	1,004,944	1,094,754	89,810
Mutual funds – alternative	614,165	669,188	55,023
U.S. Treasury Bills	1,944,772	1,979,049	34,277
ETFs – equities	365,641	459,968	94,327
ETFs – fixed income	758,416	787,925	29,509
Community Foundation of Louisville	<u>122,759</u>	<u>158,710</u>	<u>35,951</u>
Total investments, at fair value	<u>\$ 9,885,074</u>	<u>\$ 10,907,306</u>	<u>\$ 1,022,232</u>

The agency agreement with Community Foundation of Louisville (CFL) stipulates that a minimum balance of \$25,000 remain invested with CFL, while assets more than \$25,000 are available for distribution at the discretion of KHS's Board of Directors. CFL does not provide the types of investments held within the endowment. This investment is reported as board designated endowment on the accompanying statements of financial position.

The following table presents the KHS's investments measured at fair value on a recurring basis as of September 30, 2025 and 2024 based on the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2025</u>				
Money market funds	\$ 4,692,866	\$ -	\$ -	\$ 4,692,866
Mutual funds – equities	5,602,212	-	-	5,602,212
Mutual funds – fixed income	1,345,300	-	-	1,345,300
Mutual funds – international	1,793,071	-	-	1,793,071
U.S Treasury Bills	-	1,073,292	-	1,073,292
ETFs – equities	495,902	-	-	495,902
ETFs – fixed income	1,245,978	-	-	1,245,978
Community Foundation of Louisville	-	-	175,688	175,688
Total investments, at fair value	<u>\$ 15,175,329</u>	<u>\$ 1,073,292</u>	<u>\$ 175,688</u>	<u>\$ 16,424,309</u>
<u>2024</u>				
Money market funds	\$ 121,166	\$ -	\$ -	\$ 121,166
Certificates of deposit	-	535,324	-	535,324
Mutual funds – equities	4,425,830	-	-	4,425,830
Mutual funds – fixed income	675,392	-	-	675,392
Mutual funds – international	1,094,754	-	-	1,094,754
Mutual funds – alternative	669,188	-	-	669,188
U.S Treasury Bills	-	1,979,049	-	1,979,049
ETFs – equities	459,968	-	-	459,968
ETFs – fixed income	787,925	-	-	787,925
Community Foundation of Louisville	-	-	158,710	158,710
Total investments, at fair value	<u>\$ 8,234,223</u>	<u>\$ 2,514,373</u>	<u>\$ 158,710</u>	<u>\$ 10,907,306</u>

Following is a description of valuation methodologies for KHS' financial instruments measured at fair value on a recurring basis:

Money market funds generally transact subscription and redemption activity at a \$1 stable net asset value (NAV). However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

Certificates of deposit are valued at amortized cost which approximates fair value due to their short-term nature.

Mutual funds and EFTs are publicly traded and are valued at the last sale price on the measurement date for the security reported on the principal exchange on which traded.

U.S. Treasury Bills are valued using pricing models maximizing the use of observable inputs for similar securities.

Funds held in trust by others are valued at fair value as reported by the trustee and represents KHS' pro-rata interest in the net assets of the trust, substantially all of which are valued on a mark-to-market basis.

Corporate obligations are valued using pricing matrices.

There have been no changes in the valuation methodologies used to value KHS's financial instruments during the years ended September 30, 2025 and 2024.

Changes in Level 3 investments of funds held in trust by others are as follows for the years ended September 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Balance at beginning of year	\$ 158,710	\$ 128,476
Change in value	<u>16,978</u>	<u>30,234</u>
Balance at end of year	<u>\$ 175,688</u>	<u>\$ 158,710</u>

4. Beneficial interests in perpetual trusts and fair value measurements

KHS is the beneficiary of several perpetual charitable trusts held and administered by independent trustees. Under the terms of the trusts, KHS has the irrevocable right to receive the income earned on the trust assets in perpetuity. The Masser and Mattingly trusts will terminate on the date indicated below and the principal will be distributed to KHS. The fair value of the beneficial interests in these trusts is recognized as an asset and as a permanently restricted contribution at the date the trust is established. KHS's estimate of fair value is based on the fair value information received from the trustees which is based on the fair values of the underlying assets and liabilities in each trust multiplied by KHS's percentage of each trust's income. The trust assets consist of, but are not limited to, cash and cash equivalents, corporate and government bonds, mutual funds, and equity securities and are not subject to the KHS's control. Gains and losses which are not distributed by the trusts are reflected as changes in value of perpetual trusts in the accompanying statements of activities.

The market value of KHS's beneficial interests in perpetual trusts and their terms are as follows:

	<u>2025</u>	<u>2024</u>
Irvine Trust – quarterly payments of one-twelfth of income	\$ 289,343	\$ 275,046
Masser Trust Fund – annual payment of 12% of income through 2060	961,789	747,663
Allen S. Mattingly Trust B – quarterly payments of 32% of income through 2032	<u>3,047,358</u>	<u>2,853,836</u>
Total beneficial interests in perpetual trusts, at fair value	<u>\$ 4,298,490</u>	<u>\$ 3,876,545</u>

The following tables set forth by level, within the fair value hierarchy, KHS's beneficial interests in perpetual trusts at fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2025</u>				
Irvine Trust	\$ 289,343	\$ -	\$ -	\$ 289,343
Masser Trust Fund	-	-	961,789	961,789
Allen S. Mattingly Trust	<u>3,047,358</u>	<u>-</u>	<u>-</u>	<u>3,047,358</u>
Total beneficial interests in perpetual trusts, at fair value	<u>\$ 3,336,701</u>	<u>\$ -</u>	<u>\$ 961,789</u>	<u>\$ 4,298,490</u>
<u>2024</u>				
Irvine Trust	\$ 275,046	\$ -	\$ -	\$ 275,046
Masser Trust Fund	-	-	747,663	747,663
Allen S Mattingly Trust	<u>2,853,836</u>	<u>-</u>	<u>-</u>	<u>2,853,836</u>
Total beneficial interests in perpetual trusts, at fair value	<u>\$ 3,128,882</u>	<u>\$ -</u>	<u>\$ 747,663</u>	<u>\$ 3,876,545</u>

The underlying assets have been valued similarly to methods described in Note 3.

There have been no changes in the valuation methodologies used to value KHS's beneficial interests in perpetual trusts during the years ended September 30, 2025 and 2024.

Changes in KHS's Level 3 beneficial interests in perpetual trusts are as follows for the years ended September 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Balance at beginning of year	\$ 747,663	\$ 794,946
Change in value	262,126	(2,467)
Transfers out	-	(4,016)
Distributions	<u>(48,000)</u>	<u>(40,800)</u>
Balance at end of year	<u>\$ 961,789</u>	<u>\$ 747,663</u>

5. Land, buildings, and equipment

Net land, buildings, and equipment consists of the following as of September 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Land	\$ 4,542,671	\$ 4,785,779
Buildings and improvements	7,405,149	9,157,119
Furniture, equipment, and vehicles	1,737,873	1,920,559
Construction in process	<u>2,082,217</u>	<u>832,670</u>
Total land, buildings, and equipment	15,767,910	16,696,127
Less accumulated depreciation	<u>5,820,351</u>	<u>7,074,253</u>
Net land, buildings, and equipment	<u>\$ 9,947,559</u>	<u>\$ 9,621,874</u>

6. Operating leases

KHS leases equipment under operating leases expiring on various dates through 2027. In January 2025, KHS purchased the building in which it had leased its office space through December 2024. Several of these leases have renewal options that are exercised in the normal course of business. Operating lease costs total \$24,325 and \$65,732 for the years ended September 30, 2025 and 2024, respectively, and are included in occupancy and office supplies on the accompanying statements of functional expenses. Maturities of KHS's operating lease liabilities as of September 30, 2025 for the subsequent years ending September 30, 2026 and 2027 totals \$6,718 and \$1,393, respectively.

7. Net assets with donor restrictions

Net assets with donor restrictions as of September 30, 2025 and 2024 consist of the following:

	<u>2025</u>	<u>2024</u>
Subject to specified purpose or passage of time:		
Program activities	\$ 1,167,344	\$ 1,163,785
Building and equipment	<u>6,100,841</u>	<u>10,000</u>
Total subject to specified purpose or passage of time	7,268,185	1,173,785
Subject to restriction in perpetuity:		
Beneficial interests in perpetual trusts	<u>4,298,490</u>	<u>3,876,545</u>
Total net assets with donor restrictions	<u>\$ 11,566,675</u>	<u>\$ 5,050,330</u>

8. Leases

Lease income is derived from leasing the Eastpoint vet clinic under a lease agreement that ended in May 2025 due to the sale of KHS's Eastpoint property, and the East Campus vet clinic under a lease agreement that expires in April 2026 (does not contain a renewal option). Lease income is included in program fees on the accompanying statements of activities and totals \$104,478 and \$121,933 for the years ended September 30, 2025 and 2024, respectively. Future lease income under the remaining operating lease as of September 30, 2025 for the subsequent year ending September 30, 2026 totals approximately \$23,000.

9. Contribution of nonfinancial assets

For the years ended September 30, 2025 and 2024, contributions of nonfinancial assets recognized in the accompanying statements of activities include:

	<u>2025</u>	<u>2024</u>
Food	\$ 57,100	\$ 145,486
Other	<u>5,330</u>	<u>33,490</u>
Total contributions of non-financial assets	<u>\$ 62,430</u>	<u>\$ 178,976</u>

KHS records various forms of gifts-in-kind (GIK), including food and fundraising. GIK are reported as contributions at their estimated fair value on the date of receipt and reported as

expense when utilized. GIK are valued based upon estimates of fair market value or wholesale values that would be received for selling the goods in their principal market considering their condition and utility for use at the time the donor makes the contribution.

10. Fundraising and special events

Special events generate revenue for KHS as well as raise awareness about its mission. Some events occur annually while others do not happen regularly. Income and expenses related to special events are recorded in special events income and special events expenses on the accompanying statements of activities.

KHS held special events during the years ended September 30, 2025 and 2024 as follows:

	<u>2025</u>			
	<u>Taxes and Tails</u>	<u>Cause Related Marketing</u>	<u>Other Events</u>	<u>Totals</u>
Contributions	\$ 560,502	\$ 256,413	\$ 119,854	\$ 936,769
Revenue	44,674	31,563	-	76,237
Costs of direct benefit to donors	<u>(44,674)</u>	<u>(31,563)</u>	<u>-</u>	<u>(76,237)</u>
Net contributions and revenue	560,502	256,413	119,854	936,769
Fundraising expenses	<u>(119,012)</u>	<u>(13,456)</u>	<u>(44,565)</u>	<u>(177,033)</u>
Increases in net assets without donor restrictions	<u>\$ 441,490</u>	<u>\$ 242,957</u>	<u>\$ 75,289</u>	<u>\$ 759,736</u>
	<u>2024</u>			
	<u>Taxes and Tails</u>	<u>Cause Related Marketing</u>	<u>Other Events</u>	<u>Totals</u>
Contributions	\$ 492,900	\$ 260,235	\$ 148,844	\$ 901,979
Revenue	47,119	38,148	-	85,267
Costs of direct benefit to donors	<u>(47,119)</u>	<u>(38,148)</u>	<u>-</u>	<u>(85,267)</u>
Net contributions and revenue	492,900	260,235	148,844	901,979
Fundraising expenses	<u>(116,335)</u>	<u>(3,033)</u>	<u>(36,376)</u>	<u>(155,744)</u>
Increases in net assets without donor restrictions	<u>\$ 376,565</u>	<u>\$ 257,202</u>	<u>\$ 112,468</u>	<u>\$ 746,235</u>

11. Retirement plan

KHS's provides a safe-harbor 401(k) retirement plan to its employees who have provided one year of service. KHS matches dollar-for-dollar up to 3% of employees' deferrals, and 50% of the next 2% of employees' deferrals. KHS's contributions to the retirement plan total approximately \$86,000 and \$77,000 for the years ended September 30, 2025 and 2024, respectively, and are included in employee benefits/taxes on the accompanying statements of functional expenses.

12. Income taxes

KHS is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code as a non-profit organization other than a private foundation. However, KHS could be subject to federal income tax in a year in which unrelated business income is recognized. No unrelated business income is recognized for the years ended September 30, 2025 and 2024. GAAP requires KHS's management to evaluate tax positions taken by KHS and recognize a tax liability if KHS has taken uncertain tax positions that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken by KHS, and has concluded that as of September 30, 2025 and 2024, there are no uncertain positions taken, or expected to be taken, that would require recognition of a tax liability, or disclosure in the financial statements. KHS is subject to IRS examination for the years ended September 30, 2025 through 2022. However, there are currently no audits for any tax periods in progress.

13. Liquidity and funds availability

KHS's financial assets available for general expenditure within one year of September 30, 2025 are as follows:

Cash	\$ 3,911,340
Contributions receivables, net	3,927,521
Investments	16,424,309
Inventories	<u>87,594</u>
Total financial assets at end of year	24,350,764
Less those unavailable for general expenditure within one year due to:	
Donor imposed restrictions	7,268,185
Contribution receivable to be collected beyond one year	<u>3,118,042</u>
Total financial assets available within one year	<u>\$ 13,964,537</u>

Financial assets are considered unavailable when illiquid or not convertible to cash within one year or because the governing board has set aside funds for a specific purpose. These board designations could be drawn upon board approval.

In addition to financial assets available to meet general expenditures over the year, KHS operates with a balanced budget and anticipates covering its general expenditures by collecting sufficient program and other revenues, by utilizing resources from current and prior year's gifts, and by appropriating the investment return on its board-designated endowment, if needed.

14. Risks, uncertainties, and concentrations

At various times, KHS may have cash in financial institutions in excess of federally insured limits. As of September 30, 2025, KHS's uninsured cash balances total approximately \$3.6 million.

KHS invests in various investment securities which are subject to various risks and uncertainties such as interest rates, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that reductions in the values of KHS's investment securities will occur in the near term and such reductions would affect amounts reported on the accompanying statements of financial position.

As of September 30, 2025 and 2024, KHS's investments were concentrated in various mutual funds. However, KHS's exposure to concentrations risk is limited because the investments within each mutual fund are further diversified into various underlying financial investments.

A contribution receivable from one donor represents approximately 58% and 51% of total gross contributions receivable as of September 30, 2025 and 2024, respectively.

15. Subsequent event

Subsequent to September 30, 2025, KHS entered into a contract totaling approximately \$30 million for construction of new operating facilities.