Santa Barbara Humane
Audited Financial Statements
December 31, 2025

SANTA BARBARA HUMANE

December 31, 2025

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A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Santa Barbara Humane Society for the Prevention of Cruelty to Animals
Santa Barbara, California

Opinion

We have audited the accompanying financial statements of the Santa Barbara Humane Society for the Prevention of Cruelty to Animals dba Santa Barbara Humane (a nonprofit organization), which comprise the statement of financial position as of December 31, 2025, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 the Santa Barbara Humane Society for the Prevention of Cruelty to Animals dba Santa Barbara Humane 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. 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 the Santa Barbara Humane Society for the Prevention of Cruelty to Animals dba Santa Barbara Humane 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 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 the Santa Barbara Humane Society for the Prevention of Cruelty to Animals dba Santa Barbara Humane's ability to continue as a going concern within one year after the date that 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 generally accepted auditing standards 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 judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement 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 the Santa Barbara Humane Society for the Prevention of Cruelty to Animals dba Santa Barbara Humane'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Santa Barbara Humane Society for the Prevention of Cruelty to Animals dba Santa Barbara Humane'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.

Report on Summarized Comparative Information

We have previously audited the Santa Barbara Humane Society for the Prevention of Cruelty to Animals dba Santa Barbara Humane 2024 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated October 21, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Santa Barbara, California

May 20, 2026

SANTA BARBARA HUMANE

STATEMENT OF FINANCIAL POSITION
December 31, 2025
(With Comparative Totals As Of December 31, 2024)

ASSETS

	Without Donor Restrictions	With Donor Restrictions	2025 Total	2024 Total
Assets				
Cash and cash equivalents	$ 961,663	$ -	$ 961,663	$ 596,913
Accounts receivable	177,085	-	177,085	1,330,422
Pledges and bequests receivable	-	1,311,901	1,311,901	192,923
Prepaid expenses	211,250	-	211,250	149,730
Perpetual interest trust	-	224,188	224,188	224,188
Property and equipment, net	13,003,520	-	13,003,520	10,558,887
Other assets	242,070	-	242,070	317,276
Investments - undesignated	17,785,835	-	17,785,835	12,696,446
Investments - board designated	1,758,998	-	1,758,998	4,683,998
Investments - endowment	-	16,489,932	16,489,932	19,163,216
Total Assets	**$ 34,140,421**	**$ 18,026,021**	**$ 52,166,442**	**$ 49,913,999**

LIABILITIES AND NET ASSETS

Liabilities				
Accounts payable	$ 473,047	$ -	$ 473,047	$ 317,971
Accrued expenses	449,657	-	449,657	437,791
Total Liabilities	922,704	-	922,704	755,762
Net Assets				
Without Donor Restrictions				
Undesignated	18,455,199	-	18,455,199	14,335,025
Board designated quasi-endowment	1,758,998	-	1,758,998	4,683,998
Invested in property and equipment	13,003,520	-	13,003,520	10,558,887
Total Without Donor Restrictions	33,217,717	-	33,217,717	29,577,910
With Donor Restrictions	-	18,026,021	18,026,021	19,580,327
Total Net Assets	33,217,717	18,026,021	51,243,738	49,158,237
Total Liabilities and Net Assets	**$ 34,140,421**	**$ 18,026,021**	**$ 52,166,442**	**$ 49,913,999**

The accompanying notes are an integral part of these financial statements.

SANTA BARBARA HUMANE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2025
(With Comparative Totals For the Year Ended December 31, 2024)

	Without Donor Restrictions	With Donor Restrictions	2025 Total	2024 Total
Support, Revenue, and Other Income				
Support				
Contributions and grants	$ 1,333,137	$ -	$ 1,333,137	$ 1,775,397
In-kind	146,400	-	146,400	146,400
Special events, net of costs of $153,732	294,525	-	294,525	52,848
Other support	67,705	-	67,705	24,079
Total Support	1,841,767	-	1,841,767	1,998,724
Revenue				
Sheltering and rehoming	296,664	-	296,664	287,986
Veterinary care	2,245,609	-	2,245,609	1,807,473
Training	81,683	-	81,683	87,592
Retail sales	943,240	-	943,240	755,867
Other service revenue	182,658	-	182,658	162,024
Total Revenue	3,749,854	-	3,749,854	3,100,942
Other Income				
Royalty income	32,552	-	32,552	45,197
Total Other Income	32,552	-	32,552	45,197
Net assets released from restrictions	3,413,506	(3,413,506)	-	-
Total Support, Revenue, and Other Income	9,037,679	(3,413,506)	5,624,173	5,144,863
Expenses				
Program Services				
Sheltering and rehoming	2,498,733	-	2,498,733	2,273,334
Veterinary care	4,538,643	-	4,538,643	3,526,775
Total Program Services	7,037,376	-	7,037,376	5,800,109
Supporting Services				
Management and general	1,021,830	-	1,021,830	1,830,479
Fundraising	1,398,763	-	1,398,763	1,078,563
Total Supporting Services	2,420,593	-	2,420,593	2,909,042
Total Expenses	9,457,969	-	9,457,969	8,709,151
Operating Loss	(420,290)	(3,413,506)	(3,833,796)	(3,564,288)
Non-Operating Income				
Capital campaign contributions	1,972,332	-	1,972,332	408,907
Bequests	-	440,544	440,544	202,199
Unrealized gain (loss) on other assets	(75,206)	-	(75,206)	40,649
Interest and dividend income	955,149	626,716	1,581,865	1,740,162
Investment fees	(116,418)	-	(116,418)	(123,340)
Realized and unrealized gains on investments	1,324,240	791,940	2,116,180	1,143,294
Total Non-Operating Income	4,060,097	1,859,200	5,919,297	3,411,871
Changes in Net Assets	**3,639,807**	**(1,554,306)**	**2,085,501**	**(152,417)**
Net Assets, Beginning of the Year	29,577,910	19,580,327	49,158,237	49,310,654
Net Assets, End of the Year	**$ 33,217,717**	**$ 18,026,021**	**$ 51,243,738**	**$ 49,158,237**

The accompanying notes are an integral part of these financial statements.

SANTA BARBARA HUMANE

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2025
(With Comparative Totals For the Year Ended December 31, 2024)

	Program Services			Supporting Services			2025	2024
	Sheltering and Rehoming	Veterinary Care	Total Program	Management and General	Fundraising	Total Supporting	Total	Total
Expenses								
Salaries and related	$ 2,001,393	$ 3,192,615	$ 5,194,008	$ 301,601	$ 1,070,538	$ 1,372,139	$ 6,566,147	$ 5,604,595
Depreciation	152,052	85,951	238,003	5,476	1,402	6,878	244,881	268,271
Medications	-	103,315	103,315	-	-	-	103,315	346,493
Retail	82,543	33,102	115,645	-	-	-	115,645	44,023
Supplies and animal food	70,208	634	70,842	-	-	-	70,842	64,768
Clinic professional	-	68,290	68,290	-	-	-	68,290	78,055
Professional services	40,734	5,844	46,578	229,798	30,179	259,977	306,555	654,056
Clinic supplies	-	903,339	903,339	-	-	-	903,339	625,522
Insurance	-	1,536	1,536	83,223	-	83,223	84,759	81,635
Auto, travel, and meetings	7,748	19,088	26,836	14,913	22,645	37,558	64,394	109,521
Taxes	-	-	-	11,530	-	11,530	11,530	41,119
Advertising	64	-	64	-	170,840	170,840	170,904	121,391
Office	9,903	20,299	30,202	37,961	10,518	48,479	78,681	127,723
Information technology	784	3,500	4,284	12,723	39,909	52,632	56,916	98,089
Occupancy	133,304	101,130	234,434	44,865	-	44,865	279,299	248,053
Bad debt	-	-	-	133,340	52,732	186,072	186,072	49,437
In-Kind	-	-	-	146,400	-	146,400	146,400	146,400
2025 Total Expenses	**$ 2,498,733**	**$ 4,538,643**	**$ 7,037,376**	**$ 1,021,830**	**$ 1,398,763**	**$ 2,420,593**	**$ 9,457,969**	
2024 Total Expenses (Memo)	**$ 2,273,334**	**$ 3,526,775**	**$ 5,800,109**	**$ 1,830,479**	**$ 1,078,563**	**$ 2,909,042**		**$ 8,709,151**

The accompanying notes are an integral part of these financial statements.

SANTA BARBARA HUMANE

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2025
(With Comparative Totals For the Year Ended December 31, 2024)

	2025	2024
Cash Flow from Operating Activities		
Change in net assets	$ 2,085,501	$ (152,417)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	244,882	268,271
Unrealized gain on investments	(2,228,129)	(23,996)
Realized loss (gain) on investments	111,949	(1,119,298)
Decrease (increase) in accounts, pledges, and bequests receivable	34,359	(27,971)
Decrease in investment income receivable	-	8,930
Decrease (increase) in prepaid expenses	(61,520)	68,195
Decrease (increase) in value of other assets	75,206	(40,649)
Increase in accounts payable and accrued expenses	166,942	43,271
Net Cash Provided (Used) by Operating Activities	429,190	(975,664)
Cash Flow from Investing Activities		
Purchase of property and equipment	(2,689,515)	(1,816,591)
Proceeds from sale of securities	11,551,109	28,189,500
Purchase of securities	(8,926,034)	(26,389,102)
Net Cash Used by Investing Activities	(64,440)	(16,193)
Change in Cash and Cash Equivalents	**364,750**	**(991,857)**
Cash at Beginning of the Year	596,913	1,588,770
Cash at End of the Year	**$ 961,663**	**$ 596,913**

The accompanying notes are an integral part of these financial statements.

Note 1 - ORGANIZATION AND ACTIVITIES

Organization (Who We Are)

The Santa Barbara Humane Society for the Prevention of Cruelty to Animals, dba Santa Barbara Humane (SB Humane) and Santa Maria Valley Humane Society (SMVHS), is a California nonprofit corporation founded in 1887 and dedicated to the welfare of all animals in Santa Barbara County. SB Humane operates two campuses in Santa Barbara and Santa Maria providing care for community-owned and homeless animals. Both locations offer affordable high quality veterinary care, compassionate behavior training programs, and a relinquishment program for owners who can no longer care for their pets. Homeless animals receive medical care, shelter, and basic behavior training until their adoption.

SB Humane focuses on helping people with pets and pet without people by providing affordable care, shelter, and training resources that strengthen the bond between animals and their families.

Effective February 1, 2020, SB Humane acquired all of the assets and liabilities of SMVHS and in consideration thereof the Santa Maria operations will continue. The fair value of the acquired assets and liabilities were $4,105,109 and $103,936, respectively.

Program Services (What We Do)

Veterinary care: Families utilized shelter clinic services for care for their animals from basic services like vaccines to more intense needs like enucleations and amputations. Of the 41,497 services performed in 2025 at affordable costs, 5,166 families utilized the donor-supported TLC Veterinary Fund. Because prohibitive veterinary costs are a common reason why families relinquish their pets, this program ultimately kept animals healthy and in their homes.

Sheltering and adoptions: Our shelter receives animals from a variety of sources: owner-surrenders, transfers, and strays. Each animal that arrives requires basic medical care, and most need sterilization surgery before they can be adopted. A significant portion of our program expenses is devoted to ensuring these animals live in a safe and healthy environment. Our dedicated staff provides comprehensive care, including veterinary treatment and medication; behavior assessment and training; nourishing food; daily socialization, exercise, and enrichment; and the supplies needed for seamless shelter adoptions. In 2025, we took in 1,024 animals surrendered by their owners, 960 cats and dogs from overcrowded shelters across California, and 420 local stray animals. Thanks to the individualized, quality care they received at Santa Barbara Humane, 2,223 animals found loving homes in 2025.

Note 1 - ORGANIZATION AND ACTIVITIES (continued)

Training: Our dog training classes are a vital 'Safety Net' for preventing surrenders due to behavioral issues. When owners struggle with behavior challenges, we offer affordable or fully subsidized group classes and consultations to help keep pets in their homes. In 2025, 778 dogs participated in these classes and one-on-one sessions with their owners, successfully diverting hundreds of potential intakes and strengthening the human-animal bond. Our Manager of Animal Behavior, a Certified Professional Dog Trainer, develops classes that cover puppy socialization, basic manners, classes for shy dogs, and strategies for managing reactivity. Shelter dogs also benefit from individualized training plans crafted by our Behavior & Adoption Specialists, using positive reinforcement techniques.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of SB Humane have been prepared on the accrual basis of accounting following accounting principles generally accepted in the United States of America (GAAP). The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Description of Net Assets

SB Humane reports information regarding its financial position and activities in two classes of net assets - with donor restrictions and without donor restrictions - based on the existence or absence of donor-imposed restrictions.

Without Donor Restrictions

Net assets without donor restrictions represent net assets that are not subject to donor-imposed time or use restrictions. Net assets without donor restrictions include board designated funds.

With Donor Restrictions

Net assets with donor restrictions represent net assets that are subject to donor-imposed time or use restrictions. Net assets with donor restrictions generally include contributions and bequests receivable and planned gifts. Earnings on net assets with donor restrictions are reported as an increase in net assets with donor restrictions. Earnings on donor restricted endowment funds that have not yet been appropriated are also classified as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as "Net assets released from restrictions." Net assets with donor restrictions include perpetual income trusts for which the related income is reported as contributions without donor restrictions when received on the Statement of Activities. The change in value of the underlying assets is recorded as an unrealized gain or loss in net assets with donor restrictions on the Statement of Activities. Net assets with donor restrictions also consist of those donor-restricted endowments held by SB Humane as defined under the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

SB Humane classifies unrestricted short-term, highly liquid investments having original maturities of three months or less as cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in marketable debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Donated securities are recorded at their estimated value at date of receipt.

Allowance for Credit Losses

In June 2016, the FASB issued guidance (FASB ASC 326) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users for the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by SB Humane that are subject to the guidance in FASB ASC 326 were accounts receivable.

SB Humane adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in the preceding disclosure only. Accounts receivable balance as of January 1, 2025, was $1,330,422 and was $177,085 as of December 31, 2025.

Property and Equipment

Property and equipment in excess of $1,000 are capitalized at cost. SB Humane's investment in equipment and leasehold improvements is stated at cost, or fair market value if donated. Depreciation is calculated using the straight-line method over an estimated useful life of three to fifty years.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Significant estimates used in the preparation of these financial statements include: allocation of certain expenses by function, fair market value of other assets, and depreciable lives of property and equipment.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

SB Humane has previously adopted FASB ASC 842, Leases. For the year ended December 31, 2025, SB Humane had no noncancelable operating or finance leases.

Further, SB Humane elected a short-term lease extension policy, permitting SB Humane to not apply the recognition requirements of this standard to short-term leases (i.e., leases with terms of 12 months or less) and an accounting policy to account for lease and non-lease components as a single component for certain classes of assets.

Contributions and Bequests

Contributions received are recorded at their fair value on the date of donation. Contributions receivable are recognized as revenue when committed and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

SB Humane accrues bequests when all the events required for the transfer of the assets from the estate of the donor to SB Humane have occurred and/or the court has issued an order to transfer the assets.

Functional Expenses

SB Humane allocates its expenses on a functional basis among its various projects and support services. Expenses that can be identified with a specific project and support service are allocated directly according to their expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

Income Taxes

SB Humane is a California nonprofit public benefit corporation, which is exempt from income taxes under Internal Revenue Code Section number 501(c)(3) and State of California Revenue and Taxation Code Section 23701(d). SB Humane is not currently involved in any activity that is subject to unrelated business income tax; therefore, no provision for income taxes is required. SB Humane qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

SB Humane evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2025, SB Humane had no uncertain tax positions requiring accrual. SB Humane files tax returns in U.S. federal and California jurisdictions. SB Humane is no longer subject to U.S. federal and state tax examinations by tax authorities for the years ending before 2022 and 2021, respectively.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events

SB Humane has evaluated subsequent events through May 20, 2026, the date which the financial statements were available to be issued.

Note 3 - PLEDGES AND BEQUESTS RECEIVABLE

Pledges and bequests receivable are included in the financial statements as net assets with donor restrictions. SB Humane is also income beneficiary of a charitable lead annuity trust, and residual beneficiary of a charitable remainder trust, which are included in the amounts reported as pledges and bequests receivable. These amounts are considered fully collectible and therefore no allowance for credit losses has been recorded. At December 31, 2025, contributions and bequests receivable are expected to be realized in the following periods:

In one year or less	$ 605,660
In more than one year	706,241
Pledges and bequests receivable, net	$ 1,311,901

Note 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31, 2025:

Land	$ 117,917
Land improvements	388,795
Buildings and improvements	6,818,364
Furniture and office equipment	525,873
Shelter equipment	511,158
Vehicles	806,916
Construction in progress – capital campaign	8,364,702
Total Property and Equipment	17,533,725
Less: Accumulated depreciation	(4,530,205)
Property and equipment, net	$13,003,520

Note 5 - INVESTMENTS

Investments are presented in the financial statements at fair market value. Fair value is defined as the amount that would be exchanged for an asset or to transfer a liability between market participants in an orderly transaction at the balance sheet date. Realized and unrealized gains and losses on investments are reflected in the Statement of Activities. At December 31, 2025, investments consisted of the following:

	Cost Basis	Market Value	Unrealized Gain (Loss)
Money market funds	$ 1,505,449	$ 1,505,449	$ -
Equities and index funds	22,463,074	25,056,771	2,593,697
Bonds and fixed income	9,438,926	9,384,154	(54,772)
SB Foundation Fund	88,391	88,391	-
Total	$ 33,495,840	$ 36,034,765	$ 2,538,925

Note 5 - INVESTMENTS (continued)

The following summarizes the net change in unrealized gain on investments:

	Cost Basis	Market Value	Unrealized Gains (Losses)
Balance at end of the year	$ 33,495,840	$ 36,034,765	$ 2,538,925
Balance at beginning of the year	$ 36,232,864	$ 36,543,660	310,796
Unrealized gain			$ 2,228,129

The following summarizes the investment return included in the statement of activities for the year ended December 31, 2025:

Interest and dividend income	$ 1,581,865
Realized loss on sale of securities	(111,949)
Unrealized gain on value of securities	2,228,129
Investment fees	(116,418)
Total Investment Return	$ 3,581,627

Note 6 - INTEREST IN TRUSTS

Perpetual Income Trust Interest

SB Humane is named as an income beneficiary of a perpetual trust, the corpus of which is not controlled by SB Humane. Under these arrangements, SB Humane has the irrevocable right to receive income earned on the underlying assets held in perpetuity. Income received from the trust is for support of general operations. Since SB Humane is a beneficiary of this stream of income in perpetuity, SB Humane's share of the fair market value of the trusts' investments is recorded as an asset, with a fair market value of $224,188 at December 31, 2025. Any change in subsequent fair market value of the SB Humane's share of the investments is recorded in the Statement of Activities as a change in value of perpetual interest in trust. For the year ended December 31, 2025, SB Humane received $11,000 in distributions from the trust.

Discretionary Income Trust Interest

SB Humane is named as an income beneficiary of a discretionary trust, the corpus of which is not controlled by SB Humane. Under these arrangements, SB Humane has the right to receive income earned on the underlying assets, subject to the discretion of the trustee. Income received from the trust is for support of general operations. Because the trustee retains discretion over distributions of income, the assets are not recorded on SB Humane's financial statements. For the year ended December 31, 2025, SB Humane received no distributions from the trust.

Note 6 - INTEREST IN TRUSTS (continued)

Community Foundation Endowment Trust Interest

SB Humane is the beneficiary of four endowments held by Santa Barbara Foundation. Because the Santa Barbara Foundation has been granted variance power, the endowment assets are not recorded on SB Humane's financial statements. The income from these endowments is used to support general operations. SB Humane is entitled to the income produced by the endowment in accordance with the Santa Barbara Foundation's spending policy, but has no control or access to the principal. For the year ended December 31, 2025, SB Humane received $75,720 in distributions from these endowment trusts.

Note 7 - OTHER ASSETS

Other assets of SB Humane totaling $242,070 for the year ended December 31, 2025, includes oil and gas rights and undeveloped land.

Oil and gas rights are a 50% undivided interest in 130 properties located in Oklahoma, Missouri and Louisiana with an estimated fair value of $198,570 as of December 31, 2025.

Undeveloped land consists of a $1/8^{th}$ interest in land in Fresno, California with an estimated fair value of $3,500, and undeveloped land located in Hornbrook, California with an estimate fair value of $40,000 as of December 31, 2025.

Note 8 - FAIR VALUE MEASUREMENT

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurement and Disclosures, provides the framework for measuring and disclosing the fair value of assets and liabilities. Accounting principles define fair value as the price that would be received by SB Humane to sell an asset or be paid by SB Humane to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. A fair value hierarchy has been established that prioritizes valuation inputs into three broad levels to ensure consistency and comparability. The valuation hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3) described as follows:

The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; discounted cash flows; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities; including estimates by management and information valuation methods

Note 8 - FAIR VALUE MEASUREMENT (continued)

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then Level 2 fair values are estimated by using pricing models quoted prices of securities with similar characteristics or discounted cash flows. The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair market valuation of Level 3 securities is based on estimates of management, information valuation methods used within a particular industry, or other market factors to determine if the carrying value of these investments should be adjusted. Because of the inherent uncertainty of valuations, however, the estimated values may differ from the values that would have been used had a ready market existed, and the differences could be material.

The following table presents assets and liabilities recognized in the accompanying Statement of Financial Position measured at fair value on a recurring basis and the level in which the fair value measurements fall at December 31, 2025:

Description	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	$ 1,505,449	$ -	$ -	$ 1,505,449
Equities and index funds	25,056,771	-	-	25,056,771
Bonds and fixed income	9,384,154	-	-	9,384,154
SB Foundation Fund	-	88,391	-	88,391
Total Investments	35,946,374	88,391	-	36,034,765
Perpetual interest trust	224,188	-	-	224,188
Oil and gas rights	-	-	198,570	198,570
Undeveloped land	-	-	43,500	43,500
Total assets measured at fair value	$ 36,170,562	$ 88,391	$ 242,070	$ 36,501,023

The following is a description of the general classification of investments pursuant to the valuation hierarchy:

Money market funds – include held for investment purposes includes money market funds and cash equivalent assets, and is valued at face value.

Equities and index funds – include a variety of publically traded stocks and exchange traded index funds from various industries. They are valued utilizing quoted market prices available in active markets for identical investments at the reporting date.

Note 8 - FAIR VALUE MEASUREMENT (continued)

Bonds and fixed income –include fixed income mutual funds and corporate bonds to provide a hedge against deflation, provide a stable return, and to minimize the overall volatility. They are valued utilizing quoted market prices available in active markets for identical investments at the reporting date.

The following table provides a reconciliation of assets measured at fair value using significant unobservable inputs (Level 3) during 2025:

Description	Beginning Balance	Net Gain (Loss)	Purchases	Settlements	Ending Balance
Oil and gas rights	$ 273,776	$ (75,206)	$ -	$ -	$ 198,570
Undeveloped land	43,500	-	-	-	43,500
Total	$ 317,276	$ (75,206)	$ -	$ -	$ 242,070

Note 9 - CONCENTRATIONS AND RISKS

Concentrations of Pledges and Bequests Receivable

As of December 31, 2025, approximately 72% of the pledges and bequests receivable were due from three donors.

Credit Risk

SB Humane maintains cash balances at several banks insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At times, balances may exceed federally insured limits. At December 31, 2025, uninsured cash and cash equivalent balances totaled approximately $621,000. SB Humane maintains a majority of cash balances in money market funds. Such balances may not be fully insured.

Market Risk

SB Humane holds its investments in a diversified portfolio. Nevertheless, these investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the consolidated financial statements.

Commitments

As of December 31, 2025, the Organization has entered a noncancelable construction contract for the expansion of its Santa Barbara campus. The total contract price is $12,691,000. As of December 31, 2025, $152,000 in costs have been incurred and recorded. The remaining commitment of $12,539,000 is expected to be paid from 2026 to 2028.

Note 10 - ENDOWMENT FUNDS

Interpretation of Relevant Law

The Board of Directors of SB Humane has interpreted the California-adopted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring a long-term investment strategy designed to preserve the fair value of the original gift, as of the gift date. As a result of this interpretation, SB Humane has classified, at the explicit direction of the donor, as net assets with donor restrictions (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 donor at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by SB Humane in a manner consistent with the standard for prudence prescribed by UPMIFA.

In accordance with California UPMIFA, SB Humane considers the following factors in making a determination to appropriate or invest donor restricted endowment funds:

(1) The duration and preservation of the fund.
(2) The purposes of SB Humane 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 SB Humane.
(7) The investment policies of SB Humane.

Endowment Investment and Spending Policies

SB Humane 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 long-term purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that SB Humane must hold in perpetuity for donor-specified periods and purposes. The endowment assets are invested in a manner that is intended to produce results that provide a reasonable balance between the quest for growth and the need to protect principal. The investment policy calls for a diversified portfolio utilizing various asset classes with a goal of reducing portfolio volatility and risk.

SB Humane's endowment is invested in a diversified portfolio of equities, index funds, and fixed income. The portfolio employs both passive index funds and actively managed funds. The portfolio's objective is to achieve a total return equivalent to or greater than SB Humane's financial requirements over the long-term time horizon. Long-term investment strategies are used to manage risk with the goal to grow charitable dollars over time.

Note 10 - ENDOWMENT FUNDS (continued)

Endowment Investment and Spending Policies (continued)

SB Humane uses a total investment return methodology for determining its spending policy each year. The portfolio's total returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Board of Directors calculates the amount of money annually distributed from SB Humane's various discretionary funds and other endowed funds for general operations. The percentage is based upon the decision of the Board and is reviewed annually in light of changing market assumptions, investment returns and the rate of inflation. For the year ended December 31, 2025, the overall spending policy was approximately 4% of the fair market value of investments, while the spending policy related specifically to permanently restricted endowments was 7%.

Endowment net assets with donor restrictions totaled $16,489,932, consisting of total original gift endowment contributions of $12,572,000 and accumulated earnings of $3,917,932 as of December 31, 2025.

Note 11 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by the passage of time or by satisfying the restricted purposes specified by donors. For the year ended December 31, 2025, net assets released from restriction totaled $3,413,506.

Note 12 - EMPLOYEE BENEFIT PLANS

401(k) Profit Sharing Plan

SB Humane maintains a defined contribution 401(k) plan for all employees. Upon employment, employees are eligible for participation in the plan. Employees may defer up to the annual IRS maximum. Deferrals may be made pre-tax and/or Roth. Employees are eligible for employer contributions if they are 18 years of age or greater and have completed one year of employment (1,000 hours of work). SB Humane matches 100% up to the first 3% of compensation deferred, and 50% on the next 2% deferred. Participants are fully vested after six years. Employer contributions to the plan by SB Humane totaled $96,675 for the year ended December 31, 2025.

Note 13 - IN-KIND LEASE

SB Humane leases a 21,000 square foot property from the City of Santa Maria under a forty year lease agreement effective July 20, 2010, with the option to extend the lease for two additional five year periods upon maturity. This property contains an operating office and facilities, which are owned outright by the Organization and not included in the lease agreement. The monthly rent on the property has been waived by the City of Santa Maria for the duration of the lease as SB Humane is deemed to provide valuable services to the community. The fair value of the lease for the year ended December 31, 2025, has been recorded at $146,400 and included as in-kind contributions on the statement of activities.

Note 14 - LINE OF CREDIT

SB Humane entered into a $8,000,000 line of credit agreement with a California bank, secured by the Organization's investment assets held at Charles Schwab. The interest only payments are payable monthly with interest at the rate of the Wall Street Journal prime rate index minus 0.75%. The effective interest rate as of December 31, 2025, was 6.00%. The outstanding balance plus accrued interest is due May 2028 and the agreement calls for two 12-month extension options. As of December 31, 2025, there was zero outstanding on the line of credit. Subsequent to December 31, 2025, the Organization borrowed $654,159 for construction costs.

Note 15 - LETTERS OF CREDIT

SB Humane has four irrevocable standby letters of credit with Montecito Bank & Trust totaling $1,966,359. The letters are for the benefit of the City of Goleta related to the Santa Barbara campus construction and call for variable interest rate of 1.00% above the daily Wall Street Journal Prime Rate on outstanding balances. There were no borrowings during 2025 and no outstanding balance owed as of December 31, 2025.

Note 16 - LIQUIDITY

Financial assets available to meet cash needs for general expenditure for the following year are comprised of current assets and investments, adjusted for amounts unavailable due to illiquidity, endowments and other funds spending policy appropriations beyond one year, and current liabilities payable to vendors, financial institutions, and nonprofit organizations.

Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2025:

Current assets	
Cash and cash equivalents available within one year	$ 961,663
Pledges receivable, current portion	605,660
Accounts receivable	177,085
Total current assets	1,744,408
Investments	36,034,765
Less, investments unavailable for general expenditures within one year:	(16,489,932)
Total Investments	19,544,833
Current Liabilities	(922,704)
Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2025	$ 20,366,537

Note 17 – NET ASSETS

Net Assets Without Donor Restrictions

As of December 31, 2025, net assets without donor restrictions consist of the following:

Operating net assets	$ 18,213,129
Board designated	1,758,998
Property and equipment, net	13,003,520
Other assets	242,070
Total Net Assets Without Donor Restrictions	$ 33,217,717

Net Assets With Donor Restrictions

As of December 31, 2025, net assets with donor restrictions consist of the following:

Pledges and bequests receivable	$ 1,311,901
Donor-restricted endowments	12,572,000
Unappropriated earnings on endowments	3,917,932
Perpetual interest trust	224,188
Total Net Assets With Donor Restrictions	$ 18,026,021

Note 18 - RECLASSIFICATIONS

Certain amounts from the December 31, 2024, financial statements have been reclassified to conform with the current year's presentation.