

PUPPIES BEHIND BARS, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

PUPPIES BEHIND BARS, INC.
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Puppies Behind Bars, Inc.

We have audited the accompanying financial statements of Puppies Behind Bars, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Puppies Behind Bars, Inc. as of December 31, 2019 and 2018, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



CERTIFIED PUBLIC ACCOUNTANTS

New York, New York
April 20, 2020

PUPPIES BEHIND BARS, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 2,862,082	\$ 3,150,503
Contributions receivable	165,793	149,438
Prepaid expenses and other assets	229,835	226,224
Accrued interest	57,540	49,996
Investments, at fair value	12,135,447	10,281,993
Property and equipment, net	<u>879,851</u>	<u>924,479</u>
TOTAL ASSETS	<u>\$ 16,330,548</u>	<u>\$ 14,782,633</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 76,635	\$ 57,122
Commitments and contingencies (Note 6)		
Net assets:		
Without donor restrictions	<u>16,253,913</u>	<u>14,725,511</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,330,548</u>	<u>\$ 14,782,633</u>

See accompanying notes to financial statements.

PUPPIES BEHIND BARS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Revenue:		
Contributions and grants	\$ 2,523,493	\$ 3,546,764
Program revenue	54,919	37,569
Dividends and interest, net of advisory fees	251,540	217,279
Other income	2,066	4,989
Realized and unrealized gains (loss) on investments	1,323,247	(472,471)
Donated professional services	<u>173,340</u>	<u>78,754</u>
Total revenue	<u>4,328,605</u>	<u>3,412,884</u>
Expenses:		
Program services	<u>2,410,970</u>	<u>2,034,265</u>
Supporting services:		
General and administrative	261,572	194,695
Fundraising	<u>127,661</u>	<u>109,940</u>
Total supporting services	<u>389,233</u>	<u>304,635</u>
Total expenses	<u>2,800,203</u>	<u>2,338,900</u>
Change in net assets	1,528,402	1,073,984
Net assets without donor restrictions - beginning	<u>14,725,511</u>	<u>13,651,527</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS -		
 ENDING	<u>\$ 16,253,913</u>	<u>\$ 14,725,511</u>

See accompanying notes to financial statements.

PUPPIES BEHIND BARS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019				2018			
	<u>Supporting Services</u>			Total	<u>Supporting Services</u>			Total
	Program Services	General and Administrative	Fundraising		Program Services	General and Administrative	Fundraising	
Salaries	\$ 1,179,061	\$ 24,663	\$ 78,113	\$ 1,281,837	\$ 1,071,134	\$ 52,238	\$ 70,982	\$ 1,194,354
Employee benefits	157,770	3,382	12,500	173,652	150,338	6,004	11,953	168,295
Bank charges and fees	-	5,878	-	5,878	-	5,149	-	5,149
Depreciation	40,976	885	2,767	44,628	37,803	1,916	2,540	42,259
Travel and entertainment	50,492	-	-	50,492	54,053	-	-	54,053
Insurance	58,193	57	179	58,429	57,046	96	128	57,270
Office expense	50,512	1,481	4,841	56,834	53,717	3,956	5,242	62,915
Postage	14,057	279	871	15,207	10,376	526	697	11,599
Education	60,301	-	-	60,301	48,973	-	-	48,973
Marketing	11,182	-	11,182	22,364	3,896	-	3,896	7,792
Professional fees	195,587	192,489	3,486	391,562	41,926	58,379	2,817	103,122
Other expenses	-	27,869	-	27,869	3,433	25,023	305	28,761
Dog breeding, training and supplies	176,108	-	-	176,108	154,159	-	-	154,159
Rent	204,677	4,419	13,189	222,285	160,186	40,940	10,761	211,887
Telephone	8,590	170	533	9,293	9,217	468	619	10,304
Transportation	45,877	-	-	45,877	47,359	-	-	47,359
Veterinary services	148,950	-	-	148,950	123,913	-	-	123,913
Volunteer training	8,637	-	-	8,637	6,736	-	-	6,736
TOTAL EXPENSES	<u>\$ 2,410,970</u>	<u>\$ 261,572</u>	<u>\$ 127,661</u>	<u>\$ 2,800,203</u>	<u>\$ 2,034,265</u>	<u>\$ 194,695</u>	<u>\$ 109,940</u>	<u>\$ 2,338,900</u>

See accompanying notes to financial statements.

PUPPIES BEHIND BARS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,528,402	\$ 1,073,984
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	44,628	42,259
Realized and unrealized loss (gain) on investments	(1,323,247)	472,471
Donated securities	(71,869)	(339,633)
Donated professional services capitalized to property and equipment	-	(22,500)
Changes in assets and liabilities:		
Contributions receivable	(16,355)	96,998
Prepaid expenses and other assets	(3,611)	(8,084)
Accrued interest	(7,544)	(15,120)
Accounts payable and accrued expenses	<u>33,982</u>	<u>5,399</u>
Net cash provided by operating activities	<u>184,386</u>	<u>1,305,774</u>
Cash flows from investing activities:		
Proceeds from sale of investments	4,105,365	4,161,919
Purchases of investments	(4,563,703)	(5,055,225)
Payments for purchases of property and equipment	<u>(14,469)</u>	<u>(167,747)</u>
Net cash used in investing activities	<u>(472,807)</u>	<u>(1,061,053)</u>
Net change in cash and cash equivalents	(288,421)	244,721
Cash and cash equivalents - beginning	<u>3,150,503</u>	<u>2,905,782</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 2,862,082</u>	<u>\$ 3,150,503</u>
Supplemental schedule for non-cash investing activities:		
Property and equipment unpaid at year end	<u>\$ -</u>	<u>\$ 14,469</u>

See accompanying notes to financial statements.

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS

Puppies Behind Bars, Inc. ("PBB" or the "Organization") is a New York State not-for-profit corporation qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, accordingly, is not subject to federal income taxes. The Organization fulfills its mission by focusing its efforts in three primary service areas.

Raising Service Dogs

PBB raises service dogs for wounded war veterans and first responders in five correctional facilities in New York State. The dogs learn more than 90 commands ranging from turning lights off and on to doing laundry, finding the car in crowded parking lots and calling 911. The dogs learn special commands designed to mitigate the effects of post-traumatic stress disorder. PBB then pairs the dogs, free of charge, with wounded veterans and first responders. The recipients receive intensive training on how to use their dogs, and PBB then provides extensive follow-up services. To date, 129 dogs have been placed with veterans and first responders through the program. Not only do the recipients themselves benefit, but their entire families and their communities benefit as the recipients find relief from anxiety and panic attacks, learn to reenter society, and can often return to work and/or school. Some dogs serve police departments as a whole, enhancing officer wellness and aiding in community outreach. At any given time approximately 75 inmates are training approximately 50 dogs for this purpose. The puppies enter prison at the age of 8 weeks and remain until the age of approximately 2-1/2 years. Full-time professional instructors teach the inmates for a full day each week, and monitor the progress of the puppies' training. More than 200 volunteers work to socialize the puppies to experiences outside of prison.

Raising Explosive-Detection Canines

PBB raises explosive-detection canines ("EDCs") for work with law enforcement in one prison in New Jersey and one in New York. An average of 20 inmates take part in the program, raising 12 to 16 dogs at any given time. The training process takes approximately 10 months, and between 16 and 20 of these dogs graduate each year. The EDCs have gone to work to detect explosives or accelerants across the United States and 15 foreign countries. The FBI, CIA and U.S. Park Police are just a few of the agencies that use PBB's dogs. They screen courthouses and other government buildings, check stadiums before ball games, help solve arson cases, and provide many other services to the general public.

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS (CONTINUED)

Inmate Education and Employment

Inmate puppy-raisers in our program become expert dog trainers and gain interpersonal skills as well. They must work as part of a team to solve problems, attend rigorous weekly classes, do written homework assignments, and maintain a daily journal of their puppies' progress. Their literary and communication skills are enhanced, and they benefit from the unconditional love provided by the dogs as well. Rather than biding their time while incarcerated, the PBB program allows them to make a contribution to society that is a source of pride and self-confidence. Many are hired for dog-related jobs after parole. PBB currently employs five former inmate puppy-raisers as part of its full-time staff. Two work as instructors, teaching current inmates by their example what can be accomplished with hard work and dedication after incarceration. One is also director of our service dog program for wounded veterans and first responders, one is our director of volunteers, and another is director of socialization for our young puppies.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. The Organization did not have any net assets with donor restrictions at December 31, 2019 or 2018.

Cash and Cash Equivalents

PBB considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions Receivable

PBB records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. All contributions receivable are due within one year as of December 31, 2019 and 2018.

Allowance for Uncollectible Receivables

An allowance for uncollectible receivables is estimated based on a combination of history, aging analysis and any specific known troubled accounts. At December 31, 2019 and 2018, management has determined that an allowance was not necessary.

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and employee benefits	Time and effort
Occupancy	Time and effort
Professional fees	Time and effort

Fair Value Measurements

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurement*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements).

Categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. Fair value is defined as the exit price, or the amount 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 three levels of fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Inputs that reflect unadjusted quoted market prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and, inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability

Level 3: Inputs that are unobservable for the asset or liability and that include situations where there is little, if any, market activity for the asset or liability.

Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for a discussion of fair value measurements.

Investment transactions are recorded on settlement-date basis. Unrealized gains and losses represent the net change in the carrying value of securities owned as of the date of the statement of financial position. Realized gains and losses on investments are determined using the specific-identification method. Earnings from interest and dividends are recognized when earned, and reported net of advisory fees, in the amounts of \$66,666 and \$31,900 on the accompanying statements of activities for the years ended December 31, 2019 and 2018, respectively.

Property, Equipment and Depreciation

PBB follows the policy of capitalizing property and equipment purchases of \$1,000 or more at cost or, if donated, at the fair value at the date received. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets which range from three to 39 years.

Impairment of Long-Lived Assets

PBB evaluates its long-lived assets for impairment in accordance with the guidelines of *FASB ASC 360, Property, Plant and Equipment*. If this evaluation indicates that an impairment loss should be recognized, the Organization will charge operations for the estimated impairment loss in the period determined. No impairment loss has been recognized during the years ended December 31, 2019 and 2018.

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Securities, Goods and Services

Donated securities and goods are reported at their fair values as determined on the date of donation. Donated services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. PBB received donated securities amounting to \$71,869 and \$339,633 during the years ended December 31, 2019 and 2018, respectively, which are included in "Contributions and grants" in the accompanying statements of activities.

Donated legal services amounting to \$173,340 and \$78,754 were provided to PBB during the years ended December 31, 2019 and 2018, respectively, and are included in "Donated professional services" on the accompanying statements of activities and in "Professional fees" on the accompanying statements of functional expenses.

Donated architectural services amounting to \$22,500 were provided to PBB during the year ended December 31, 2018, and are included in "Property and equipment, net" on the accompanying statements of financial position and in "Donated professional services" on the accompanying statement of activities. There were no similar donated services in 2019.

In addition, PBB receives a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects. The value of their contributed time is not reflected in the financial statements as these services would not typically be purchased had they not been provided by donation.

Revenue Recognition

The Organization adopted Accounting Standards Update ("ASU") No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"), which provides guidance for determining whether a transaction should be accounted for as a contribution or an exchange transaction, and whether a contribution is conditional or unconditional.

Revenue is reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from donor restrictions.

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Contributions of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, 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.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give, that is, those with a measurable performance or other barrier, are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met.

Grants and contributions received with donor-imposed or grantor-imposed restrictions that are fulfilled in the same year as received are reported as support without donor restrictions.

Recently Adopted Accounting Pronouncement

In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"), which provides guidance for determining whether a transaction should be accounted for as a contribution or an exchange transaction, and whether a contribution is conditional or unconditional. This ASU is effective for years beginning after December 15, 2018. The Organization adopted ASU 2018-08 effective January 1, 2019, using the modified prospective method. Under the modified prospective method, the amendments are applied to agreements that are either not completed as of the effective date or entered into after the effective date. The Organization has determined that the application of the amendments of ASU 2018-08 did not have a material impact on the Organization's financial statements and related disclosures.

Recently Issued but not yet Effective Accounting Standard

In February 2016, FASB issued ASU No. 2016-02, *Leases* ("ASU 2016-02"). This update requires all leases with a term greater than 12 months to be recognized on the statement of financial position through a right-of-use asset and a lease liability and the disclosure of key information pertaining to leasing arrangements. The effect of adopting ASU 2016-02 on PBB's financial statements and disclosures has not yet been determined. Effective for the year ending December 31, 2021, PBB will adopt the provisions of ASU 2016-02.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. These reclassification adjustments had no effect on the Organization's previously reported change in net assets.

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with 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 periods. Actual results could differ from those estimates.

Income Taxes

PBB is a not-for-profit organization and is exempt from federal income taxes under Section 501(c)(3) of the Code and from state income taxes. As a not-for-profit entity, PBB is subject to unrelated business income tax ("UBIT"), if applicable.

PBB recognizes and measures its unrecognized tax benefits in accordance with FASB ASC 740, *Income Taxes*. Under that guidance, the Organization assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available or when an event occurs that requires a change.

Management has evaluated PBB's tax positions and has concluded that PBB has taken no uncertain tax positions that require adjustment to the accompanying financial statements.

Subsequent Events

In accordance with FASB ASC 855, *Subsequent Events*, the Organization has evaluated subsequent events through April 20, 2020, the date on which these financial statements were available to be issued. Except for the matter discussed in Note 9, management has determined that there were no material subsequent events that required recognition or additional disclosure in these financial statements.

NOTE 3. LIQUIDITY AND AVAILABILITY

PBB receives contributions with and without donor restrictions. Contributions received with donor restrictions are to be used in accordance with the associated purpose restrictions. Typically restrictions are released during the year received and the combined support with and without donor restriction has historically represented 100% of annual program funding needs.

The table below presents financial assets available for general expenditures within one year at December 31, 2019:

Cash and cash equivalents	\$ 2,862,082
Investments	12,135,447
Contributions receivable	165,793
Accrued interest	<u>57,540</u>
Total financial assets available for general expenditures	\$ <u><u>15,220,862</u></u>

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3. LIQUIDITY AND AVAILABILITY (CONTINUED)

As part of PBB's liquidity management, it has a goal to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. Further, excess cash and cash equivalents is invested in bonds, stocks, mutual funds, US treasury notes and certificates of deposit.

NOTE 4. FAIR VALUE MEASUREMENTS

Assets and liabilities measured at fair value are based on one or more of three valuation techniques identified in the tables below. The valuation techniques are as follows:

- (a) *Market approach*: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- (b) *Cost approach*: Amount that would be required to replace the service capacity of an asset (replacement cost); and
- (c) *Income approach*: Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models.)

The following tables set forth by level, within the fair value hierarchy, the Organization's assets at fair value, as of December 31, 2019 and 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total at December 31, 2019</u>	<u>Valuation Technique</u>
Investments:					
Bonds:					
Corporate bonds	\$ -	\$ 3,476,468	\$ -	\$ 3,476,468	(a)
Mutual funds:					
Equity - small-cap	285,929	-	-	285,929	(a)
Equity - mid-cap	1,176,568	-	-	1,176,568	(a)
Equity - large-cap	3,590,550	-	-	3,590,550	(a)
Equity - foreign	94,080	-	-	94,080	(a)
Specialty	<u>484,125</u>	<u>-</u>	<u>-</u>	<u>484,125</u>	(a)
Total mutual funds	<u>5,631,252</u>	<u>-</u>	<u>-</u>	<u>5,631,252</u>	
Common stocks:					
Corporate securities	<u>25,092</u>	<u>-</u>	<u>-</u>	<u>25,092</u>	(a)
Certificates of deposit	<u>-</u>	<u>2,700,736</u>	<u>-</u>	<u>2,700,736</u>	(a)
US treasury notes	<u>-</u>	<u>301,899</u>	<u>-</u>	<u>301,899</u>	(a)
Total investments	<u>\$ 5,656,344</u>	<u>\$ 6,479,103</u>	<u>\$ -</u>	<u>\$ 12,135,447</u>	

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 4. FAIR VALUE MEASUREMENTS (CONTINUED)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total at December 31, 2018</u>	<u>Valuation Technique</u>
Investments					
Bonds:					
Corporate bonds	\$ <u>-</u>	\$ <u>3,036,678</u>	\$ <u>-</u>	\$ <u>3,036,678</u>	(a)
Mutual funds:					
Equity - small-cap	235,688			235,688	(a)
Equity - mid-cap	249,588	-	-	249,588	(a)
Equity - large-cap	2,516,100	-	-	2,516,100	(a)
Equity - foreign	735,426	-	-	735,426	(a)
Specialty	<u>365,231</u>	<u>-</u>	<u>-</u>	<u>365,231</u>	(a)
Total mutual funds	<u>4,102,033</u>	<u>-</u>	<u>-</u>	<u>4,102,033</u>	
Common stocks:					
Corporate securities	<u>6,827</u>	<u>-</u>	<u>-</u>	<u>6,827</u>	(a)
Certificates of deposit	<u>-</u>	<u>3,136,455</u>	<u>-</u>	<u>3,136,455</u>	(a)
Total investments	<u>\$ 4,108,860</u>	<u>\$ 6,173,133</u>	<u>\$ -</u>	<u>\$10,281,993</u>	

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019 and 2018.

Corporate bonds are valued based on the last reported bid price provided by broker-dealers.

Mutual funds are valued on the quoted market prices, which represent the value of the securities held in such funds.

Common stocks are valued based on quoted market prices, when available, or market prices provided by recognized broker-dealers or fund managers.

Certificates of deposit are valued at cost, which approximates fair value.

U.S. Treasury notes are valued based on quoted market prices in markets that are not active.

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NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land and improvements	\$ 370,131	\$ 370,131
Building and improvements	527,271	527,271
Leasehold improvements	21,370	21,370
Automobiles	137,970	137,970
Computer and software	<u>10,040</u>	<u>10,040</u>
	1,066,782	1,066,782
Less: accumulated depreciation	<u>186,931</u>	<u>142,303</u>
Property and equipment, net	<u>\$ 879,851</u>	<u>\$ 924,479</u>

NOTE 6. COMMITMENTS AND CONTINGENCIES

Lease

PBB is obligated under a lease for administrative office space through August 2021. Future annual minimum lease payments are payable as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2020	\$ 179,221
2021	<u>168,793</u>
Total	<u>\$ 348,014</u>

Concentrations of Credit Risk

PBB manages deposit concentration risk by placing its cash and cash equivalents, which may at times be in excess of Federal Deposit Insurance Corporation insurance limits, with high credit quality financial institutions and attempts to limit the amount of credit exposure with any one institution. To date, PBB has not experienced losses in any of these accounts.

Credit risk associated with contributions receivable is considered to be limited due to high historical collection rates. The investment portfolio is diversified by type of investments and industry concentrations so that no individual investment represents a significant concentration of credit risk. Receivables are expected to be collected in the normal course of business.

Litigation

PBB is, from time to time, subject to ordinary and routine litigation. Management presently believes that the ultimate outcome of these proceedings, individually or in the aggregate, will not have a material adverse effect on PBB's financial condition, results of operations or cash flows. Nevertheless, litigation is subject to inherent uncertainties and unfavorable rulings could occur. An unfavorable ruling could include money damages and, in such event, could result in a material adverse impact on PBB's financial condition, results of operations or cash flows for the period for which the ruling occurs.

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NOTE 7. PENSION PLAN

PBB has a 401(k) plan for eligible full-time employees with an employer match of up to 3% of annual compensation. PBB's contribution to the plan for the years ended December 31, 2019 and 2018, was \$26,756 and \$23,240, respectively.

NOTE 8. RELATED-PARTY TRANSACTIONS

PBB pays the salary of a shared administrative employee and is reimbursed from a related party for 40% of the salary. Reimbursements of \$17,880 and \$21,454 were received for each of the years ended December 31, 2019 and 2018, and are included in "Salaries" on the accompanying statements of functional expenses.

Advance payments made to this related party totaling \$2,688 and \$5,364 at December 31, 2019 and 2018 are included in "Accounts payable and accrued expenses" on the accompanying statements of financial position.

NOTE 9. SUBSEQUENT EVENT

During the 2020 calendar year, the World Health Organization has declared COVID-19 to constitute a "Public Health Emergency of International Concern." Disruptions to operations could occur as a result from quarantines of employees, customers and suppliers in areas affected by the outbreak. Further, economic uncertainties have arisen which are likely to negatively impact support and revenue. Given the uncertainty of the situation, the duration of the disruption and related financial impact cannot be reasonably estimated at this time. No adjustments or provisions were made in these financial statements related to COVID-19.