

PUPPIES BEHIND BARS, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

PUPPIES BEHIND BARS, INC.
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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
May 11, 2021

PUPPIES BEHIND BARS, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 4,881,037	\$ 2,862,082
Contributions receivable	255,021	165,793
Prepaid expenses and other assets	229,576	229,835
Accrued interest	39,469	57,540
Investments, at fair value	11,236,326	12,135,447
Property and equipment, net	<u>883,540</u>	<u>879,851</u>
TOTAL ASSETS	\$ <u>17,524,969</u>	\$ <u>16,330,548</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 74,983	\$ 76,635
Deferred rent	<u>33,586</u>	<u>-</u>
Total liabilities	<u>108,569</u>	<u>76,635</u>
Commitments and contingencies (Note 6, 8, 9, 10 and 11)		
Net assets:		
Without donor restrictions	17,346,400	16,253,913
With donor restrictions	<u>70,000</u>	<u>-</u>
Total net assets	<u>17,416,400</u>	<u>16,253,913</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>17,524,969</u>	\$ <u>16,330,548</u>

See accompanying notes to financial statements.

PUPPIES BEHIND BARS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:						
Contributions and grants	\$ 2,531,048	\$ 70,000	\$ 2,601,048	\$ 2,523,493	\$ -	\$ 2,523,493
Program revenue	73,308	-	73,308	54,919	-	54,919
Dividends and interest, net of advisory fees	190,600	-	190,600	251,540	-	251,540
Government grant proceeds	219,840	-	219,840	-	-	-
Other income	4,160	-	4,160	2,066	-	2,066
Realized and unrealized gains on investments	848,016	-	848,016	1,323,247	-	1,323,247
Donated legal services	274,077	-	274,077	173,340	-	173,340
Total revenue	<u>4,141,049</u>	<u>70,000</u>	<u>4,211,049</u>	<u>4,328,605</u>	<u>-</u>	<u>4,328,605</u>
Expenses:						
Program services	<u>2,471,861</u>	<u>-</u>	<u>2,471,861</u>	<u>2,410,970</u>	<u>-</u>	<u>2,410,970</u>
Supporting services:						
General and administrative	448,510	-	448,510	261,572	-	261,572
Fundraising	<u>128,191</u>	<u>-</u>	<u>128,191</u>	<u>127,661</u>	<u>-</u>	<u>127,661</u>
Total supporting services	<u>576,701</u>	<u>-</u>	<u>576,701</u>	<u>389,233</u>	<u>-</u>	<u>389,233</u>
Total expenses	<u>3,048,562</u>	<u>-</u>	<u>3,048,562</u>	<u>2,800,203</u>	<u>-</u>	<u>2,800,203</u>
Change in net assets	1,092,487	70,000	1,162,487	1,528,402	-	1,528,402
Net assets - beginning	<u>16,253,913</u>	<u>-</u>	<u>16,253,913</u>	<u>14,725,511</u>	<u>-</u>	<u>14,725,511</u>
NET ASSETS - ENDING	<u>\$ 17,346,400</u>	<u>\$ 70,000</u>	<u>\$ 17,416,400</u>	<u>\$ 16,253,913</u>	<u>\$ -</u>	<u>\$ 16,253,913</u>

See accompanying notes to financial statements.

PUPPIES BEHIND BARS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020				2019			
	<u>Supporting Services</u>			Total	<u>Supporting Services</u>			Total
	Program Services	General and Administrative	Fundraising		Program Services	General and Administrative	Fundraising	
Salaries	\$ 1,321,753	\$ 29,403	\$ 78,788	\$ 1,429,944	\$ 1,179,061	\$ 24,663	\$ 78,113	\$ 1,281,837
Employee benefits	160,812	4,000	12,124	176,936	157,770	3,382	12,500	173,652
Bank charges and fees	-	3,887	-	3,887	-	5,878	-	5,878
Depreciation	37,959	1,011	2,458	41,428	40,976	885	2,767	44,628
Travel and entertainment	11,421	-	-	11,421	50,492	-	-	50,492
Insurance	52,362	841	2,044	55,247	58,193	57	179	58,429
Office expense	51,331	2,039	5,310	58,680	50,512	1,481	4,841	56,834
Postage	16,645	444	1,078	18,167	14,057	279	871	15,207
Education	58,427	-	-	58,427	60,301	-	-	60,301
Marketing	9,817	-	9,817	19,634	11,182	-	11,182	22,364
Professional fees (including in-kind contributions of \$274,077 and \$173,340 in 2020 and 2019, respectively)	232,700	293,753	4,880	531,333	195,587	192,489	3,486	391,562
Other expenses	-	28,925	-	28,925	-	27,869	-	27,869
Dog breeding, training and supplies	162,374	-	-	162,374	176,108	-	-	176,108
Rent, taxes and utilities	172,822	84,000	11,191	268,013	204,677	4,419	13,189	222,285
Telephone	7,759	207	501	8,467	8,590	170	533	9,293
Transportation	30,372	-	-	30,372	45,877	-	-	45,877
Veterinary services	130,028	-	-	130,028	148,950	-	-	148,950
Volunteer training	<u>15,279</u>	<u>-</u>	<u>-</u>	<u>15,279</u>	<u>8,637</u>	<u>-</u>	<u>-</u>	<u>8,637</u>
TOTAL EXPENSES	<u>\$ 2,471,861</u>	<u>\$ 448,510</u>	<u>\$ 128,191</u>	<u>\$ 3,048,562</u>	<u>\$ 2,410,970</u>	<u>\$ 261,572</u>	<u>\$ 127,661</u>	<u>\$ 2,800,203</u>

See accompanying notes to financial statements.

PUPPIES BEHIND BARS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,162,487	\$ 1,528,402
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	41,428	44,628
Realized and unrealized gain on investments	(848,016)	(1,323,247)
Donated securities	(40,026)	(71,869)
Deferred rent	33,586	-
Changes in assets and liabilities:		
Contributions receivable	(89,228)	(16,355)
Prepaid expenses and other assets	259	(3,611)
Accrued interest	18,071	(7,544)
Accounts payable and accrued expenses	<u>(1,652)</u>	<u>33,982</u>
Net cash provided by operating activities	<u>276,909</u>	<u>184,386</u>
Cash flows from investing activities:		
Proceeds from sale of investments	4,043,055	4,105,365
Purchases of investments	(2,255,892)	(4,563,703)
Payments for purchases of property and equipment	<u>(45,117)</u>	<u>(14,469)</u>
Net cash provided by (used in) investing activities	<u>1,742,046</u>	<u>(472,807)</u>
Net change in cash and cash equivalents	2,018,955	(288,421)
Cash and cash equivalents - beginning	<u>2,862,082</u>	<u>3,150,503</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 4,881,037</u>	<u>\$ 2,862,082</u>

See accompanying notes to financial statements.

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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 on and off, retrieving items off grocery shelves, gently waking their human companions from nightmares, and doing laundry, to finding the car in a crowded parking lot 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, nearly 150 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, 2020 AND 2019

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.

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, 2020 AND 2019

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, 2020 and 2019.

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, 2020 and 2019, 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, 2020 AND 2019

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 statements 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 \$61,826 and \$66,666 on the accompanying statements of activities for the years ended December 31, 2020 and 2019, 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, 2020 and 2019.

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services

Contributed nonfinancial assets are comprised of donated legal services. These 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.

Donated legal services amounting to \$274,077 and \$173,340 were provided to PBB during the years ended December 31, 2020 and 2019, respectively, and are included in "Donated legal services" on the accompanying statements of activities and in "Professional fees" on the accompanying statements of functional expenses.

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

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.

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 statements 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.

Contributed financial assets are comprised of securities and are reported at their fair values as determined on the date of donation. PBB received donated securities amounting to \$40,026 and \$71,869 during the years ended December 31, 2020 and 2019, respectively, which are included in "Contributions and grants" in the accompanying statements of activities.

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Adopted Accounting Pronouncement

Fair Value Measurement - In August 2018, FASB issued Accounting Standards Update ("ASU") No. 2018-13, *Changes to Disclosure Requirements for Fair Value Measurements*, which will improve the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removes, modifies, and adds certain disclosure requirements, and is effective for fiscal years beginning after December 15, 2019. The Organization does not believe that this guidance will have a material impact on the financial statements and related disclosures

Recently Issued but not yet Effective Accounting Standards

In-kind Contributions - In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* ("ASU 2020-07"), which will increase the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. ASU 2020-07 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Organization is evaluating the effect that ASU 2020-07 will have on its financial statements and related disclosures.

Leases - 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 statements of financial position through a right-of-use asset and a lease liability and the disclosure of key information pertaining to leasing arrangements. In June 2020, FASB issued ASU No. 2020-05, which defers the effective date for one year for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of ASU 2016-02. Those entities may elect to adopt the guidance for annual reporting periods beginning after December 15, 2021. Early adoption continues to be permitted, which means that an entity may choose to implement ASU 2016-02 before those deferred effective dates. PBB has not yet elected to adopt ASU No. 2020-05 and is evaluating the effect that ASU No. 2020-05 will have on its financial statements and related disclosures.

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.

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 May 11, 2021, the date on which these financial statements were available to be issued. Except for the matters discussed in Notes 6 and 10, 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:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 4,881,037	\$ 2,862,082
Investments	11,236,326	12,135,447
Contributions receivable	255,021	165,793
Accrued interest	<u>39,469</u>	<u>57,540</u>
Total financial assets available for general expenditures	16,411,853	15,220,862
Less amounts not available to be used within one year:		
Net assets with donor restrictions	<u>70,000</u>	<u>-</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 16,341,853</u>	<u>\$ 15,220,862</u>

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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, 2020 and 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total at December 31, 2020</u>	<u>Valuation Technique</u>
Investments:					
Bonds:					
Corporate bonds	\$ -	\$ 3,736,293	\$ -	\$ 3,736,293	(a)
Mutual funds:					
Equity - small-cap	375,228	-	-	375,228	(a)
Equity - mid-cap	1,389,540	-	-	1,389,540	(a)
Equity - large-cap	4,169,832	-	-	4,169,832	(a)
Equity - foreign	120,978	-	-	120,978	(a)
Specialty	<u>553,564</u>	<u>-</u>	<u>-</u>	<u>553,564</u>	(a)
Total mutual funds	<u>6,609,142</u>	<u>-</u>	<u>-</u>	<u>6,609,142</u>	
Common stocks:					
Corporate securities	<u>201</u>	<u>-</u>	<u>-</u>	<u>201</u>	(a)
Certificates of deposit	<u>-</u>	<u>739,302</u>	<u>-</u>	<u>739,302</u>	(a)
US treasury notes	<u>-</u>	<u>151,388</u>	<u>-</u>	<u>151,388</u>	(a)
Total investments	<u>\$ 6,609,343</u>	<u>\$ 4,626,983</u>	<u>\$ -</u>	<u>\$ 11,236,326</u>	

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 4. FAIR VALUE MEASUREMENTS (CONTINUED)

	<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	\$ <u>-</u>	\$ <u>3,476,468</u>	\$ <u>-</u>	\$ <u>3,476,468</u>	(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>	

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, 2020 and 2019.

Corporate bonds: Valued based on the last reported bid price provided by broker-dealers.

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

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

Certificates of deposit: Valued at cost, which approximates fair value.

U.S. Treasury notes: 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:

	<u>2020</u>	<u>2019</u>
Land and improvements	\$ 370,131	\$ 370,131
Building and improvements	527,271	527,271
Leasehold improvements	21,370	21,370
Automobiles	183,087	137,970
Computer and software	<u>10,040</u>	<u>10,040</u>
	1,111,899	1,066,782
Less: accumulated depreciation	<u>228,359</u>	<u>186,931</u>
Property and equipment, net	<u>\$ 883,540</u>	<u>\$ 879,851</u>

NOTE 6. COMMITMENTS AND CONTINGENCIES

Lease

PBB is obligated under a lease for administrative office space through August 2021. On March 18, 2021, PBB extended the office space lease through November 2026. Future annual minimum lease payments as of December 31, 2020, are payable as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2021	\$ 211,034
2022	220,000
2023	220,000
2024	220,000
2025	220,000
Thereafter	<u>201,666</u>
Total	<u>\$ 1,292,700</u>

PBB has entered into an operating lease agreement that contains provisions for future rent increases, and periods of free rent. In accordance with U.S. GAAP, PBB records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease (straight-line basis). The difference between the rent expense recorded and the amount paid is credited or charged to "Deferred rent" which is reflected as separate line item in the accompanying statements of financial position. Rent expense related to the lease for the years ended December 31, 2020 and 2019 amounted to approximately \$214,000 and \$175,000, respectively, and is included in "Rent, taxes and utilities" on the accompanying statements of functional expenses.

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.

PUPPIES BEHIND BARS, INC.
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NOTE 6. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Concentrations of Credit Risk (Continued)

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.

NOTE 7. NET ASSETS WITH DONOR RESTRICTIONS

PBB's net assets with donor restrictions are available to satisfy the following time and purpose as of December 31, 2020:

Passage of time / Dog Tag	\$ <u>70,000</u>
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PBB did not have any net assets with donor restrictions as of December 31, 2019.

There were no assets released from restriction for the years ended December 31, 2020 and 2019.

NOTE 8. 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, 2020 and 2019, was \$26,144 and \$26,756, respectively.

NOTE 9. 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 \$5,366 and \$17,880 were received for each of the years ended December 31, 2020 and 2019, respectively, and are included in "Salaries" on the accompanying statements of functional expenses.

Advance payments made to this related party totaled \$2,688 at December 31, 2019, and are included in "Accounts payable and accrued expenses" on the accompanying statement of financial position. There were no advance payments made at December 31, 2020.

PUPPIES BEHIND BARS, INC.
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NOTE 10. GOVERNMENT GRANT PROCEEDS

On May 8, 2020, the Organization received loan proceeds of \$219,840 under the Paycheck Protection Program (the "PPP"). The PPP, which was established as part of the Coronavirus Aid, Relief and Economic Security Act, provides for loans to qualifying businesses for amounts up to 2.5 times certain average monthly payroll expenses of the qualifying business. The loan and accrued interest, or a portion thereof, may be forgiven after 24 weeks so long as the borrower uses the loan proceeds for eligible purposes including payroll, benefits, rent, mortgage interest and utilities, and maintains its payroll levels, as defined by the PPP. At least 60% of the amount forgiven must be attributable to payroll costs, as defined by the PPP.

U.S. GAAP does not contain authoritative accounting standards for forgivable loans provided by governmental entities. Absent authoritative accounting standards, interpretative guidance issued and commonly applied by financial statement preparers allows for the selection of accounting policies amongst acceptable alternatives. Based on the facts and circumstances, the Organization has determined it most appropriate to account for the PPP loan proceeds under the conditional contribution model within ASC 958-605. Under the conditional contribution model, the Organization recognizes the proceeds received as a refundable advance, and subsequently recognizes grant revenue as the conditions are met. Conditions are deemed to be met as the allowable expenses are incurred. The Organization deemed the conditional contribution model to be the most appropriate accounting policy for this arrangement based on the nature of the PPP loan program. As of December 31, 2020, \$219,840 is included in "Government grant proceeds" on the accompanying statement of activities.

The Foundation applied for PPP Loan forgiveness during November 2020 and received approval from the Small Business Association ("SBA") in February 2021. The Foundation recognized \$219,849 in revenue under the PPP loan program during the year ended December 31, 2020, which is included in "Government grant proceeds" on the accompanying statement of activities. If it is determined that PBB was not eligible to receive the PPP loan or that the Organization has not adequately complied with the rules, regulations and procedures applicable to the SBA's loan program, the Organization could be subject to penalties and could be required to repay the amounts previously forgiven.

NOTE 11. COVID-19

Public Health Emergency of International Concern

During the 2020 calendar year, the World Health Organization declared COVID-19 to constitute a "Public Health Emergency of International Concern." Disruptions to organizational activities could occur as a result from quarantines of staff, donors and vendors in areas affected by the outbreak.

As of the date these financial statements were available to be issued, PBB has been considered to be an essential business and has remained open to conduct its normal business activities. However, the current state of the on-going COVID-19 pandemic remains the subject of significant uncertainty on current and future operations. Given the continued uncertainty of the situation as of the date these financial statements were available to be issued, the occurrence, duration and any related financial impact cannot be reasonably estimated at this time