

Puppies Behind Bars, Inc.

Financial Statements

December 31, 2016 and 2015



Independent Auditors' Report

Board of Directors Puppies Behind Bars, Inc.

We have audited the accompanying financial statements of Puppies Behind Bars, Inc., which comprise the statements of financial position as of December 31, 2016 and 2015, 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.

Auditors' 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 auditors' 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PKF O'Connor Davies, LLP

Harrison, New York
April 25, 2017

Puppies Behind Bars, Inc.
Statements of Financial Position

	December 31,	
	2016	2015
ASSETS		
Cash and cash equivalents	\$ 6,111,114	\$ 2,887,312
Contributions receivable	259,056	242,108
Receivable from related party	3,620	6,668
Prepaid expenses and other	212,902	211,081
Accrued interest	803	4,569
Investments	4,458,085	5,792,827
Property and equipment, net	772,807	772,095
	\$ 11,818,387	\$ 9,916,660
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 63,344	\$ 68,945
Net Assets		
Unrestricted	11,755,043	9,835,410
Temporarily restricted	-	12,305
Total Net Assets	11,755,043	9,847,715
	\$ 11,818,387	\$ 9,916,660

See notes to financial statements

Puppies Behind Bars, Inc.

Statements of Activities

	Year Ended December 31, 2016			Year Ended December 31, 2015		
	Unrestricted	Temporarily Restricted		Unrestricted	Temporarily Restricted	
		Total	Restricted		Total	Restricted
REVENUE						
Contributions and grants	\$ 3,357,120	\$ 10,950	\$ 3,368,070	\$ 2,668,128	\$ 9,676	\$ 2,677,804
Program revenue	143,366	-	143,366	120,992	-	120,992
Dividends and interest	156,734	-	156,734	186,298	-	186,298
Other income	21,675	-	21,675	27,467	-	27,467
Realized and unrealized gain on investments	254,270	-	254,270	14,211	-	14,211
Net assets released from restrictions	23,255	(23,255)	-	400,000	(400,000)	-
Total Revenue	<u>3,956,420</u>	<u>(12,305)</u>	<u>3,944,115</u>	<u>3,417,096</u>	<u>(390,324)</u>	<u>3,026,772</u>
EXPENSES						
Program services	1,704,303	-	1,704,303	1,795,305	-	1,795,305
General and administrative	152,499	-	152,499	188,572	-	188,572
Fundraising	179,985	-	179,985	110,983	-	110,983
Total Expenses	<u>2,036,787</u>	<u>-</u>	<u>2,036,787</u>	<u>2,094,860</u>	<u>-</u>	<u>2,094,860</u>
Change in Net Assets	1,919,633	(12,305)	1,907,328	1,322,236	(390,324)	931,912
NET ASSETS						
Beginning of year	9,835,410	12,305	9,847,715	8,513,174	402,629	8,915,803
End of year	<u>\$ 11,755,043</u>	<u>\$ -</u>	<u>\$ 11,755,043</u>	<u>\$ 9,835,410</u>	<u>\$ 12,305</u>	<u>\$ 9,847,715</u>

See notes to financial statements

Puppies Behind Bars, Inc.

Statements of Functional Expenses

	Year Ended December 31, 2016			Year Ended December 31, 2015				
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
EXPENSES								
Salaries	\$ 812,280	\$ 76,482	\$ 67,163	\$ 955,925	\$ 763,551	\$ 94,401	\$ 66,772	\$ 924,724
Employee benefits	112,293	12,557	11,037	135,887	105,106	15,049	10,994	131,149
Bank charges and fees	30,314	11,047	2,770	44,131	56,909	16,278	5,596	78,783
Depreciation	32,146	3,025	2,648	37,819	29,191	3,572	2,535	35,298
Travel and entertainment	1,151	-	-	1,151	1,359	-	-	1,359
Dog training and breeding	125,393	-	-	125,393	138,911	-	-	138,911
Dog tags program	124,229	-	-	124,229	172,106	-	-	172,106
Insurance	56,347	4	3	56,354	54,430	-	-	54,430
Miscellaneous	213	20	18	251	4,000	637	377	5,014
Office expense	40,142	3,763	3,307	47,212	47,826	29,599	4,154	81,579
Postage	10,390	1,112	953	12,455	8,705	1,290	861	10,856
Education of inmates	3,491	-	-	3,491	27,642	-	-	27,642
Public education	73,309	-	-	73,309	24,694	-	-	24,694
Fundraising	-	-	27,830	27,830	1,776	-	-	1,776
Professional fees	39,739	3,724	3,274	46,737	31,977	3,913	2,777	38,667
Other program expenses	4,599	-	-	4,599	1,244	-	-	1,244
Printing	-	-	-	-	42,288	-	-	42,288
Rent	118,573	38,354	45,123	170,667	122,363	20,301	14,410	157,074
Telephone	18,288	2,411	13,740	22,818	21,288	3,532	2,507	27,327
Transportation	30,532	-	2,119	30,532	38,889	-	-	38,889
Veterinary services	67,923	-	-	67,923	98,377	-	-	98,377
Volunteer training	2,951	-	-	2,951	2,673	-	-	2,673
Total Expenses	\$ 1,704,303	\$ 152,499	\$ 179,985	\$ 2,036,787	\$ 1,795,305	\$ 188,572	\$ 110,983	\$ 2,094,860

See notes to financial statements

Puppies Behind Bars, Inc.

Statements of Cash Flows

	Year Ended December 31,	
	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,907,328	\$ 931,912
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	37,819	35,298
Realized and unrealized gain on investments	(254,270)	(14,211)
Changes in operating assets and liabilities		
Contributions receivable	(16,948)	(85,611)
Receivable from related party	3,048	44,721
Prepaid expenses and other	(1,821)	4,745
Accrued interest	3,766	341
Accounts payable and accrued expenses	(5,601)	40,180
Net Cash from Operating Activities	<u>1,673,321</u>	<u>957,375</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	8,033,423	2,718,990
Purchase of investments	(6,444,411)	(3,426,591)
Purchase of property and equipment	(38,531)	(753,007)
Net Cash from Investing Activities	<u>1,550,481</u>	<u>(1,460,608)</u>
Net Change in Cash and Cash Equivalents	3,223,802	(503,233)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,887,312</u>	<u>3,390,545</u>
End of year	<u>\$ 6,111,114</u>	<u>\$ 2,887,312</u>

Puppies Behind Bars, Inc.

Notes to Financial Statements
December 31, 2016 and 20155

1. Organization and Mission Statement

Puppies Behind Bars, Inc. ("PBB") 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 and, accordingly, is not subject to federal income taxes. The Internal Revenue Service has classified PBB as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code.

PBB trains prison inmates to raise service dogs for disabled veterans and explosive detection canines for law enforcement. The puppies live in prison with their inmate puppy raisers from age eight weeks to 24 months. As the puppies mature into well-loved, well-behaved dogs, their raisers learn what it means to contribute to society rather than take from it. At the present time, PBB has programs in six correctional facilities.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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. Accordingly, actual results could differ from those estimates.

Net Asset Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Unrestricted - consist of resources available for the general support of PBB's operations. Unrestricted net assets may be used at the discretion of PBB's management and Board of Directors.

Temporarily restricted - represent amounts restricted by donors for specific activities of PBB or to be used at some future date. PBB records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions and investment return are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

Income Taxes

PBB recognizes the effect of tax positions only if they are more likely than not to be sustained. Management has determined that PBB had no uncertain tax positions that would require financial statement recognition or disclosure. PBB is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to December 31, 2013.

Puppies Behind Bars, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

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, 2016 and 2015, management has determined that an allowance was not necessary.

Functional Expenses

The cost of providing the programs and other activities has been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. General and administrative expenses include those expenses that are not directly identifiable with a specific program and provide for the overall support and direction of PBB.

Cash and Cash Equivalents

PBB considers all highly liquid investments with maturities of three months or less at time of purchase to be cash equivalents.

Fair Value of Financial Instruments

PBB follows U.S. GAAP guidance on fair value measurements, which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investments

Investments are carried at fair value.

Investment Income

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of the change in net assets.

Puppies Behind Bars, Inc.

Notes to Financial Statements
December 31, 2016 and 20155

2. Summary of Significant Accounting Policies (continued)

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 5 to 39 years.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is April 25, 2017.

3. Investments

The composition of investments, classified according to the fair value hierarchy, is as follows at December 31:

	<u>2016</u>	<u>2015</u>
Mutual funds - Level 1	\$ 1,276,418	\$ 1,330,054
US Government securities - Level 1	-	776,972
Domestic equities - Level 1	<u>1,436,065</u>	<u>2,303,929</u>
	2,712,483	4,410,955
US Government agency obligations- Level 2	-	583,244
Corporate Bonds - Level 2	<u>149,602</u>	-
	2,862,085	4,994,199
Certificates of deposit	<u>1,596,000</u>	<u>798,628</u>
	<u>\$ 4,458,085</u>	<u>\$ 5,792,827</u>

4. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Land and improvements	\$ 370,131	\$ 360,681
Building and improvements	322,555	322,555
Leasehold improvements	21,370	21,370
Automobiles	138,655	142,022
Computer and software	<u>10,040</u>	<u>10,040</u>
	862,751	856,668
Accumulated depreciation	<u>(89,944)</u>	<u>(84,573)</u>
	<u>\$ 772,807</u>	<u>\$ 772,095</u>

Puppies Behind Bars, Inc.

Notes to Financial Statements
December 31, 2016 and 20155

5. In-Kind Contributions

PBB receives a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects. No amounts have been recognized in the statements of activities for such services because they do not meet the criteria for recognition.

6. Commitments and Contingencies

Lease

In 2011, PBB entered into a lease for administrative office space for a term of ten years. Future annual minimum lease payments for years ending after December 31, 2016 are payable as follows:

2017	\$ 163,604
2018	168,512
2019	173,567
2020	178,774
2021	<u>184,137</u>
	<u>\$ 868,594</u>

Concentrations of Credit Risk

Financial instruments that potentially subject PBB to concentrations of credit risk consist principally of cash on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit, investments and receivables. PBB does not believe that a significant risk of loss due to the failure of a financial institution presently exists. At December 31, 2016 and 2015, approximately \$5,060,000 and \$2,350,000 of cash was maintained with financial institutions in excess of FDIC limits. 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.

7. Temporarily Restricted Net Assets

For the years ended December 31, 2016 and 2015, temporarily restricted net assets of \$23,255 and \$400,000 were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of events specified by the donor.

Puppies Behind Bars, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

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, 2016 and 2015 was \$17,186 and \$16,339.

9. Related Party Transactions

PBB charges a related party for the cost of professional services rendered in the form of administrative services. Expenses charged for the years ended December 31, 2016 and 2015 were \$21,454 and \$20,021. At December 31, 2016 and 2015, PBB has a receivable from related party of \$3,620 and \$6,680.

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