

PUPPIES BEHIND BARS, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

PUPPIES BEHIND BARS, INC.
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements	
Statements of financial position	3
Statements of activities	4
Statements of functional expenses	5
Statements of cash flows	6
Notes to financial statements	7 - 14

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Puppies Behind Bars, Inc.

We have audited the accompanying financial statements of Puppies Behind Bars, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 2017 financial statements referred to above present fairly, in all material respects, the financial position of Puppies Behind Bars, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Puppies Behind Bars, Inc. as of December 31, 2016 , were audited by other auditors whose report dated April 25, 2017, expressed an unmodified opinion on those statements.



CERTIFIED PUBLIC ACCOUNTANTS

Braintree, Massachusetts
May 13, 2018

PUPPIES BEHIND BARS, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 2,905,782	\$ 6,111,114
Contributions receivable	246,436	259,056
Due from affiliate	-	3,294
Prepaid expenses and other assets	218,140	212,902
Accrued interest	34,876	803
Investments	9,521,525	4,458,085
Property and equipment, net	<u>762,022</u>	<u>772,807</u>
TOTAL ASSETS	<u>\$ 13,688,781</u>	<u>\$ 11,818,061</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 32,415	\$ 63,018
Due to affiliate	<u>4,839</u>	<u>-</u>
Total liabilities	37,254	63,018
Commitments and contingencies (Note 5)		
Net assets:		
Unrestricted	<u>13,651,527</u>	<u>11,755,043</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,688,781</u>	<u>\$ 11,818,061</u>

See notes to accompanying financial statements.

PUPPIES BEHIND BARS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>			<u>2016</u>		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue:						
Contributions and grants	\$ 3,096,495	\$ -	\$ 3,096,495	\$ 3,357,120	\$ 10,950	\$ 3,368,070
Special event						
Proceeds received from event	\$ 368,372	-	-	\$ -	-	-
Less: cost of direct benefits to donors	<u>42,000</u>	-	-	<u>-</u>	-	-
Net revenues from special event	326,372	-	326,372	-	-	-
Program revenue	65,521	-	65,521	143,366	-	143,366
Dividends and interest	174,249	-	174,249	156,734	-	156,734
Other income	2,004	-	2,004	21,675	-	21,675
Realized and unrealized gains on investments	590,281	-	590,281	254,270	-	254,270
Donated legal services	43,896	-	43,896	-	-	-
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,255</u>	<u>(23,255)</u>	<u>-</u>
Total revenue	<u>4,298,818</u>	<u>-</u>	<u>4,298,818</u>	<u>3,956,420</u>	<u>(12,305)</u>	<u>3,944,115</u>
Expenses:						
Program services	<u>1,994,231</u>	<u>-</u>	<u>1,994,231</u>	<u>1,704,303</u>	<u>-</u>	<u>1,704,303</u>
Supporting services:						
General and administrative	194,698	-	194,698	152,499	-	152,499
Fundraising	<u>213,405</u>	<u>-</u>	<u>213,405</u>	<u>179,985</u>	<u>-</u>	<u>179,985</u>
Total supporting services	<u>408,103</u>	<u>-</u>	<u>408,103</u>	<u>332,484</u>	<u>-</u>	<u>332,484</u>
Total expenses	<u>2,402,334</u>	<u>-</u>	<u>2,402,334</u>	<u>2,036,787</u>	<u>-</u>	<u>2,036,787</u>
Change in net assets	1,896,484	-	1,896,484	1,919,633	(12,305)	1,907,328
Net assets - beginning	<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>
NET ASSETS - ENDING	<u>\$ 13,651,527</u>	<u>\$ -</u>	<u>\$ 13,651,527</u>	<u>\$11,755,043</u>	<u>\$ -</u>	<u>\$ 11,755,043</u>

See notes to accompanying financial statements.

PUPPIES BEHIND BARS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017				2016			
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
Expenses:								
Salaries	\$ 928,333	\$ 71,513	\$ 68,270	\$ 1,068,116	\$ 812,280	\$ 76,482	\$ 67,163	\$ 955,925
Employee benefits	137,666	11,781	11,292	160,739	112,293	12,557	11,037	135,887
Bank charges and fees	24,281	10,186	1,613	36,080	30,314	11,047	2,770	44,131
Depreciation	34,358	2,622	2,467	39,447	32,146	3,025	2,648	37,819
Travel and entertainment	735	-	-	735	1,151	-	-	1,151
Dog training and breeding	267,771	-	-	267,771	125,393	-	-	125,393
Dog tags program	123,538	-	-	123,538	124,229	-	-	124,229
Insurance	56,095	141	133	56,369	56,347	4	3	56,354
Office expense	41,388	3,660	3,702	48,750	40,142	3,763	3,307	47,212
Postage	12,261	681	681	13,623	10,390	1,112	953	12,455
Education of inmates	8,211	-	-	8,211	3,491	-	-	3,491
Public education	35,718	-	-	35,718	73,309	-	-	73,309
Fundraising	-	-	59,688	59,688	-	-	27,830	27,830
Professional fees	34,835	57,655	2,821	95,311	39,739	3,724	3,274	46,737
Other program expenses	2,004	-	-	2,004	4,812	20	18	4,850
Printing	-	-	53,499	53,499	-	-	45,123	45,123
Rent	157,200	35,953	8,733	201,886	118,573	38,354	13,740	170,667
Telephone	9,108	506	506	10,120	18,288	2,411	2,119	22,818
Transportation	32,293	-	-	32,293	30,532	-	-	30,532
Veterinary services	82,985	-	-	82,985	67,923	-	-	67,923
Volunteer training	5,451	-	-	5,451	2,951	-	-	2,951
TOTAL EXPENSES	\$ 1,994,231	\$ 194,698	\$ 213,405	\$ 2,402,334	\$ 1,704,303	\$ 152,499	\$ 179,985	\$ 2,036,787

See notes to accompanying financial statements.

PUPPIES BEHIND BARS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,896,484	\$ 1,907,328
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	39,447	37,819
Realized and unrealized gain on investments	(590,281)	(254,270)
Donation of securities	(353,928)	-
Changes in assets and liabilities:		
Contributions receivable	12,620	(16,948)
Due from affiliate	3,294	3,048
Prepaid expenses and other assets	(5,238)	(1,821)
Accrued interest	(34,073)	3,766
Accounts payable and accrued expenses	(30,603)	(5,601)
Due to affiliate	<u>4,839</u>	<u>-</u>
Net cash provided by operating activities	<u>942,561</u>	<u>1,673,321</u>
Cash flows from investing activities:		
Proceeds from sale of investments	7,321,159	8,033,423
Purchases of investments	(11,440,390)	(6,444,411)
Purchases of property and equipment	<u>(28,662)</u>	<u>(38,531)</u>
Net cash provided by (used in) investing activities	<u>(4,147,893)</u>	<u>1,550,481</u>
Net change in cash and cash equivalents	(3,205,332)	3,223,802
Cash and cash equivalents - beginning	<u>6,111,114</u>	<u>2,887,312</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 2,905,782</u>	<u>\$ 6,111,114</u>

See notes to accompanying financial statements.

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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.

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.

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 ("GAAP") and are presented in accordance with accounting requirements for not-for-profit organizations. These requirements provide that all not-for-profit organizations provide a statement of financial position, a statement of activities, and a statement of cash flows, and that net assets be classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor stipulations regarding the use of such assets.

The net assets of PBB and changes therein are classified and reported as follows:

(i) Unrestricted

PBB reports all gifts of cash and other assets as unrestricted support unless they are received with donor stipulations that limit their use or are designated for future periods. When a purpose restriction is accomplished or a stipulated time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

(ii) Temporarily restricted

PBB reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit their use or resources that have been received that are restricted by the passage of time. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and released from restrictions. There were no temporarily restricted net assets as of December 31, 2017 and 2016.

(iii) Permanently restricted

Permanently restricted net assets represent those resources that are subject to donor-imposed restrictions that the principal be invested in perpetuity. There were no permanently restricted net assets as of December 31, 2017 and 2016.

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with 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 period. 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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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.

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, 2017 and 2016, 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

The Organization maintains cash in bank deposit accounts that, at times, may exceed federally-insured limits. PBB has not experienced any losses in these accounts. PBB considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Fair Value Measurements

FASB 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.

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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.

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 3 for a discussion of fair value measurements.

Investment transactions are recorded on a trade-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.

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 \$353,928 during the year ended December 31, 2017, and are included in "Contributions and grants" in the accompanying statements of activities. PBB did not receive any donated securities during the year ended December 31, 2016.

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Securities, Goods and Services (Continued)

Donated legal services amounting to \$43,896 were provided to PBB during the year ended December 31, 2017, and are included in "Professional fees" in 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.

Recently Issued but not yet Effective Accounting Standards

Effective for the year ending December 31, 2018, PBB will be required to adopt FASB Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-profit Entities*, which changes the presentation of not-for-profit financial statements. The new guidance reduces the number of net asset classes from three to two, and increases disclosures about financial measures and liquidity risks, among other changes. The effect of adopting this new guidance on PBB's financial statements and disclosures has not yet been determined.

Effective for the year ending December 31, 2020, PBB will adopt the provisions of ASU 2016-02, *Leases*. 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.

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.

Revenue Recognition

Contributions, including unconditional promises to give, are recognized in the statements of activities in the period in which they are received. This revenue is recorded net of any resulting direct donor benefit. Contributions received with donor stipulations that limit their use or are designated as support for future periods are considered temporarily restricted. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as "Net assets released from restrictions." Contributions received for endowments to be held in perpetuity are reported as permanently restricted support. Contributions of assets other than cash are recorded at fair value.

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.

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In accordance with FASB ASC 855, *Subsequent Events*, the Organization has evaluated subsequent events through May 13, 2018, the date on which these financial statements were available to be issued. Management has determined that there were no material subsequent events that required recognition or additional disclosure in these financial statements.

NOTE 3. 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, 2017 and 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total at December 31, 2017</u>	<u>Valuation Technique</u>
Investments:					
Bonds:					
Corporate bonds	\$ -	\$ 2,459,526	\$ -	\$ 2,459,526	(a)
Mutual funds:					
Equity - small-cap	216,988	-	-	216,988	(a)
Equity - mid-cap	206,101	-	-	206,101	(a)
Equity - large-cap	2,483,905	-	-	2,483,905	(a)
Equity - foreign	700,500	-	-	700,500	(a)
Specialty	<u>160,940</u>	<u>175,439</u>	<u>-</u>	<u>336,379</u>	(a)
Total mutual funds	<u>3,768,434</u>	<u>175,439</u>	<u>-</u>	<u>3,943,873</u>	

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 3. FAIR VALUE MEASUREMENTS (CONTINUED)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total at December 31, 2017</u>	<u>Valuation Technique</u>
Common stocks:					
Corporate securities	\$ <u>7,770</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>7,770</u>	(a)
Certificates of deposit	<u>3,110,356</u>	<u>-</u>	<u>-</u>	<u>3,110,356</u>	(a)
Total investments	<u>\$ 6,886,560</u>	<u>\$ 2,634,965</u>	<u>\$ -</u>	<u>\$ 9,521,525</u>	
				<u>Total at December 31, 2016</u>	<u>Valuation Technique</u>
Investments	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Bonds:					
Corporate bonds	\$ <u>-</u>	\$ <u>149,602</u>	\$ <u>-</u>	\$ <u>149,602</u>	(a)
Mutual funds:					
Equity - mid-cap	97,882	-	-	97,882	(a)
Equity - large-cap	849,112	-	-	849,112	(a)
Equity - large blend domestic	97,324	-	-	97,324	(a)
Equity - large blend international	176,195	-	-	176,195	(a)
Specialty	<u>55,905</u>	<u>-</u>	<u>-</u>	<u>55,905</u>	(a)
Total mutual funds	<u>1,276,418</u>	<u>-</u>	<u>-</u>	<u>1,276,418</u>	
Common stocks:					
Corporate securities	<u>1,436,065</u>	<u>-</u>	<u>-</u>	<u>1,436,065</u>	(a)
Certificates of deposit	<u>1,596,000</u>	<u>-</u>	<u>-</u>	<u>1,596,000</u>	(a)
Total investments	<u>\$ 4,308,483</u>	<u>\$ 149,602</u>	<u>\$ -</u>	<u>\$ 4,458,085</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, 2017 and 2016.

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 quoted market prices.

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 370,131	\$ 370,131
Building and improvements	322,555	322,555
Leasehold improvements	21,370	21,370
Automobiles	137,970	138,655
Computer and software	<u>10,040</u>	<u>10,040</u>
	862,066	862,751
Less: accumulated depreciation	<u>100,044</u>	<u>89,944</u>
	<u>\$ 762,022</u>	<u>\$ 772,807</u>

NOTE 5. COMMITMENTS AND CONTINGENCIES

Lease

In 2011, PBB entered into a lease for administrative office space for a term of 10 years. Future annual minimum lease payments at December 31, 2017, are payable as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2018	\$ 168,933
2019	174,001
2020	179,221
2021	<u>168,793</u>
Total	<u>\$ 690,948</u>

Concentrations of Credit Risk

PBB places 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.

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.

NOTE 6. TEMPORARILY RESTRICTED NET ASSETS

For the year ended December 31, 2016, temporarily restricted net assets amounting to \$23,255 were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of events specified by the donor. There were no assets released from restriction for the year ended December 31, 2017.

PUPPIES BEHIND BARS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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, 2017 and 2016, was \$20,449 and \$17,186, 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 \$21,454 were received for the years ended December 31, 2017 and 2016, and are included in "Salaries" on the accompanying statements of functional expenses.

For the year ended December 31, 2016, PBB had a receivable due from the related party amounting to \$3,620, which is included in "Due from affiliate" on the accompanying statements of financial position.

For the year ended December 31, 2017, PBB received an advance of the administrative salaries amounting to \$5,364, which is included in "Due to affiliate" on the accompanying statements of financial position.