

**PUPPIES BEHIND BARS, INC.**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2021 AND 2020**

**PUPPIES BEHIND BARS, INC.**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Puppies Behind Bars, Inc.

### Opinion

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, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Puppies Behind Bars, Inc. as of December 31, 2021 and 2020, 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.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Puppies Behind Bars, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Puppies Behind Bars, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Puppies Behind Bars, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Puppies Behind Bars, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



CERTIFIED PUBLIC ACCOUNTANTS

New York, New York  
April 28, 2022

**PUPPIES BEHIND BARS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 6,156,806	\$ 4,881,037
Contributions receivable	142,460	255,021
Prepaid expenses and other assets	207,997	229,576
Accrued interest	35,439	39,469
Investments, at fair value	12,055,111	11,236,326
Property and equipment, net	<u>901,016</u>	<u>883,540</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>19,498,829</u></b>	<b>\$ <u>17,524,969</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 130,845	\$ 74,983
Deferred rent	<u>35,361</u>	<u>33,586</u>
Total liabilities	<u>166,206</u>	<u>108,569</u>
Commitments and contingencies (Note 6, 8 and 10)		
Net assets:		
Without donor restrictions	19,332,623	17,346,400
With donor restrictions	<u>-</u>	<u>70,000</u>
Total net assets	<u>19,332,623</u>	<u>17,416,400</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>19,498,829</u></b>	<b>\$ <u>17,524,969</u></b>

See accompanying notes to financial statements.

**PUPPIES BEHIND BARS, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:						
Contributions and grants	\$ 3,052,368	\$ -	\$ 3,052,368	\$ 2,531,048	\$ 70,000	\$ 2,601,048
Program revenue	141,680	-	141,680	73,308	-	73,308
Dividends and interest, net of advisory fees	158,838	-	158,838	190,600	-	190,600
Government grant proceeds	-	-	-	219,840	-	219,840
Other income	6,175	-	6,175	4,160	-	4,160
Realized and unrealized gains on investments	1,401,150	-	1,401,150	848,016	-	848,016
Donated legal services	76,036	-	76,036	274,077	-	274,077
Net assets released from restrictions	<u>70,000</u>	<u>(70,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>4,906,247</u>	<u>(70,000)</u>	<u>4,836,247</u>	<u>4,141,049</u>	<u>70,000</u>	<u>4,211,049</u>
Expenses:						
Program services	<u>2,436,664</u>	<u>-</u>	<u>2,436,664</u>	<u>2,471,861</u>	<u>-</u>	<u>2,471,861</u>
Supporting services:						
General and administrative	313,736	-	313,736	448,510	-	448,510
Fundraising	<u>169,624</u>	<u>-</u>	<u>169,624</u>	<u>128,191</u>	<u>-</u>	<u>128,191</u>
Total supporting services	<u>483,360</u>	<u>-</u>	<u>483,360</u>	<u>576,701</u>	<u>-</u>	<u>576,701</u>
Total expenses	<u>2,920,024</u>	<u>-</u>	<u>2,920,024</u>	<u>3,048,562</u>	<u>-</u>	<u>3,048,562</u>
Change in net assets	1,986,223	(70,000)	1,916,223	1,092,487	70,000	1,162,487
Net assets - beginning	<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>
<b>NET ASSETS - ENDING</b>	<u>\$ 19,332,623</u>	<u>\$ -</u>	<u>\$ 19,332,623</u>	<u>\$ 17,346,400</u>	<u>\$ 70,000</u>	<u>\$ 17,416,400</u>

See accompanying notes to financial statements.

**PUPPIES BEHIND BARS, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<b>2021</b>				<b>2020</b>			
	<u>Supporting Services</u>			Total	<u>Supporting Services</u>			Total
	Program Services	General and Administrative	Fundraising		Program Services	General and Administrative	Fundraising	
Salaries	\$ 1,464,867	\$ 25,107	\$ 87,819	\$ 1,577,793	\$ 1,321,753	\$ 29,403	\$ 78,788	\$ 1,429,944
Employee benefits	169,699	2,090	11,709	183,498	160,812	4,000	12,124	176,936
Bank charges and fees	7,022	-	-	7,022	-	3,887	-	3,887
Depreciation	38,931	249	2,758	41,938	37,959	1,011	2,458	41,428
Travel and entertainment	49,967	-	-	49,967	11,421	-	-	11,421
Insurance	51,030	2,112	3,153	56,295	52,362	841	2,044	55,247
Office expense	122,405	784	8,671	131,860	51,331	2,039	5,310	58,680
Postage	10,439	67	739	11,245	16,645	444	1,078	18,167
Education	71,903	-	-	71,903	58,427	-	-	58,427
Marketing	-	-	35,823	35,823	9,817	-	9,817	19,634
Professional fees (including in-kind contributions of \$76,036 and \$274,077 in 2021 and 2020, respectively)	27,854	125,248	9,319	162,421	232,700	293,753	4,880	531,333
Other expenses	-	82,865	-	82,865	-	28,925	-	28,925
Dog breeding, training and supplies	136,109	-	-	136,109	162,374	-	-	162,374
Rent, taxes and utilities	146,797	75,166	9,105	231,068	172,822	84,000	11,191	268,013
Telephone	7,453	48	528	8,029	7,759	207	501	8,467
Transportation	34,141	-	-	34,141	30,372	-	-	30,372
Veterinary services	88,285	-	-	88,285	130,028	-	-	130,028
Volunteer training	<u>9,762</u>	<u>-</u>	<u>-</u>	<u>9,762</u>	<u>15,279</u>	<u>-</u>	<u>-</u>	<u>15,279</u>
<b>TOTAL EXPENSES</b>	<b><u>\$ 2,436,664</u></b>	<b><u>\$ 313,736</u></b>	<b><u>\$ 169,624</u></b>	<b><u>\$ 2,920,024</u></b>	<b><u>\$ 2,471,861</u></b>	<b><u>\$ 448,510</u></b>	<b><u>\$ 128,191</u></b>	<b><u>\$ 3,048,562</u></b>

See accompanying notes to financial statements.

**PUPPIES BEHIND BARS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,916,223	\$ 1,162,487
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	41,938	41,428
Realized and unrealized gain on investments	(1,401,150)	(848,016)
Donated securities	(124,683)	(40,026)
Deferred rent	1,775	33,586
Changes in assets and liabilities:		
Contributions receivable	112,561	(89,228)
Prepaid expenses and other assets	21,579	259
Accrued interest	4,030	18,071
Accounts payable and accrued expenses	<u>55,862</u>	<u>(1,652)</u>
Net cash provided by operating activities	<u>628,135</u>	<u>276,909</u>
Cash flows from investing activities:		
Proceeds from sale of investments	1,994,290	4,043,055
Purchases of investments	(1,287,243)	(2,255,892)
Payments for purchases of property and equipment	<u>(59,413)</u>	<u>(45,117)</u>
Net cash provided by investing activities	<u>647,634</u>	<u>1,742,046</u>
Net change in cash and cash equivalents	1,275,769	2,018,955
Cash and cash equivalents - beginning	<u>4,881,037</u>	<u>2,862,082</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<b><u>\$ 6,156,806</u></b>	<b><u>\$ 4,881,037</u></b>

See accompanying notes to financial statements.

**PUPPIES BEHIND BARS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**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 in Prison and Pairing Them with Wounded Veterans and First Responders*

- PBB trains incarcerated individuals to raise service dogs for wounded war veterans and first responders in five correctional facilities in New York State. The dogs learn more than 90 commands to help their partners with daily tasks and 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, more than 160 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 with their incarcerated puppy-raisers for the next two years. Full-time professional instructors teach the puppy-raisers 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 in Prison*

- PBB raises explosive-detection canines (EDCs) for work with law enforcement in one prison in New Jersey and two in New York. An average of 40 incarcerated individuals take part in our program, raising 15 to 20 dogs at any given time. The training process takes approximately 10 months, and between 16 and 20 of these dogs graduate each year. The Organizations's EDCs have gone to work to detect explosives or accelerants across the United States and with foreign allies. The Massachusetts State Police, Westchester County Police Department, and ATF are just of few of the agencies that use PBB's dogs. They screen courthouses and other government buildings, check stadiums before ball games, and help solve arson cases, and provide many other services to the general public.

**PUPPIES BEHIND BARS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS (CONTINUED)**

*Education and Employment of Formerly Incarcerated Individuals* - Incarcerated 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 four former inmate puppy-raisers as part of its full-time staff. Three 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, 2021 AND 2020**

**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, 2021 and 2020.

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, 2021 and 2020, 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, 2021 AND 2020**

**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 \$72,715 and \$61,826 in the accompanying statements of activities for the years ended December 31, 2021 and 2020, 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, 2021 and 2020.

**PUPPIES BEHIND BARS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**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 \$76,036 and \$274,077 were provided to PBB during the years ended December 31, 2021 and 2020, respectively, and are included in "Donated legal services" in the accompanying statements of activities and 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.

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 \$124,683 and \$40,026 during the years ended December 31, 2021 and 2020, respectively.

**PUPPIES BEHIND BARS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Recently Issued but not yet Effective Accounting Standards

*In-kind Contributions* - In September 2020, FASB issued Accounting Standards Update ("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 June 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 elected to adopt ASU No. 2020-05 and is evaluating the effect that ASU No. 2016-02 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.

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.

**PUPPIES BEHIND BARS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**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 April 28, 2022, 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. 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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 6,156,806	\$ 4,881,037
Investments	12,055,111	11,236,326
Contributions receivable	142,460	255,021
Accrued interest	<u>35,439</u>	<u>39,469</u>
Total financial assets available for general expenditures	18,389,816	16,411,853
Less amounts not available to be used within one year:		
Net assets with donor restrictions	<u>-</u>	<u>70,000</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 18,389,816</u>	<u>\$ 16,341,853</u>

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.)

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**NOTE 4. FAIR VALUE MEASUREMENTS (CONTINUED)**

The following tables set forth by level, within the fair value hierarchy, the Organization's assets at fair value, as of December 31, 2021 and 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total at December 31, 2021</u>	<u>Valuation Technique</u>
Investments:					
Bonds:					
Corporate bonds	\$ <u>-</u>	\$ <u>4,257,131</u>	\$ <u>-</u>	\$ <u>4,257,131</u>	(a)
Mutual funds:					
Equity - small-cap	372,158	-	-	372,158	(a)
Equity - mid-cap	1,489,506	-	-	1,489,506	(a)
Equity - large-cap	5,057,525	-	-	5,057,525	(a)
Equity - foreign	122,713	-	-	122,713	(a)
Specialty	<u>724,347</u>	<u>-</u>	<u>-</u>	<u>724,347</u>	(a)
Total mutual funds	<u>7,766,249</u>	<u>-</u>	<u>-</u>	<u>7,766,249</u>	
Common stocks:					
Corporate securities	<u>1,645</u>	<u>-</u>	<u>-</u>	<u>1,645</u>	(a)
US treasury notes	<u>-</u>	<u>30,086</u>	<u>-</u>	<u>30,086</u>	(a)
Total investments	<u>\$ 7,767,894</u>	<u>\$ 4,287,217</u>	<u>\$ -</u>	<u>\$ 12,055,111</u>	
				<u>Total at December 31, 2020</u>	<u>Valuation Technique</u>
Investments:					
Bonds:					
Corporate bonds	\$ <u>-</u>	\$ <u>3,736,293</u>	\$ <u>-</u>	\$ <u>3,736,293</u>	(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.**  
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**NOTE 4. FAIR VALUE MEASUREMENTS (CONTINUED)**

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, 2021 and 2020.

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.

**NOTE 5. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Land and improvements	\$ 370,131	\$ 370,131
Building and improvements	527,271	527,271
Leasehold improvements	21,370	21,370
Automobiles	183,087	183,087
Computer and software	<u>69,454</u>	<u>10,040</u>
	1,171,313	1,111,899
Less: accumulated depreciation	<u>270,297</u>	<u>228,359</u>
Property and equipment, net	<u>\$ 901,016</u>	<u>\$ 883,540</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, 2021, are payable as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2022	\$ 220,000
2023	220,000
2024	220,000
2025	220,000
2026	<u>201,666</u>
Total	<u>\$ 1,081,666</u>

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**NOTE 6. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

Lease (Continued)

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 both of the years ended December 31, 2021 and 2020 amounted to approximately \$214,000 and is included in "Rent, taxes and utilities" in 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.

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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Passage of time / Dog Tag	\$ <u>          -</u>	\$ <u>      70,000</u>

For the year ended December 31, 2021, net assets with donor restrictions amounting to \$70,000 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, 2020.

**PUPPIES BEHIND BARS, INC.**  
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**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, 2021 and 2020, was \$29,577 and \$26,144, respectively.

**NOTE 9. RELATED-PARTY TRANSACTIONS**

PBB paid the salary of a shared administrative employee and is reimbursed from a related party for 40% of the salary. Reimbursements of \$5,366 were received for the year ended December 31, 2020, and are included in "Salaries" in the accompanying statement of functional expenses. The shared employee was terminated during 2020 and there were no shared costs or reimbursements during the year ended December 31, 2021.

**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. For the year ended December 31, 2020, \$219,840 is included in "Government grant proceeds" in the accompanying statement of activities.

The Organization applied for PPP Loan forgiveness during November 2020 and received approval from the Small Business Association ("SBA") in February 2021. The Organization recognized \$219,840 in revenue under the PPP loan program during the year ended December 31, 2020, which is included in "Government grant proceeds" in 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.