

PUPPIES BEHIND BARS, INC.

**Audited Financial Statements
For the Year Ended December 31, 2023
With Comparative Financial Information
as of December 31, 2022
With Independent Auditors' Report**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Puppies Behind Bars, Inc.
New York, NY

Opinion

We have audited the accompanying financial statements of Puppies Behind Bars, Inc. (a nonprofit organization) which comprise of the statements of financial position as of December 31, 2023, and the related statements of activities and change in net assets, cash flows, and functional expenses for the year 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, 2023, and the changes in 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, 2022, were audited by other auditors whose report dated May 30, 2023 expressed an unmodified opinion on those statements.

Basis for Opinion

We conducted our audit 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 audit. 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. 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, including omissions, 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.

Report on Summarized Comparative Information

The 2022 financial statements of Puppies Behind Bars, Inc. were previously audited by other auditors, who expressed an unmodified audit opinion on those audited financial statements in their report dated May 30, 2023. In their opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tobin & Company, CPAs, PC

Purchase, New York

May 8, 2024

Puppies Behind Bars, Inc.

Statement of Financial Position

<i>As of December 31,</i>	2023	2022
ASSETS		
Cash and equivalents - without donor restrictions	\$ 2,181,278	\$ 3,225,403
Contributions receivable	229,037	117,212
Prepaid expenses and other assets	213,175	214,694
Investments, at fair value	16,727,754	14,542,891
Property and equipment, net	881,104	876,517
Operating lease right-of-use asset	639,034	851,956
Total Assets	\$ 20,871,382	\$ 19,828,673
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 86,600	\$ 104,751
Operating lease payable, current	230,813	201,916
Total Current Liabilities	317,413	306,667
Long Term Liabilities		
Operating lease payable, net of current	471,792	702,607
Total Liabilities	789,205	1,009,274
Net Assets		
Without donor restrictions	20,062,177	18,771,131
With donor restrictions	20,000	48,268
Total Net Assets	20,082,177	18,819,399
Total Liabilities and Net Assets	\$ 20,871,382	\$ 19,828,673

See accompanying notes to financial statements

Puppies Behind Bars, Inc.

Statement of Activities and Change in Net Assets

<i>For the Years Ended December 31,</i>	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
Support and Revenue				
Contributions	\$ 3,130,261	\$ 20,000	\$ 3,150,261	\$ 3,943,744
Program Revenue	99,515	-	99,515	102,464
Dividends and interest, net of advisory fees	440,963	-	440,963	155,348
Other income	4,034	-	4,034	2,622
Realized and unrealized gains (losses) on investments	438,940	-	438,940	(1,409,864)
In-kind contributions	292,500	-	292,500	65,046
Net assets released from restrictions	48,268	(48,268)	-	-
Total Support and Revenue	4,454,481	(28,268)	4,426,213	2,859,360
Expenses				
Program services	2,977,375	-	2,977,375	2,916,755
General and administrative	64,801	-	64,801	221,199
Fundraising	121,259	-	121,259	234,630
Total Expenses	3,163,435	-	3,163,435	3,372,584
Change in Net Assets	1,291,046	(28,268)	1,262,778	(513,224)
Net assets at beginning of year	18,771,131	48,268	18,819,399	19,332,623
Net Assets at End of Year	\$ 20,062,177	\$ 20,000	\$ 20,082,177	\$ 18,819,399

See accompanying notes to financial statements

Puppies Behind Bars, Inc.

Statement of Functional Expenses

<i>For the years ended December 31,</i>				2023	2022
	Program Services	General and Administrative	Fundraising	Total Expenses	Total Expenses
Salaries	1,409,412	33,783	43,161	1,486,356	\$1,582,991
Employee Benefits	143,357	3,183	19,074	165,614	181,150
Bank charges and fees	6,874	6,945	3,205	17,024	3,456
Depreciation	39,439	941	1,204	41,584	38,713
Travel and entertainment	50,294	-	-	50,294	59,600
Insurance	94,402	2,217	2,859	99,478	56,136
Office Expense	83,265	2,758	3,084	89,107	94,283
Postage	22,298	196	251	22,745	15,133
Facility dog training	30,793	-	-	30,793	-
Education/25th anniversary programs	-	-	-	-	347,900
Marketing	82,449	-	1,823	84,272	143,698
Professional fees (including in-kind contributions of \$292,500 and \$65,046 and in 2023 and 2022, respectively)	343,382	8,040	14,492	365,914	131,182
Other expenses	10,414	1,327	181	11,922	10,023
Dog Training, supplies, and breeding	278,668	-	25,000	303,668	322,428
Rent, taxes and utilities	220,217	5,253	6,723	232,193	231,943
Telephone	6,634	158	202	6,994	6,942
Transportation	36,641	-	-	36,641	40,896
Veterinary Services	94,264	-	-	94,264	99,813
Volunteer Training	24,572	-	-	24,572	6,297
Total Expenses	\$ 2,977,375	\$ 64,801	\$ 121,259	\$ 3,163,435	\$ 3,372,584

Puppies Behind Bars, Inc.

Statement of Cash Flows

<i>For the Years Ended December 31,</i>	2023	2022
Cash Flow from Operating Activities:		
Changes in net assets	\$ 1,262,778	\$ (513,224)
Adjustments to reconcile changes in net assets to cash provided by operating activities:		
Depreciation	41,584	38,713
Realized/Unrealized (gains) and losses on investments	(438,940)	1,409,864
Noncash lease expense	212,922	210,247
Changes in Operating Assets & Liabilities:		
(Increase) Decrease in contribution receivable	(111,824)	25,248
(Increase) Decrease in prepaid expenses and other assets	1,519	(6,206)
Decrease in accrued interest receivable	-	34,948
Decrease in operating lease payable	(201,918)	(193,041)
Decrease in accounts payable	(18,151)	(26,094)
Net Cash Provided by Operating Activities	747,970	980,455
Cash Flow from Investing Activities:		
Sale of investments	8,362,682	16,254,593
Purchase of investments	(10,108,606)	(20,152,237)
Payments for purchases of property and equipment	(46,171)	(14,214)
Net Cash Used in Investing Activities	(1,792,095)	(3,911,858)
Net Decrease in Cash and Equivalents	(1,044,125)	(2,931,403)
Cash and equivalents, beginning of the year	3,225,403	6,156,806
Cash and Equivalents, End of the Year	\$ 2,181,278	\$ 3,225,403
Supplemental Disclosures for non-cash investing activities		
Operating lease liability and right-of-use asset recognized in connection with implementation of ASC 842 on January 1, 2022	\$	- \$ 1,097,564

See accompanying notes to financial statements

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 and Facility 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 and facility dogs for police departments in four correctional facilities in New York State. The dogs learn more than 70 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 170 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 125 incarcerated individuals are training approximately 60 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 250 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 two prisons in New York. An average of 40 incarcerated individuals take part in the 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 organization’s EDCs have gone to work to detect explosives or accelerants across the United States. The Massachusetts State Police, Westchester County Police department, and the ATF 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.

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 literacy 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 formerly incarcerated puppy-raisers as part of its full-time staff. Three work as instructors teaching currently incarcerated individuals serving as examples of what can be accomplished with hard work and dedication after incarceration. One is also director of the service dog program for wounded veterans and first responders, and one is the director of volunteers. A fourth staff member is director of socialization for PBB’s young puppies. A fifth staff member is director of dog socialization.

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 accompanying 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.

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, 2023, and 2022.

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, 2023 and 2022, 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.

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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 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.

Note 2 - Summary of Significant Accounting Policies (continued)

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 \$133,855 and \$69,485 in the accompanying statements of activities for the years ended December 31, 2023 and 2022, 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, 2023, and 2022.

Contributions

Contributed nonfinancial assets are comprised of in-kind contributed 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 in-kind legal services amounting to \$292,500 and \$65,046 were provided to PBB during the years ended December 31, 2023, and 2022, respectively, and are included in "In-kind contributions" in the accompanying statements of activities and in "Professional fees" in the accompanying statements of functional expenses. Donated in-kind legal services are provided by attorneys who advise PBB on various administrative legal matters. Donated in-kind legal services are recognized at fair value based on current rates for similar legal services.

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."

Note 2 - Summary of Significant Accounting Policies (continued)

Contributions of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the 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 \$128,484 and \$171,542 during the years ended December 31, 2023, and 2022, respectively. Donated securities were materially all converted nearly immediately into cash.

Adopted Accounting Standards

Leases - In February 2016, FASB issued Accounting Standards Update ("ASU") No. 2016-02, *Leases* (Topic 842) ("ASC 842") as amended, which requires the recording of operating lease right-of-use assets and lease liabilities and the expanded disclosure for operating and finance leasing arrangements. Leases are classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statement of activities. In June 2020, FASB issued ASU No. 2020-05 which deferred the effective date for the Organization until its reporting period after December 15, 2021. The Organization adopted ASC 842 under the modified retrospective method on January 1, 2022.

The Organization adopted the package of practical expedients available at transition that retained the lease classification under ASC 840 and initial direct costs for any leases that existed prior to adoption of the standard. Contracts entered into prior to adoption were not reassessed for leases or embedded leases. In addition, the Organization used hindsight in determining lease terms and considerations for impairment. The Organization made the accounting policy elections to not recognize leases with a lease term of 12 months or less ("short-term" leases) on the statement of financial position and to utilize the risk-free discount rate when the rate implicit in the lease is not readily determinable.

The Organization performed an analysis of contracts containing leases as of January 1, 2022.

In addition, at the date of initial application, the Organization recorded an operating lease right-of-use asset and aggregate operating lease liability in the amount of \$1,097,564.

Note 2 - Summary of Significant Accounting Policies (continued)

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 is intended to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. This Organization adopted ASU 2020-07 on a retrospective basis during the year ended December 31, 2022. The Organization has determined that the application of the amendments of ASU 2020-07 did not have a material impact on the Organization's financial statements and related disclosures.

Lease

The Organization has an operating lease agreement for certain property under a 5-year term through November 2026. The Organization determines if an arrangement is a lease at the inception of the contract. At the lease commencement date, the lease is evaluated to determine whether it will be classified as an operating or finance lease. For short-term leases, any fixed lease payments are recognized on a straight-line basis over such term and are not recognized on the statement of financial position.

Lease terms include the noncancellable portion of the underlying leases along with any reasonably certain lease periods associated with available renewal periods, termination options and purchase options. The Organization uses the risk-free discount rate when the rate implicit in the lease is not readily determinable at the commencement date in determining the present value of lease payments.

The lease contains fixed and determinable escalation clauses for which the Organization recognizes rental expense under this lease on the straight-line basis over the lease terms, which include the period of time from when the Organization takes possession of the leased space; and the cumulative expense recognized on the straight-line basis in excess of the cumulative payments is included in other non-current liabilities through 2021 prior to the adoption of ASC 842 as of January 1, 2022. The lease agreement does not contain any material residual value guarantees or material restrictive covenants. In connection with the adoption of ASC 842 as of January 1, 2022, the Organization reclassified these deferred rent liabilities of \$35,361 to the operating lease right-of-use asset. In 2021, in accordance with ASC 840, a deferred rent obligation was recorded and amortized to income over the lease term as a reduction of rent expense.

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

Financial Instruments and Credit Risk

PBB maintains cash balances in two financial institutions. At various times during the year, these balances may exceed Federal Deposit Insurance Corporation ("FDIC") insurance limits. The amounts not covered by FDIC were approximately \$1,931,000 and \$2,726,000 as of December 31, 2023, and 2022, respectively.

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.

Note 3 - Investments

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:

Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Cost approach: Amount that would be required to replace the service capacity of an asset (replacement cost); and

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.)

Puppies Behind Bars, Inc.

Notes to the Financial Statements

Note 3 - Investments (Continued)

The following table sets forth by level, the Organization's investment assets measured at fair value as of December 31, 2023, and 2022:

<i>December 31, 2023</i>	Input Level 1	Input Level 2	Input Level 3	Total at December 31, 2023
Bonds:				
Corporate Bonds	\$ -	\$ 6,751,611	\$ -	\$ 6,751,611
Common Stocks:				
Corporate securities	3,144,493	-	-	3,144,493
CRA Investment	217,186	-	-	217,186
U.S. Treasury notes	-	6,614,464	-	6,614,464
Total Fair Value of Assets	\$ 3,361,679	\$ 13,366,075	\$ -	\$ 16,727,754

<i>December 31, 2022</i>	Input Level 1	Input Level 2	Input Level 3	Total at December 31, 2022
Bonds:				
Corporate Bonds	\$ -	\$ 4,569,783	\$ -	\$ 4,569,783
Mutual Funds:				
Equity - small-cap	24,856	-	-	24,856
Specialty	10,063	-	-	10,063
Total mutual funds	34,919	-	-	34,919
Common Stocks:				
Corporate securities	2,078,438	-	-	2,078,438
Certificates of deposit	-	96,509	-	96,509
CRA Investment	2,750,828	-	-	2,750,828
U.S. Treasury notes	-	5,012,414	-	5,012,414
Total Fair Value of Assets	\$ 4,864,185	\$ 9,678,706	\$ -	\$ 14,542,891

Puppies Behind Bars, Inc.

Notes to the Financial Statements

Note 3 - Investments (Continued)

The following is a description of the valuation methodologies used for Level 1 and Level 2 assets measured at fair value. There have been no changes in the methodologies used on December 31, 2023, and 2022.

Equity securities: Valued based on their last reported sales price on a national securities exchange.

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

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.

Net investment return consisted of the following:

		2023	2022
Dividends and Interest	\$	555,745	\$ 266,075
Realized and unrealized gains (loss), net		438,940	(1,409,864)
Advisory Fees		(133,855)	(110,727)
Investment return, net	\$	860,830	\$ (1,254,516)

Note 4 - Property and Equipment

Property and equipment consist of the following as of December 31:

		2023	2022
Land and improvements	\$	370,131	\$ 370,131
Building and improvements		527,271	527,271
Leasehold improvements		21,370	21,370
Automobiles		243,471	197,301
Computer and software		69,454	69,453
		1,231,697	1,185,526
Less: accumulated depreciation		350,593	309,009
Property and equipment, net	\$	881,104	\$ 876,517

Depreciation expense for the year ended December 31, 2023 and 2022 were \$41,584 and \$38,713, respectively.

Puppies Behind Bars, Inc.

Notes to the Financial Statements

Note 5 – Liquidity

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 following reflects the Organization's financial assets as of December 31, 2023, and 2022, reduced by amounts not available for general use within one year of December 31:

	2023	2022
Cash and cash equivalents	\$ 2,181,278	\$ 3,225,403
Investments	16,727,754	14,542,891
Contributions receivable	229,037	117,212
Accrued interest	-	491
Net financial assets available within one year	19,138,069	17,885,997
Less amounts not available to be used within one year:		
Net assets with donor restrictions	20,000	48,268
Financial assets available to meet general expenditures within one year	\$ 19,118,069	\$ 17,837,729

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 are invested.

Note 6 – 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, 2023, and 2022, was \$32,753 and \$31,633, respectively.

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, 2023, and 2022:

	2023	2022
Facility Dogs	\$ 20,000	
Back Up Buddy		\$ 48,268
Total	\$ 20,000	\$ 48,268

For the years ended December 31, 2023, and 2022, there were \$48,268 and \$70,000 of assets released from restriction respectively, by incurring expenses satisfying the restricted purpose or by the occurrence of events specified by the donor.

Note 8 – Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year’s presentation.

Note 9 – Operating Lease

The Organization has an operating lease for office space in New York, New York, where it conducts its operations. The lease is set to expire November 30, 2026. Total operating lease expense on the lease, for the years ended December 31, 2023, and 2022, was \$232,193 and \$231,168, respectively.

Maturities of lease liabilities as of December 31, 2023, are as follows:

Future minimum rent obligations are as follows:

Maturity Analysis	Operating
December 31, 2024	\$238,650
December 31, 2025	245,809
November 30, 2026	<u>231,930</u>
Net minimum lease payments	716,389
Less: interest	<u>13,784</u>
Present value of lease liabilities	702,605
Less: current portion	<u>230,813</u>
<u>Lease liabilities, net of current portion</u>	<u>\$471,792</u>

Supplemental cash flow information related to leases was as follows:

	<u>2023</u>	<u>2022</u>
Cash paid for amounts included in measuring operating lease liabilities:		
<u>Operating cash flows from operating lease</u>	<u>\$ 212,815</u>	<u>\$206,617</u>

Weighted average remaining lease term	2.84 years
Weighted average discount rate	1.36%

Concentrations of Credit Risk

PBB manages deposit concentration risk by placing its cash and cash equivalents, which may at times be in excess of FDIC insurance limits, with high credit quality financial institutions and attempts to limit the amount of credit exposure with any one institution, see Note 10. 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

Note 9 – Operating Lease (continued)

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 occur.

Note 10 – Uncertainty Regarding Impacts of Recent Disruptions to the U.S. Banking System

In March 2023, the shut-down of certain financial institutions raised economic concerns over disruption in the U.S. banking system. The U.S. government took certain actions to strengthen public confidence in the U.S. banking system. However, there can be no certainty that the actions taken by the U.S. government will be effective in mitigating the effects of financial institution failures on the economy and restoring public confidence in the U.S. banking system. Additional financial institution failures may occur in the near term that may limit access to short-term liquidity or have adverse impacts on the economy.

As disclosed in Note 2, the Organization maintains cash deposits in excess of federally insured limits in the aggregate amount of approximately \$1,931,000, as of December 31, 2023, and has certain concentrations in credit risk that expose the Organization to risk of loss in the counterparty is unable to perform as a result of future disruptions in the U.S. banking system or economy. Given the uncertainty of the situation, the related financial impact cannot be reasonably estimated at this time.

Note 11 – Subsequent Events

The Organization has evaluated subsequent events through May 8, 2024, which is the date the financial statements were available to be issued, and accordingly has disclosed any relevant matters.