

Dog Tag, Inc.

Financial Report
June 30, 2020

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Independent Auditor's Report

RSM US LLP

Board of Directors
Dog Tag, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Dog Tag, Inc. (Dog Tag), which comprise the statement of financial position as of June 30, 2020, the related statement 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 Dog Tag's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dog Tag, Inc. as of June 30, 2020, 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.

RSM US LLP

Washington, D.C.
January 5, 2021

Dog Tag, Inc.

**Statement of Financial Position
June 30, 2020**

Assets

Cash and cash equivalents	\$ 1,520,231
Accounts and contributions receivable	315,109
Prepaid expenses and deposits	22,997
Investments	304,445
Property and equipment, net	<u>104,963</u>
Total assets	<u><u>\$ 2,267,745</u></u>

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued expenses	\$ 159,183
Loan payable	150,000
Paycheck Protection Program loan	275,355
Capital lease obligation	<u>3,599</u>
Total liabilities	<u><u>588,137</u></u>

Net assets:

Without donor restrictions	760,192
With donor restrictions	<u>919,416</u>
Total net assets	<u><u>1,679,608</u></u>

Total liabilities and net assets	<u><u>\$ 2,267,745</u></u>
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See notes to financial statements.

Dog Tag, Inc.

**Statement of Activities
Year Ended June 30, 2020**

Activities without donor restrictions:	
Revenue and support:	
Bakery sales	\$ 856,106
Less cost of goods sold	<u>706,497</u>
Gross profit	149,609
Contributions and grants	591,682
In-kind donations	494,546
Other income	10,242
Investment income	4,294
Net assets released from restriction	<u>1,385,022</u>
Total revenue and support	<u>2,635,395</u>
Expenses:	
Program services:	
Veteran education program	1,117,323
Bakery program	<u>659,184</u>
Total program services	<u>1,776,507</u>
Supporting services:	
General and administrative	495,911
Fundraising	<u>192,830</u>
Total supporting services	<u>688,741</u>
Total expenses	<u>2,465,248</u>
Change in net assets without donor restrictions	<u>170,147</u>
Activities with donor restrictions:	
Contributions and grants	776,933
Net assets released from restrictions	<u>(1,385,022)</u>
Change in net assets with donor restrictions	<u>(608,089)</u>
Change in net assets	(437,942)
Net assets:	
Beginning	<u>2,117,550</u>
Ending	<u>\$ 1,679,608</u>

See notes to financial statements.

Dog Tag, Inc.

**Statement of Functional Expenses
Year Ended June 30, 2020**

	Program Services			Supporting Services			
	Veteran Education Program	Bakery Program	Total	General and Administrative	Fundraising	Total	Total
Expense:							
Salaries and benefits	\$ 370,558	\$ 202,339	\$ 572,897	\$ 210,514	\$ 124,332	\$ 334,846	\$ 907,743
Cost of goods sold	-	706,497	706,497	-	-	-	706,497
Professional and contracted services	109,932	138,646	248,578	198,966	23,719	222,685	471,263
Rent	66,497	113,454	179,951	37,771	22,298	60,069	240,020
Student stipends	183,254	-	183,254	-	-	-	183,254
Education	154,492	-	154,492	-	-	-	154,492
Utilities, repairs and maintenance	20,190	57,691	77,881	11,469	6,770	18,239	96,120
Program evaluation	88,196	-	88,196	6,795	-	6,795	94,991
Marketing and advertising	32,187	46,577	78,764	3,993	3,281	7,274	86,038
Miscellaneous	55,826	13,165	68,991	519	1,110	1,629	70,620
Banking, credit card and licensing fees	407	25,867	26,274	17,198	3,716	20,914	47,188
Printing and postage	1,809	34,524	36,333	442	301	743	37,076
Insurance	5,821	9,381	15,202	3,305	2,093	5,398	20,600
Travel and entertainment	13,097	3,817	16,914	1,170	2,432	3,602	20,516
Depreciation and amortization	4,341	6,996	11,337	2,466	1,456	3,922	15,259
Supplies and equipment	6,927	3,279	10,206	613	807	1,420	11,626
In-kind donations	3,434	2,875	6,309	487	396	883	7,192
Interest	355	573	928	203	119	322	1,250
Total expenses	1,117,323	1,365,681	2,483,004	495,911	192,830	688,741	3,171,745
Less cost of goods sold included with revenue and support on the statement of activities	-	(706,497)	(706,497)	-	-	-	(706,497)
Total expenses in the statement of activities	\$ 1,117,323	\$ 659,184	\$ 1,776,507	\$ 495,911	\$ 192,830	\$ 688,741	\$ 2,465,248

See notes to financial statements.

Dog Tag, Inc.

Statement of Cash Flows
Year Ended June 30, 2020

Cash flows from operating activities:	
Change in net assets	\$ (437,942)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	15,259
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts and contributions receivable	576,356
Prepaid expenses and deposits	(694)
Increase (decrease) in:	
Accounts payable and accrued expenses	29,331
Net cash provided by operating activities	<u>182,310</u>
Cash flows from investing activities:	
Purchases of investments	(304,445)
Purchases of property and equipment	(89,626)
Net cash used in investing activities	<u>(394,071)</u>
Cash flows from financing activities:	
Proceeds from loan payable	150,000
Proceeds from paycheck protection program Loan	275,355
Payments on capital lease obligation	(4,307)
Net cash provided by financing activities	<u>421,048</u>
Net increase in cash and cash equivalents	209,287
Cash and cash equivalents:	
Beginning	<u>1,310,944</u>
Ending	<u>\$ 1,520,231</u>
Supplemental information:	
Interest paid	<u>\$ 1,250</u>

See notes to financial statements.

Dog Tag, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Dog Tag, Inc. (Dog Tag) was incorporated in 2011 under the laws of the District of Columbia. Dog Tag is dedicated to empowering the lives of veterans with service-connected disabilities, as well as their spouses, and caregivers through a fellowship program that fosters an entrepreneurial mindset in a small business environment.

Dog Tag's programs consist of the following:

Bakery program: The Bakery program puts participants' newly acquired skills into context and provides a source of income to offset the cost of Dog Tag's programs. Dog Tag's storefront includes a state of the art bakery and classroom space. Dog Tag provides experiential learning by facilitating a working rotation through the storefront and back-office positions. Participants have a chance to learn every aspect of a small business including operations, staff management, product creation, customer service, and marketing. Through a combination of shadowing and project management, participants are expected to complete tasks independently while communicating their needs and progress with management.

Veteran education program: The Veteran Education Program is a professional development program through Georgetown University's School of Continuing Studies designed to prepare military veterans with service-connected disabilities, as well as their spouses and caregivers, to find success as they transition into the civilian workforce. This five-month program assists in translating participants' military experience into workplace skills. Dog Tag provides a unique opportunity in which participants will take seven courses in Business Administration to understand how management decisions are made while working within a small business environment.

A summary of Dog Tag's significant accounting policies follows:

Basis of accounting: The financial statements of Dog Tag are presented on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when obligations are incurred.

Basis of presentation: Dog Tag follows the accounting requirements of the Not-for-Profit Entities topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Under the FASB ASC, the organization is required to report information regarding its net assets and its activities according to two categories: 1) net assets without donor restrictions and 2) net assets with donor restrictions.

Without donor restriction: Net assets without donor restrictions include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by Board designation.

With donor restrictions: Net assets with donor restrictions include those net assets whose use is subject to donor-imposed restrictions. Donor restrictions may be restricted for a specified time or purpose limitation. See Note 8 for details on net assets with donor restrictions.

Cash and cash equivalents: For financial statement purposes, Dog Tag considers all deposit accounts to be cash and cash equivalents. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of cash are backed solely by the assets of the underlying institution. As such, the failure of an underlying institution could result in financial loss to Dog Tag.

Dog Tag, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Investments: Investments with readily determinable fair values are reflected at fair market value. To adjust the carrying value of these investments, realized gains and losses and the change in fair market value are charged or credited to non-operating activities. Interest and dividends are presented in operating activities, net of related fees. Money market funds and certificates of deposit are recorded at cost.

Dog Tag invests in a professionally managed portfolio of equity and fixed income mutual funds and other securities. Such investments are exposed to market and credit risks and may be subject to fluctuations in fair value. As a result, the investment balances reported in the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods.

Accounts and contributions receivable: Accounts receivable consist primarily of amounts due from customers for catering orders and are presented at the gross amount due to Dog Tag. Contributions receivable consist primarily of pledges made by corporate donors to further the mission of Dog Tag. Management anticipates collecting all receivables within one year. Management periodically reviews the status of all receivable balances for collectability and each receivable balance is assessed based on Dog Tag's knowledge of the customer, relationship with the customer, and the age of the receivable balance. As a result of these reviews, an allowance for doubtful accounts was not considered necessary as of June 30, 2020.

Property and equipment: Property and equipment are stated at cost, or if donated, capitalized at the estimated fair market value at the date of receipt. It is the policy of Dog Tag to capitalize all purchases of property and equipment greater than or equal to \$2,500. Depreciation and amortization of property and equipment is computed on a straight-line basis over estimated useful lives ranging from three to seven years.

Contributions and grants: Contributions and grants are available for unrestricted use unless donor restricted for a specific time or purpose. Amounts received that are restricted by the donor for a specific purpose or time are reported as with donor restricted support. Conditional promises to give are not included as support until such time as the conditions are substantially met. When a donor restriction expires (that is, when the purpose restriction is accomplished or specified time has elapsed), the donor restricted net assets are reclassified to net assets without donor restriction and reported in the accompanying statement of activities as net assets released from restrictions.

In-kind donations: In-kind donations are recognized as revenue and expense in the statement of activities in accordance with generally accepted accounting principles (U.S. GAAP) if the donations (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and (c) would otherwise need to be purchased by the Dog Tag.

Functional allocation of expenses: The costs of providing various programs and supporting services have been summarized on a functional basis in the accompanying statements of activities and functional expense. Costs related to a specific functional activity are charged directly to that activity. Indirect costs are allocated among the programs and supporting services benefited based on estimated employee time and effort. In particular, salaries and benefits along with other shared costs such as rent, utilities, insurance, and depreciation are allocated based on estimated employee time and effort.

Dog Tag, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Recent accounting pronouncement adopted: During the year ended June 30, 2020, Dog Tag adopted Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, using the modified prospective method. This standard is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. In this standard include clarification and improved guidance to better distinguish between conditional and unconditional contributions. Based on Dog Tag's review of its grants, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under this new standard as a resource recipient. The adoption of this standard had no impact on the statement of financial position or the statement of activities.

Upcoming accounting pronouncements: ASU 2014-09, *Revenue from Contracts with Customers*, requires that Dog Tag recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods and services to customers. ASU 2014-09 replaces most existing revenue recognition guidance in U.S. GAAP. The ASU also requires expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows from contracts from customers. All of Dog Tag's revenue line items, except contributions and investment return, are affected by this standard. Dog Tag has chosen to defer adoption of the new standard as allowed by the FASB. Therefore, Dog Tag anticipates adopting the new standard during the year ending June 30, 2021, and is currently evaluating the impact of the adoption of the new standard on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for Dog Tag's year ending June 30, 2023. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Dog Tag anticipates adopting the new standard during the year ending June 30, 2023, and is currently evaluating the impact of the adoption of the new standard on the financial statements.

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 and disclosures. Accordingly, actual results could differ from those estimates.

Income tax status: Dog Tag is exempt from the payment of federal and state income taxes on income other than net unrelated business income under Section 501(c)(3) of the Internal Revenue Code and has been classified by the Internal Revenue Service as a public charity.

Subsequent events: Subsequent events have been evaluated through January 5, 2021, which is the date the financial statements were available to be issued.

Note 2. Concentration of Support

One of Dog Tag's co-founders (the Co-founder) is the President of Foundation Sweet Success (FSS). FSS is the owner of the building that Dog Tag occupies free of charge. The in-kind donations related to free rent based on local market rates and renovations totaled \$210,000 and \$2,587, respectively, for the year ended June 30, 2020. These in-kind donations are allocated to the functional areas benefited in the statement of functional expenses.

The Co-founder provided cash contributions totaling \$305,000 for the year ended June 30, 2020.

Dog Tag, Inc.

Notes to Financial Statements

Note 3. Liquidity and Asset Availability

Financial assets available for general expenditures within one year are as follows for the year ended June 30, 2020:

Cash and cash equivalents	\$ 1,520,231
Investments	304,445
Accounts and contributions receivable	315,109
	<u>2,139,785</u>
Less net assets with donor restrictions	(919,416)
	<u><u>\$ 1,220,369</u></u>

Dog Tag maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Note 4. Investments

Investments include money market funds and certificates of deposit, which are recorded at cost. Investments consist of the following at June 30, 2020:

Investments, at cost:	
Money market funds	\$ 1,503
Certificates of deposit	302,942
	<u>\$ 304,445</u>

Investment income consists of \$4,294 for the year ended June 30, 2020.

Note 5. Property and Equipment

Property and equipment consisted of the following at June 30, 2020:

Equipment	\$ 102,443
Website and software	118,891
Bakery facility	10,714
	<u>232,048</u>
Less accumulated depreciation and amortization	(127,085)
	<u><u>\$ 104,963</u></u>

Dog Tag, Inc.

Notes to Financial Statements

Note 6. Capital Leases

During April 2017, Dog Tag entered into a capital lease for 12 Macintosh computers. Under the terms of the lease, Dog Tag is required to make monthly payments of \$352. During December 2018, Dog Tag entered into two capital leases for seven additional Macintosh computers. Under the terms of the leases, Dog Tag is required to make monthly payments of \$207. As of June 30, 2020, the cost net of related accumulated amortization of the leased assets was \$4,939.

Future minimum payments as of June 30, 2020:

Years ending June 30	
2021	\$ 2,482
2022	1,241
	<hr/>
	3,723
Less interest	(124)
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	<u>\$ 3,599</u>

Note 7. In-Kind Donations

Dog Tag received the following in-kind donations during the year ended June 30:

Professional services	\$ 281,959
Facility rent	210,000
Bakery renovations	2,587
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	<u>\$ 494,546</u>

Note 8. Net Assets With Donor Restrictions

Net assets with donor restriction consist of the following at June 30, 2020:

Strategic plan	\$ 507,419
Time released	303,637
Fall Fellowship Program	108,240
Diversity Inclusion Workshop	120
Total funds with donor restrictions	<hr/>
	<u>\$ 919,416</u>

Note 9. Contingencies

In-kind donation: As discussed in Notes 2 and 7, Dog Tag receives an in-kind donation of facility rent related to the building from which it conducts its operations. The agreement between Dog Tag and the owner of the building, Foundation Sweet Success, states that Dog Tag is entitled to utilize the building and its contents provided it pays all operating expenses associated with it. The agreement automatically renews annually unless either party provides written notice to terminate at least 90 days prior to year-end.

Note 10. Paycheck Protection Program Loan

On April 27, 2020, Dog Tag obtained a Paycheck Protection Program (PPP) forgivable loan from Eagle Bank totaling \$275,455 in accordance with the Coronavirus Aid, Relief and Economic Security (CARES) Act. Charitable tax-exempt organizations described in Section 501(c)(3) of the IRC, and veterans organizations, described in Section 501(c)(19), are eligible to participate in the PPP loan program. In accordance with the promissory note for the loan, no payments of principal and interest are due for the first six months of the term. Interest is calculated at 1% per annum on the outstanding loan balance.

Dog Tag, Inc.

Notes to Financial Statements

Note 10. Paycheck Protection Program Loan (Continued)

Beginning November 2020, monthly principal and interest payments will be payable and, if not forgiven, the full balance will be due upon the loan's maturity, which will be April 20, 2022. Dog Tag believes that most, if not all, of the PPP loan will meet the requirements for debt forgiveness during the year ended June 30, 2021.

Note 11. Loan Payable

On May 21, 2020, Dog Tag obtained a direct loan from Eagle Bank totaling \$150,000 through the U.S. Small Business Administration under the Economic Injury Disaster Loan Assistance program and is considered federal financial assistance. In accordance with the loan authorization and agreement for the loan, monthly installment payments, including principal and interest, of \$641. Interest is calculated at 2.75% per annum on the outstanding loan balance. Beginning May 2021, monthly principal and interest payments will be payable will be due upon the loan's maturity which will be May 2050.

Note 12. Defined Contribution Plan

Effective January 1, 2017, Dog Tag established the Dog Tag 403(b) Plan (the Plan) for the benefit of its employees. Eligible participants may elect to contribute a portion of their compensation to the Plan. Employer matching is discretionary. Dog Tag did not make a discretionary match during the year ended June 30, 2020.

Note 13. COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak a Public Health Emergency of International Concern and, on March 11, 2020, declared COVID-19 a pandemic. The impact of COVID-19 could negatively impact Dog Tag's operations, suppliers or vendors, and donor or customer base. The extent to which the coronavirus impacts Dog Tag's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information, which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among other factors.