

Audited Financial Statements

DOG TAG, INC.

June 30, 2019

<i>Independent Auditor's Report on the Financial Statements</i>	1 - 2
<i>Financial Statements</i>	
Statement of financial position	3
Statement of activities	4
Statement of functional expense	5
Statement of cash flows	6
Notes to the financial statements	7 - 11



**Independent Auditor’s Report
on the Financial Statements**

To the Board of Directors
Dog Tag, Inc.

We have audited the accompanying financial statements of Dog Tag, Inc. (Dog Tag), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expense, and cash flows for the eighteen-month period 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 of 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 Dog Tag’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, 2019, and the change in its net assets and its cash flow for the eighteen-month period then ended in accordance with accounting principles generally accepted in the United States of America.

.....
2021 L STREET, NW

.....
SUITE 400

.....
WASHINGTON, DC

20036

TELEPHONE
.....
202/293-2200

FACSIMILE
.....
202/293-2208

Adoption of Accounting Standards Update ASU 2016-14

As described in Note A to the financial statements, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Not-for-profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14)*. As required by the FASB, Dog Tag adopted the provisions of ASU 2016-14 during the eighteen-month period ended June 30, 2019. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding the liquidity and availability of resources. There was no change in Dog Tag's previously reported change in net assets as a result of the adoption of the ASU. Our opinion is not modified with respect to this matter.

Tate & Tryon

Washington, DC
September 11, 2019
(except for Notes B and E as which the date is December 13, 2019)

Dog Tag, Inc.

Statement of Financial Position

June 30, 2019

Assets

Cash and cash equivalents	\$	1,310,944
Accounts and contributions receivable		891,465
Prepaid expenses and deposits		22,303
Property and equipment, net		30,596

Total assets	\$	2,255,308
---------------------	-----------	------------------

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$	129,852
Capital lease obligation		7,906

Total liabilities		137,758
-------------------	--	---------

Net assets

Without donor restrictions		590,045
With donor restrictions		1,527,505

Total net assets		2,117,550
------------------	--	-----------

Total liabilities and net assets	\$	2,255,308
---	-----------	------------------

Dog Tag, Inc.

Statement of Activities

Eighteen-Month Period Ended June 30, 2019

Without donor restrictions

Revenue and support	
Bakery sales	\$ 1,471,636
Less: cost of goods sold	1,072,687
Gross profit	398,949
Contributions and grants	1,387,488
In-kind donations	664,529
Contract revenue	555,247
Other income	23,055
Investment income	640
Net assets released from restriction	648,035
Total unrestricted revenue and support	3,677,943
Expenses	
Program services	
Veteran education program	1,191,633
Bakery program	1,062,434
Total program services	2,254,067
Supporting services	
General and administrative	565,239
Fundraising	316,347
Total supporting services	881,586
Total expenses	3,135,653
Change in net assets without donor restrictions	542,290
With donor restrictions	
Contributions and grants	1,997,665
Net assets released from restriction	(648,035)
Change in net assets with donor restrictions	1,349,630
Change in net assets	1,891,920
Net assets, January 1, 2018	225,630
Net assets, June 30, 2019	\$ 2,117,550

Statement of Functional Expense
Eighteen-month Period Ended June 30, 2019

	Program Services			Supporting Services			TOTAL
	Veteran Education Program	Bakery Program	Total	General and Administrative	Fundraising	Total	
Expense							
Salaries, benefits, and related expenses	\$ 398,346	\$ 290,249	\$ 688,595	\$ 243,930	\$ 169,915	\$ 413,845	\$ 1,102,440
Cost of Goods Sold	-	1,072,687	1,072,687	-	-	-	1,072,687
Professional and contracted services	5,788	222,966	228,754	220,853	85,885	306,738	535,492
Rent	77,437	168,095	245,532	47,140	33,199	80,339	325,871
Education expense	305,916	440	306,356	-	-	-	306,356
Student stipends	247,055	-	247,055	-	-	-	247,055
Utilities, repairs, and maintenance	21,768	125,106	146,874	13,056	9,093	22,149	169,023
Banking, credit card, and licensing fees	-	53,286	53,286	20,619	2,458	23,077	76,363
Printing and postage	3,045	71,862	74,907	472	392	864	75,771
Miscellaneous	19,745	42,079	61,824	1,420	1,209	2,629	64,453
Marketing and advertising	17,926	38,511	56,437	2,499	4,517	7,016	63,453
Program valuation	60,701	-	60,701	-	-	-	60,701
Depreciation and amortization	8,373	18,113	26,486	4,889	3,602	8,491	34,977
Insurance	7,579	16,389	23,968	4,608	3,253	7,861	31,829
Travel and entertainment	7,589	7,410	14,999	2,017	1,550	3,567	18,566
Supplies and equipment	4,169	5,893	10,062	3,171	1,001	4,172	14,234
In-kind donations	6,126	1,883	8,009	290	241	531	8,540
Interest expense	70	152	222	275	32	307	529
Total expenses	1,191,633	2,135,121	3,326,754	565,239	316,347	881,586	4,208,340
Less cost of goods sold included with revenues and support on the Statement of Activities	-	(1,072,687)	(1,072,687)	-	-	-	(1,072,687)
Total expenses in the Statement of Activities	\$ 1,191,633	\$ 1,062,434	\$ 2,254,067	\$ 565,239	\$ 316,347	\$ 881,586	\$ 3,135,653

See notes to the financial statements.

Dog Tag, Inc.

Statement of Cash Flows

Eighteen-Month Period Ended June 30, 2019

Cash Flows From Operating Activities

Change in net assets	\$ 1,891,920
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Net gain on sale of investments	(319)
Depreciation and amortization	34,977
Donated securities	(41,497)
Changes in assets and liabilities:	
Accounts and contributions receivable	(568,233)
Prepaid expenses and deposits	5,766
Accounts payable and accrued expenses	(38,753)
<hr/>	
Total adjustments	(608,059)
<hr/>	
Net cash provided by operating activities	1,283,861

Cash Flows From Investing Activities

Proceeds from sale of investments	41,816
Purchases of property and equipment	(17,916)
<hr/>	
Net cash used in investing activities	23,900

Cash Flows From Financing Activities

Payments on loan payable	(243,950)
Issuance of capital lease	6,880
Payments on capital lease obligation	(7,110)
<hr/>	
Net cash used in financing activities	(244,180)

Net increase in cash **1,063,581**

Cash and cash equivalents, January 1, 2018 247,363

Cash and cash equivalents, June 30, 2019 **\$ 1,310,944**

Supplemental information

Donations of securities	\$ 41,497
Interest paid	\$ (529)

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: 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.

Fiscal year: During 2018, the Board of Directors approved an amendment to the bylaws to change the organization's fiscal year end from December 31 to June 30, effective January 1, 2018. Therefore, the accompanying financial statements of Dog Tag include the statement of financial position as of June 30, 2019, and the related statement of activities, functional expense, and cash flows for the eighteen-month period then ended.

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.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents: For financial statement purposes, Dog Tag considers all deposit accounts to be cash and cash equivalents.

Income tax status: Dog Tag, Inc. 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.

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Uncertain tax position: For the eighteen-month period ending June 30, 2019, Dog Tag has documented its consideration of FASB ASC 740-10, Income Taxes, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions quantify for either recognition or disclosure in the financial statements.

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, 2019.

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.

Net assets: Net assets are classified based on the existence or absence of donor-imposed restrictions or passage of time. Accordingly, the net assets of Dog Tag and changes therein are classified and reported as follows:

Without donor restriction: Net assets whose use is not restricted by donors.

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 Notes H for details on net assets with donor 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 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.

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.

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

Subsequent events: Subsequent events have been evaluated through September 11, 2019, except for the disclosures regarding the valuation of donated facilities reported in Notes B and E. The valuation of donated facilities was updated based on additional information provided on December 13, 2019. There were no subsequent events identified through September 11, 2019 that are required to be disclosed in these financial statements.

B. CONCENTRATIONS

Credit risk: Dog Tag maintains demand deposits with commercial banks. 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.

Support: One of Dog Tag's founders (the 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 \$315,000 and \$51,034, respectively, for the eighteen-month period ended June 30, 2019. These in-kind donations are allocated to the functional areas benefited in the statement of functional expense.

The Founder provided cash contributions totaling \$415,000 for the eighteen-month period ended June 30, 2019.

During the year ended December 31, 2017, the Founder loaned Dog Tag \$243,950 to cover preliminary costs related to a purchase agreement to produce 640,000 Dog Tag brownies to be sold in Starbucks cafes. During the eighteen months ended June 30, 2019, the founder loaned Dog Tag an additional \$168,770. Dog Tag repaid these funds in October 2018 once the revenues related to the purchase agreement were received.

As of June 30, 2019, the Founder owed Dog Tag \$12,478 for goods received. This amount is included in accounts receivable in the accompanying statement of financial position.

Notes to the Financial Statements

C. LIQUIDITY AND ASSET AVAILABILITY

Financial assets available for general expenditures within one year are as follows for the year ended June 30, 2019:

Cash and cash equivalents	\$ 1,310,944
Accounts and contributions receivable	<u>891,465</u>
	2,202,409
Less: Net assets with donor restrictions	<u>(1,527,505)</u>
	<u>\$ 674,904</u>

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

D. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2019:

Equipment	\$ 102,443
Website and software	31,851
Bakery facility	<u>8,127</u>
	142,421
Less: accumulated depreciation and amortization	<u>(111,825)</u>
	<u>\$ 30,596</u>

E. IN-KIND DONATIONS

Dog Tag received the following in-kind donations during the eighteen-month period ended June 30, 2019:

Facility rent	\$ 315,000
Professional services	291,495
Bakery renovations	51,034
Donated equipment	<u>7,000</u>
	<u>\$ 664,529</u>

Notes to the Financial Statements

F. CAPITAL LEASE

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 7 additional Macintosh computers. Under the terms of the leases, Dog Tag is required to make monthly payments of \$207. As of June 30, 2019, the cost net of related accumulated amortization of the leased assets was \$10,228.

Future minimum payments as of June 30, 2019:

2020	\$	4,594
2021		2,482
2022		1,241
		<u>8,317</u>
Less interest		<u>(411)</u>
	\$	<u>7,906</u>

G. CONTINGENCIES

In-kind donation: As discussed in Notes B and E, 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 ninety days prior to year-end.

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 eighteen-month period ended June 30, 2019.

H. NET ASSET WITH DONOR RESTRICTIONS

Net assets with donor restriction consist of the following at June 30, 2019:

Strategic Plan	\$	1,003,135
Veterans Program		247,500
Time released		187,500
Fall Fellowship Program		85,250
Diversity Inclusion Workshop		<u>4,120</u>
Total funds with donor restrictions	\$	<u>1,527,505</u>