



COPS DIRECT

Financial Statements

**For the years ended
June 30, 2019 and 2018**
With Independent Auditors' Report Thereon

(A California Not-for-Profit Corporation)

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INDEPENDENT AUDITORS' REPORT

The Board of Directors Cops Direct

We have audited the accompanying financial statements of Cops Direct (a California nonprofit organization) which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cops Direct as of June 30, 2019 and 2018, 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.

Regalia & Associates

May 12, 2020
Danville, California

COPS DIRECT

**Statements of Financial Position
June 30, 2019 and 2018**

ASSETS

	2019	2018
Current assets:		
Cash and cash equivalents	\$ 92,951	\$ 18,129
Prepaid expenses	57,772	-
Deposits and other assets	5,454	-
Total current assets	<u>156,177</u>	<u>18,129</u>
	<u>\$ 156,177</u>	<u>\$ 18,129</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued liabilities	\$ 116,035	\$ 64,530
Total current liabilities	<u>116,035</u>	<u>64,530</u>
Net assets:		
Without donor restrictions	40,142	(46,401)
Total net assets	<u>40,142</u>	<u>(46,401)</u>
	<u>\$ 156,177</u>	<u>\$ 18,129</u>

Statements of Activities and Changes in Net Assets
Years Ended June 30, 2019 and 2018

	2019	2018
<i>Changes in net assets without restrictions:</i>		
Contributions and revenue:		
Contributions	\$ 1,058,755	\$ 914,798
List royalty revenue	12,495	-
Total contributions and revenue:	1,071,250	914,798
Expenses:		
Program services	554,769	605,420
General and administrative	67,257	17,441
Fundraising	362,681	263,827
Total expenses	984,707	886,688
Increase in net assets	86,543	28,110
Net deficit at beginning of year	(46,401)	(74,511)
Net assets (deficit) at end of year	\$ 40,142	\$ (46,401)

Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
<i>Operating activities:</i>		
Increase in net assets	\$ 86,543	\$ 28,110
Adjustments to reconcile to cash provided by operating activities:		
Changes in:		
Prepaid expenses	(57,772)	-
Deposits and other assets	(5,454)	-
Accounts payable and accrued liabilities	51,505	(21,203)
	74,822	6,907
Cash provided by operating activities	74,822	6,907
Increase in cash and cash equivalents	74,822	6,907
Cash and cash equivalents at beginning of year	18,129	11,222
	\$ 92,951	\$ 18,129
Cash and cash equivalents at end of year		
<i>Additional cash flow information:</i>		
State taxes paid	\$ 75	\$ 75
Interest paid	\$ -	\$ -

COPS DIRECT

**Statements of Functional Expenses
Years Ended June 30, 2019 and 2018**

	General			Totals	General			Totals
	Program	and Admin-	Fund-	June	Program	and Admin-	Fund-	June
	Services	istrative	raising	30, 2019	Services	istrative	raising	30, 2018
Direct mail-bookkeeping fees	\$ -	\$ 8,838	\$ -	\$ 8,838	\$ 5,526	\$ 780	\$ 195	\$ 6,501
Direct mail-agency fees/administrative	-	14,993	84,139	99,132	-	13,727	91,749	105,476
Direct mail-list rental/advertising	17,560	1,121	9,612	28,293	29,301	-	8,660	37,961
Direct mail-data processing	16,481	1,053	9,022	26,556	22,324	-	6,598	28,922
Direct mail-postage and mailhouse costs	165,276	10,554	90,468	266,298	198,577	-	58,687	257,264
Direct mail-printing and premiums	295,117	18,846	161,541	475,504	308,414	-	91,148	399,562
Direct mail-miscellaneous costs	20,683	922	7,899	29,504	20,496	-	6,057	26,553
Dues and subscriptions	-	537	-	537	-	-	-	-
Marketing and promotion	6,776	924	-	7,700	20,411	2,882	720	24,013
Office and administration	-	328	-	328	328	46	12	386
Professional fees	-	9,141	-	9,141	43	6	1	50
Product acquisition and distribution	32,814	-	-	32,814	-	-	-	-
Travel	62	-	-	62	-	-	-	-
Totals	\$ 554,769	\$ 67,257	\$ 362,681	\$ 984,707	\$ 605,420	\$ 17,441	\$ 263,827	\$ 886,688

Notes to Financial Statements
June 30, 2019 and 2018

1. Organization

Cops Direct was established in September 2016 as a California nonprofit public charity corporation. Cops Direct is a 501c3 not for profit organization supplying law enforcement agencies within the United States with any critically needed items or training that they cannot acquire through normal procurement practices.

Procurement issues may stem from budgetary constraints within an agency, a lack of staffing or not enough responses to warrant a given – but still needed – acquisition. Items fall into the categories of medical, operational, tactical, communications or K9 for the conventional beat officer or specialized elements such as K9, SWAT, First Responders and Search & Rescue. This support is provided at no expense to the requesting agency.

Cops Direct support is request based only. Cops Direct uses a ‘real time’ support model whereby most requests can be delivered to any agency within 3-7 days. Furthermore, the real time model proves invaluable in the case of a local or regional emergency where critical support can be delivered by the next day.

2. Summary of Significant Accounting Policies

Basis of Presentation – The financial statements of Cops Direct have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("US GAAP").

Measure of Operations – The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to Cops Direct’s ongoing operations which include a variety of programmatic activities. Nonoperating activities are limited to resources that generate return from interest-bearing deposits and other activities considered to be of a more unusual or nonrecurring nature.

Cash and Cash Equivalents – Cops Direct’s cash consists of cash on deposit with banks. When applicable, cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase.

Concentrations of Credit Risk – Financial instruments that potentially subject Cops Direct to concentrations of credit risk consist principally of cash and cash equivalents. Cops Direct maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. Cops Direct manages deposit concentration risk by placing cash and money market accounts with financial institutions believed to be creditworthy. To date, Cops Direct has not experienced losses in any of these accounts.

(continued)

Notes to Financial Statements
June 30, 2019 and 2018

2. **Summary of Significant Accounting Policies** *(continued)*

Net Assets - Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Thus, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has the ability to designate, from net assets without donor restrictions, net assets for an operating reserve or board-designated endowment, but it has opted not to do so as of June 30, 2019.

Net Assets with Donor Restrictions

Net assets subject to donor- (or certain grantor-) 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 can be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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 certain reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

Donated Services and In-Kind Contributions – Contributed services and costs are reflected at the fair value of the contribution received. The contributions of services and costs are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Volunteers may contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

Functional Allocation of Expenses - The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among services and supporting services benefited. Such allocations are determined by management on an equitable basis. Certain direct mail related expenses (including printing and premiums, postage and mailhouse costs, and data processing) have been allocated based on independent analyses of the costs pertaining to the underlying expenses which were associated with various mailings. Other expenses (such as product acquisition and distribution, professional fees and other direct costs) have been allocated in accordance with the specific services received.

Notes to Financial Statements
June 30, 2019 and 2018

2. **Summary of Significant Accounting Policies** *(continued)*

Revenue and Revenue Recognition - Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. If applicable, conditional promises to give are not recognized until the conditions on which they depend have been substantially met. When applicable, revenue earned under a contractual arrangement (an “exchange transaction”) is recognized when earned and therefore measured as services are provided.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized.

Income Taxes – Cops Direct is organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organizations described in IRC Section 501(c)(3), qualify for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii), and has been determined not to be private foundations under IRC Sections 509(a)(1) and (3), respectively. Cops Direct is required to annually file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entities are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purpose. Cops Direct files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income, if applicable.

Cops Direct has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. The exemptions are subject to periodic review by the federal and state taxing authorities and management is confident that Cops Direct continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status.

Recent and Relevant Accounting Pronouncements – The following pronouncements became effective for fiscal years beginning subsequent to December 15, 2017:

In August 2016, the FASB issued *ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Cops Direct has adjusted the presentation of these statements accordingly.

In August 2014, the FASB issued *ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*, which requires an organization’s management to evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity’s ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). As of May 12, 2020 (the date of the Independent Auditors’ Report), management has made this evaluation and has determined that Cops Direct has the ability to continue as a going concern.

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies *(continued)*

Reclassifications – Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

3. Cash and Cash Equivalents

Cash and cash equivalents of \$92,951 and \$18,129 at June 30, 2019 and 2018, respectively, consist of funds in checking and money market accounts that have maturity dates of 90 days or less. At times, cash account balances may exceed federally insured limits. As a result, Cops Direct attempts to limit its credit risk associated with cash equivalents by utilizing financial institutions that are well capitalized and highly rated.

4. Prepaid Expenses

Prepaid expenses of \$57,772 at June 30, 2019 consist of amounts paid for certain direct mail campaigns that will occur in the subsequent fiscal year. There were no prepaid expenses at June 30, 2018.

5. Occupancy and Related Parties

Cops Direct receives pro-bono office premises in San Ramon, California under a month-to-month operating agreement with Troops Direct (a related entity). There was no rent expense for the years ended June 30, 2019 and 2018.

One of Cops Direct's board members is the founder and CEO of Tactical Medical Solutions, Inc. (TacMed), a vendor used by Cops Direct when purchasing items requested by law enforcement agencies. During the year ended June 30, 2019, Cops Direct remitted payments totaling \$31,814 to TacMed. There were no payments to TacMed during the year ended June 30, 2018.

6. Marketing and Promotion

Marketing and promotion costs are expensed as incurred. Marketing and promotion expenses amounted to \$7,700 and \$24,013 for the years ended June 30, 2019 and 2018, respectively, and are reflected on the statements of functional expenses.

**Notes to Financial Statements
June 30, 2019 and 2018**

7. Liquidity

Cops Direct regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the safeguarding of its available funds. Cops Direct's primary source of liquidity is its cash and cash equivalents. For purposes of analyzing resources available to meet general expenditures over a 12-month period, Cops Direct considers all expenditures related to its ongoing support of law enforcement agencies to be general expenditures.

In addition to the financial assets available to meet general expenditures over the next 12 months, Cops Direct operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of Cops Direct's cash and shows positive cash generated by operations for the years ended June 30, 2019 and 2018.

Cops Direct's cash and cash equivalents of \$92,951 at June 30, 2019 is readily available within one year of the balance sheet date to meet general expenditures. As part of Cops Direct's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

8. Allocation of Joint Costs

Cops Direct follows the provisions of *ASC 958.720 Other Expenses of Not-for-Profit*. Under ASC 958.720, Cops Direct incurred allocable joint costs of \$934,125 and \$855,738 for the informational materials and activities that included direct mail fund-raising appeals during the years ended June 30, 2019 and 2018, respectively. Of those costs, \$515,117 and \$579,112 were allocated to program services (for a call to action), \$56,327 and \$13,727 were allocated to general and administrative, and \$362,681 and \$262,989 were allocated to fundraising expenses during the years ended June 30, 2019 and 2018, respectively. These allocations were based on independent analyses of the costs pertaining to the underlying expenses which were associated with various mailings.

9. Commitments and Contingencies

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into contracts and future projects, which are not reflected in the financial statements. Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Grant restrictions and donor conditions which obligate Cops Direct to fulfill certain requirements as set forth in grant instruments, (b) Funding levels which vary based on factors beyond Cops Direct's control, such as generosity of donors and general economic conditions, (c) Employment and service agreements with key management and operating personnel, and (d) Financial risks associated with funds on deposit at bank accounts. Management believes that such commitments, contingencies and risks will not have a material adverse effect on the financial statements.

**Notes to Financial Statements
June 30, 2019 and 2018**

10. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, Cops Direct has evaluated subsequent events through May 12, 2020, the date the financial statements were available to be issued. Subsequent to June 30, 2019 (the end of Cops Direct's fiscal year), an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the United States. On March 11, 2020, the World Health Organization characterized COVID-10 as a pandemic. The novel coronavirus threat has (a) significantly impacted financial markets and (b) potentially diminished revenue streams, and (3) impacted private enterprises with which Cops Direct conducts business. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, could be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluation options during this time. These financial statements do not contain any adjustments related to economic losses which may or may not be realized by Cops Direct as a result of these events. In the opinion of management, there are no other subsequent events which need to be disclosed.