



COPS DIRECT

Financial Statements

**For the years ended
June 30, 2020 and 2019**
With Independent Auditors' Report Thereon

COPS DIRECT

(A California Not-for-Profit Corporation)

Contents

	<u>Page</u>
Independent Auditors' Report	1
Audited Financial Statements:	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
Statements of Functional Expenses	5
Notes to Financial Statements	6 - 12

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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, 2020 and 2019, 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.

Auditors' 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 auditors' 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, 2020 and 2019, 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

**April 13, 2021
Danville, California**

**Statements of Financial Position
June 30, 2020 and 2019**

ASSETS

	2020	2019
Current assets:		
Cash and cash equivalents	\$ 230,806	\$ 92,951
Prepaid expenses	9,002	57,772
Deposits and other assets	13,359	5,454
Total current assets	253,167	156,177
	\$ 253,167	\$ 156,177

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued liabilities	\$ 35,108	\$ 116,035
Total current liabilities	35,108	116,035
Net assets:		
Without donor restrictions	218,059	40,142
Total net assets	218,059	40,142
	\$ 253,167	\$ 156,177

Statements of Activities and Changes in Net Assets
Years Ended June 30, 2020 and 2019

	2020	2019
<i>Changes in net assets without donor restrictions:</i>		
Contributions and revenue:		
Contributions	\$ 1,437,850	\$ 1,058,755
List royalty revenue	18,700	12,495
Interest income	3	-
Total contributions and revenue	<u>1,456,553</u>	<u>1,071,250</u>
Expenses:		
Program services	702,449	554,769
General and administrative	94,721	67,257
Fundraising	481,466	362,681
Total expenses	<u>1,278,636</u>	<u>984,707</u>
Increase in net assets	177,917	86,543
Net assets (deficit) at beginning of year	40,142	(46,401)
Net assets at end of year	<u>\$ 218,059</u>	<u>\$ 40,142</u>

Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
<i>Operating activities:</i>		
Increase in net assets	\$ 177,917	\$ 86,543
Adjustments to reconcile to cash provided by operating activities:		
Changes in:		
Prepaid expenses	48,770	(57,772)
Deposits and other assets	(7,905)	(5,454)
Accounts payable and accrued liabilities	(80,927)	51,505
	137,855	74,822
Cash provided by operating activities	137,855	74,822
Increase in cash and cash equivalents	92,951	18,129
Cash and cash equivalents at beginning of year	230,806	92,951
	\$ 230,806	\$ 92,951
<i>Additional cash flow information:</i>		
State taxes paid	\$ 150	\$ 75
Interest paid	\$ -	\$ -

COPS DIRECT

**Statements of Functional Expenses
Years Ended June 30, 2020 and 2019**

	Program Services	General and Administrative	Fund-raising	Totals June 30, 2020	Program Services	General and Administrative	Fund-raising	Totals June 30, 2019
Direct mail-bookkeeping fees	\$ -	\$ 13,859	\$ -	\$ 13,859	\$ -	\$ 8,838	\$ -	\$ 8,838
Direct mail-agency fees/administrative	-	21,142	95,838	116,980	-	14,993	84,139	99,132
Direct mail-list rental/advertising	15,802	936	12,010	28,748	17,560	1,121	9,612	28,293
Direct mail-data processing	16,602	983	12,618	30,203	16,481	1,053	9,022	26,556
Direct mail-postage and mailhouse costs	173,964	10,301	132,221	316,486	165,276	10,554	90,468	266,298
Direct mail-printing and premiums	287,138	17,003	218,240	522,381	295,117	18,846	161,541	475,504
Direct mail-miscellaneous costs	9,192	544	6,986	16,722	20,683	922	7,899	29,504
Dues and subscriptions	-	1,024	-	1,024	-	537	-	537
Marketing and promotion	9,825	103	414	10,342	6,776	924	-	7,700
Miscellaneous	-	2,639	-	2,639	-	-	-	-
Office and administration	-	2,192	-	2,192	-	328	-	328
Professional fees	-	23,210	-	23,210	-	9,141	-	9,141
Product acquisition and distribution	113,787	-	-	113,787	32,814	-	-	32,814
Program related support	1,482	-	-	1,482	-	-	-	-
Salaries, payroll taxes and related costs	72,943	768	3,071	76,782	-	-	-	-
Telephone and communications	1,620	17	68	1,705	-	-	-	-
Travel	94	-	-	94	62	-	-	62
Totals	\$ 702,449	\$ 94,721	\$ 481,466	\$ 1,278,636	\$ 554,769	\$ 67,257	\$ 362,681	\$ 984,707

Notes to Financial Statements
June 30, 2020 and 2019

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.

Accounts and Contributions Receivable – Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization, if applicable, is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

(continued)

Notes to Financial Statements
June 30, 2020 and 2019

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

Fair Value Measurements – Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions.

The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). Cops Direct groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1

Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2

Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3

Unobservable inputs that cannot be corroborated by observable market data.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing model of the asset and does not necessarily correspond to our assessment of the quality, risk or liquidity profile of the asset or liability.

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.

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Notes to Financial Statements
June 30, 2020 and 2019

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, 2020.

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.

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 expenses, such as salaries, payroll taxes and related costs, telephone and communications and other overhead have been allocated based on time and effort using Cops Direct's payroll allocations. Other expenses, such as professional fees, product acquisition, and other direct costs have been allocated in accordance with the specific services received from vendors. Expenses related to Cops Direct's direct mail activity were allocated in accordance with *ASC 958.720, Other Expenses of Not-for-Profit Entities*. See further discussion in Note 8.

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.

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Notes to Financial Statements
June 30, 2020 and 2019

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

Revenue and Revenue Recognition – *(continued)* 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 represent relevant current accounting guidance applicable to nonprofit organizations:

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 adopted ASU 2016-14.

In June 2018, the FASB issued *ASU 2018-08, Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The FASB issued this update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Accordingly, Cops Direct has incorporated these clarifying standards within the audited financial statements.

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.

Notes to Financial Statements
June 30, 2020 and 2019

3. Cash and Cash Equivalents

Cash and cash equivalents of \$230,806 and \$92,951 at June 30, 2020 and 2019, 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 \$9,002 and \$57,772 at June 30, 2020 and 2019, respectively, consist of amounts paid for certain direct mail campaigns that will occur in the subsequent fiscal year.

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, 2020 and 2019.

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 years ended June 30, 2020 and 2019, Cops Direct remitted payments totaling \$99,559 and \$31,814, respectively, to TacMed.

6. Marketing and Promotion

Marketing and promotion costs are expensed as incurred. Marketing and promotion expenses amounted to \$10,342 and \$7,700 for the years ended June 30, 2020 and 2019, respectively, and are reflected on the statements of functional expenses.

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.

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Notes to Financial Statements
June 30, 2020 and 2019

7. Liquidity *(continued)*

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, 2020 and 2019.

Cops Direct's cash and cash equivalents of \$230,806 and \$92,951 at June 30, 2020 and 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 Entities*. Under ASC 958.720, Cops Direct incurred allocable joint costs of \$1,045,379 and \$934,125 for the informational materials and activities that included direct mail fundraising appeals during the years ended June 30, 2020 and 2019, respectively. Of those costs, \$502,698 and \$515,117 were allocated to program services (for a call to action), \$64,768 and \$56,327 were allocated to general and administrative, and \$477,913 and \$362,681 were allocated to fundraising expenses during the years ended June 30, 2020 and 2019, 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.

10. Compensated Absences (Accrued Payroll and Related Benefits)

Financial statement presentation follows the recommendations of *ASC 710.25, Compensated Absences*. Under ASC 710.25, Cops Direct is required to record a liability for the estimated amounts of compensation and related benefits under existing employment laws. As accrued vacation and sick leave is not paid upon termination, there were no accrued payroll liabilities at June 30, 2020 or 2019.

**Notes to Financial Statements
June 30, 2020 and 2019**

11. COVID-19

In late 2019, there was an outbreak of a novel strain of coronavirus (COVID-19) which was characterized as a pandemic by the World Health Organization on March 11, 2020.

The novel coronavirus threat has (a) significantly impacted financial markets, (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 evaluating its 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.

12. Subsequent Events

In compliance with *ASC 855, Subsequent Events*, Cops Direct has evaluated subsequent events through April 13, 2021, the date the financial statements were available to be issued and, in the opinion of management, there are no subsequent events which are required to be disclosed.