

COPS DIRECT

San Ramon, California

FINANCIAL STATEMENTS

As of

June 30, 2023

TOGETHER WITH

INDEPENDENT AUDITORS' REPORT



SCHNAUFER & WALKER
Professional Corporation
Dallas, Texas

**COPS DIRECT
FINANCIAL STATEMENTS
Year Ended June 30, 2023**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Cops Direct
San Ramon, California

Opinion

We have audited the accompanying financial statements of **Cops Direct** (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Cops Direct** as of June 30, 2023 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Cops Direct** and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **Cops Direct's** ability to continue as a going concern within one year after the date that the financial statements

are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of **Cops Direct's** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **Cops Direct's** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Schnauffer & Walker, P.C.

Dallas, Texas
October 2, 2024

COPS DIRECT
STATEMENT OF FINANCIAL POSITION
June 30, 2023

ASSETS

Current assets:

Cash and cash equivalents	\$ 931,514
Investments	1,026,930

TOTAL ASSETS	<u><u>\$ 1,958,444</u></u>
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LIABILITIES

Current liabilities:

Accounts payables	\$ 58,579
Accrued liabilities	43,294

Total current liabilities	<u>101,873</u>
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Long-term liabilities:

Accrued interest payable to SBA	81,454
Note payable to SBA	1,969,500

Total long-term liabilities	<u>2,050,954</u>
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TOTAL LIABILITIES	<u>2,152,827</u>
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Commitments and contingencies (Note D)

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NET ASSETS (DEFICIT)

Without donor restrictions (deficit)	(194,383)
With donor restrictions	-

TOTAL NET ASSETS (DEFICIT)	<u>(194,383)</u>
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TOTAL LIABILITES AND NET ASSETS (DEFICIT)	<u><u>\$ 1,958,444</u></u>
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The accompanying notes are an integral part of these financial statements.

COPS DIRECT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023

CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:

Operating:		
Revenue and other support:		
Contributions		\$ 634,364
Royalties		57
	Total operating revenue and other support	<u>634,421</u>
Expenses:		
Program services:		
Program		621,880
	Total program services	<u>621,880</u>
Supporting services:		
Management and general		215,788
Fundraising		209,439
	Total supporting services	<u>425,227</u>
	Total operating expenses	<u>1,047,107</u>
	(Deficit) of operating revenue over expenses	<u>(412,686)</u>
Nonoperating:		
Other income and expense:		
Gain on investments		26,931
	Total other income and expense	<u>26,931</u>
	(DECREASE) IN NET ASSETS	(385,755)
	NET ASSETS AT BEGINNING OF YEAR	191,372
	NET ASSETS AT END OF YEAR (DEFICIT)	<u>\$ (194,383)</u>

The accompanying notes are an integral part of these financial statements.

COPS DIRECT
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2023

	<u>Program services</u>	<u>Supporting services</u>			<u>Totals</u>
	<u>Programs</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>	
Salaries and related expenses:					
Salaries	\$ 204,538	\$ 36,273	\$ 73,834	\$ 110,107	\$ 314,645
Employer payroll taxes	15,606	2,767	5,635	8,402	24,008
Total salaries and related expenses	220,144	39,040	79,469	118,509	338,653
Advertising	-	-	2,792	2,792	2,792
Automobile	-	-	15,452	15,452	15,452
Bank fees	-	7,168	-	7,168	7,168
Direct mail	93,862	553	93,399	93,952	187,814
Dues and subscriptions	-	299	-	299	299
Information technology	-	1,527	-	1,527	1,527
Insurance	-	750	-	750	750
Interest	-	44,932	-	44,932	44,932
Meals and entertainment	-	2,562	-	2,562	2,562
Postage and shipping	2,235	-	-	-	2,235
Printing	-	3,364	-	3,364	3,364
Professional fees	-	93,192	-	93,192	93,192
Rent	18,685	3,314	6,745	10,059	28,744
Supplies	31,325	5,554	11,307	16,861	48,186
Support cops: supplies purchased then donated	254,868	-	-	-	254,868
Taxes, licenses and fees	-	155	-	155	155
Telephone and internet	761	135	275	410	1,171
Travel	-	13,243	-	13,243	13,243
Totals	\$ 621,880	\$ 215,788	\$ 209,439	\$ 425,227	\$ 1,047,107

The accompanying notes are an integral part of these financial statements.

COPS DIRECT
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from contributions	\$ 634,364
Cash received from royalties	57
Cash expended for compensation and bebenefits	(314,645)
Cash expended for employer payroll taxes	(24,008)
Cash expended for programs	(361,360)
Cash expended for fundraising	(127,178)
Cash expended for mamangement and general	(123,743)
Cash expended for bank charges and fees	(7,168)
Cash expended for advertising	(2,792)
Cash expended for insurance	(750)
Cash expended for taxes, licenses, and fees	(155)
NET CASH (USED IN) OPERATING ACTIVITIES	<u><u>(327,223)</u></u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investments	(1,026,930)
NET CASH (USED IN) INVESTING ACTIVITIES	<u><u>(1,026,930)</u></u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Increase in restricted cash	-
NET CASH (USED IN) FINANCING ACTIVITIES	<u><u>-</u></u>

(DECREASE) IN CASH AND CASH EQUIVALENTS	(1,354,153)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,285,667
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 931,514</u></u>

RECONCILIATION OF (DECREASE) IN NET ASSETS TO NET

CASH (USED IN) OPERATING ACTIVITIES:	
(Decrease) in net assets	\$ (385,755)
Adjustments to reconcile (decrease) in net assets to net cash (used in) operating activities:	
Changes in operating assets and liabilities:	
Decrease in prepaid expenses	4,290
(Decrease) in accounts payable	(4,108)
Increase in accrued liabilities	58,350
NET CASH (USED IN) OPERATING ACTIVITIES	<u><u>\$ (327,223)</u></u>

The accompanying notes are an integral part of these financial statements.

**COPS DIRECT
NOTES TO FINANCIAL STATEMENTS**

NOTE A – ORGANIZATION AND NATURE OF ACTIVITIES

Cops Direct (the Organization) is a California not-for-profit corporation, headquartered in San Ramon, California. The Organization was established in September 2016 as a California nonprofit corporation. The Organization is a 501(c)(3) nonprofit 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. The Organization 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. The Organization’s revenue is primarily from contributions and royalties.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities. Under the accrual method of accounting, revenues are recorded when earned and expenses are recorded when incurred, irrespective of when paid. The financial statements of the Organization have been prepared using accounting principles generally accepted in the United States of America. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Income Taxes

The Organization is a not-for-profit organization that is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The Organization is required to file annual reports with the Internal Revenue Service, *Form 990, Return of Organizations Exempt from Federal Income Tax*. The Organization is also exempt from State income tax under California Franchise Tax Board Code Section 23701d. The Organization is in compliance with all federal tax filings for the year ended June 30, 2023.

COPS DIRECT
NOTES TO FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Presentation

The financial statements of the Organization have been prepared in accordance with United States generally accepted accounting principles (GAAP) and include all accounts of the Organization. For financial reporting purposes, the Organization follows the reporting requirements of GAAP, which requires that resources be classified for accounting and reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by the classification of net asset balances into two classes of net assets: without donor restrictions and with donor restrictions.

The Organization accounts for its funding in accordance with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, ASU No. 2016-14 - *Not-for-Profit Entities (Topic 958)*, which establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into two net asset categories according to donor-imposed restrictions. ASC Topic 958 requires that unconditional promises to give (pledges) be recorded as receivables and requires the Organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions.

Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Descriptions of the two net asset categories are as follows:

Without donor restrictions – Net assets that are not subject to donor-imposed restrictions.

With donor restrictions – Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization or the passage of time.

Contributions and royalties are recognized when earned, irrespective of when paid. Refundable advances are recorded when the revenue is earned, not received. Contributions are recognized as revenue when received or pledged and are recorded as net assets with donor restrictions and net assets without donor restrictions depending on the existence or nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the contribution is accomplished, net assets with donor restrictions are classified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

At June 30, 2023, there were no net assets with donor restrictions. At June 30, 2023, net assets without donor restrictions were a deficit of \$194,383 and have been designated to be used with the permission of the Board of Directors (the “Board”).

COPS DIRECT
NOTES TO FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fair Value of Financial Instruments

The Organization's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities. Accounts payable and accrued liabilities are stated at approximately fair value. Cash and cash equivalents are stated at fair value.

Fair value measurements

Generally Accepted Accounting Principles (GAAP) establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1- Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2- Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3- Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents. The Organization limits its exposure by controlling the cash balances it maintains in any one financial institution.

COPS DIRECT
NOTES TO FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Lease

The Organization rents office space through July 2023 for approximately \$2,650/month. The lease was extended to month-to-month at the same rate while another agreement is currently being negotiated. Rent expense for this lease was approximately \$16,437 for the year ended June 30, 2023.

Note Payable

Note payable consists of a loan from the Small Business Administration (SBA). This loan accrues interest at 2.75% fixed and is due September 2051.

Noncash Donations

Donated material, fixed assets and certain services are reflected as contributions at their estimated fair values on the date of receipt and are recorded in the appropriate asset or expense account. Services are recorded if they create or enhance nonfinancial assets or require special skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Organization had \$0 noncash donations as of June 30, 2023.

Classification of Revenue and Expense

Operating activities include items which are directly related to the Organization or are essential support elements of those programs. The cost of providing the various programs and other activities has been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program activities and supporting services as shown in the statement of functional expenses. Depreciation has been allocated to the related program and supporting activities.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Advertising and Marketing

The Organization charges advertising and marketing costs to operations in the year the expense is incurred. The advertising and marketing expenses were \$2,792 for the year ended June 30, 2023.

**COPS DIRECT
NOTES TO FINANCIAL STATEMENTS**

NOTE C – FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted as shown in the statements of functional expenses. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as square footage and time and effort. Expenses are recorded when incurred in accordance with the accrual basis of accounting.

NOTE D – COMMITMENTS AND CONTINGENCIES

Contracts, grants and bequests require the fulfillment of certain conditions as set forth in the grant instrument. Failure to fulfill the conditions could result in the return of funds to the grantor. Although that remains a possibility, the Board deems such contingency remote since by accepting the gifts and their terms, the Organization has, in essence, accommodated the provisions of the gifts.

NOTE E – CONCENTRATION OF CREDIT RISK

As of June 30, 2023, the Organization maintained balances at a financial institution in excess of the \$250,000 insured by the Federal Deposit Insurance Corporation. The amounts at risk were approximately \$677,000.

NOTE F – FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of June 30, 2023, financial assets and liquidity resources available within one year for general expenditures, such as ongoing operations and expansion efforts were as follows:

Cash and cash equivalents	\$ 931,514
Investments	1,026,930
Total financial assets, at year end	<u>1,958,444</u>
Less those unavailable for general expenditures within one year, due to:	
Restricted by donor with purpose restriction	<u>(-)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,958,444</u>

Expenses for ongoing operations are covered by a combination of monthly contributions and royalty. Average monthly revenue from operating revenue and other support in the year 2023 was \$52,868. Average monthly expenses for ongoing operations in the year 2023 were \$87,259. Thus, average monthly revenue from operating revenue and other support covered 61% of average monthly expenses in the year 2023.

COPS DIRECT
NOTES TO FINANCIAL STATEMENTS

NOTE G – INVESTMENTS

The Organization invested \$1,000,000 into investments for the year ended June 30, 2023.

Investments as of June 30, 2023, consist of the following:

Money market		\$ 7,223
U.S. government treasury notes and bills		1,019,707
	Total investments	<u>\$ 1,026,930</u>

Investment (loss) income for the year ended June 30, 2023, consist of the following:

Investment fees	\$ (2,224)
Interest and dividends	8,865
Unrealized gain, net	20,289
Total investment income, net	<u>\$ 26,930</u>

Overall Investment Objective

The overall investment objective of the Organization is to invest its assets in a prudent manner that will achieve a long-term rate of return while diversifying risk to an acceptable minimum level given the fluctuations of the markets. The funds are to be used for the Organization’s expenditures when needed and with Board approval.

Investment Strategy

Cash equivalent investments include cash equivalents in a U.S. money market account and are valued based on quoted market prices in active markets. U.S. equity investments and global equity investments consists of investments in mutual and exchange traded funds and are valued based on quoted market prices in active markets. The Organization monitors the investment practices and investment results of the investment manager on a quarterly basis, if not daily.

NOTE H – FAIR VALUE MEASUREMENT

The following table presents the fair value hierarchy for the Organization’s financial assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2023:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Money Market	\$ 7,223	\$ 7,223	\$ -	\$ -
Mutual Funds and ETFs	1,019,707	1,019,707	-	-
Total investments	<u>\$ 1,026,930</u>	<u>\$ 1,026,930</u>	<u>\$ -</u>	<u>\$ -</u>

**COPS DIRECT
NOTES TO FINANCIAL STATEMENTS**

NOTE I – NOTE PAYABLE

The Organization’s long-term debt consists of the following at June 30, 2023:

Small Business Administration (SBA) loan, secured by substantially all real property, fixed interest rate at 2.75%, will be payable within 30 years of the date of the note; therefore, maturity September 2051. Payments of \$858 begin July 2024 through December 2024, principal and interest payments of \$8,580 begin January 2025 through September 2051 with a balloon payment for the unpaid principal and interest due at that time.	\$ 1,969,500
Accrued interest on SBA loan rolled into note payable	81,454
Total note payable	<u>2,050,954</u>
Less current maturities	(-)
Total recorded note payable, less noncurrent	<u>\$ 2,050,954</u>

The following are the minimum note payments as of June 30th, for each of the next five years and thereafter:

Years ending June 30th:	
2024	\$ -
2025	-
2026	45,492
2027	46,759
2028	47,960
Thereafter	<u>1,974,246</u>
Total recorded note payable	<u>\$ 2,050,954</u>

The Organization expensed \$44,932 to interest expense for this note payable for the year ended June 30, 2023.

NOTE J – JOINT COSTS

The Organization achieves its programmatic, management, and general goals in direct mail campaigns that include requests for contributions. The costs of conducting the campaigns include a total of \$187,814 of joint costs that are not directly attributable to either program, or management and general components or the fundraising component of activities for the year ended June 30, 2023.

**COPS DIRECT
NOTES TO FINANCIAL STATEMENTS**

NOTE J – JOINT COSTS – continued

The joint costs were allocated as follows at June 30, 2023:

Program	\$ 93,862
Management	553
Fundraising	93,399
Total	<u>\$ 187,814</u>

NOTE K – RELATED PARTIES

The Organization shares office premises in San Ramon, California with another nonprofit with a common Executive Director. The original office space was rented through October 2021 and costs reimbursed from Cops Direct as of June 30, 2023, was \$28,744. A new shared office space was rented in November 2021 through the fiscal year end. This lease is currently paid directly by each Organization at fifty percent of the monthly rent due. This new space is subleased from a relative of the Executive Director. Total rent expense related to this lease was \$5,728 per month as of June 30, 2023.

The Organization, as of June 30, 2023, paid \$30,000 to a professional company for consulting fees. This company is owned and operated by an individual with direct familial relations to the Executive Director.

NOTE L – SUBSEQUENT EVENTS

In April 2024, the Organization received a \$150,000 line of credit with a financial institution, secured by financial assets with the financial institution, variable interest rate – current rate is 8.5%, monthly interest only payments, and a renewal date April 2025. As of the date of this report, the line of credit balance was \$60,250.

FASB ASC 855-10 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. That is, whether that date represents the date the financial statements were issued or were available to be issued. The Organization has evaluated subsequent events for potential recognition and/or disclosure in these financial statements through October 2, 2024, the date that the financial statements were available to be issued.