

Compassion Over Killing, Inc.

**Financial Statements and
Supplementary Information
December 31, 2016**

With Independent Auditor's Report Thereon

Compassion Over Killing, Inc.

Table of Contents

<u>Title</u>	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to the Financial Statements	6-13
Supplementary Information:	
Schedule of Functional Expenses	14

Independent Auditor's Report

To the Board of Directors of
Compassion Over Killing, Inc.

We have audited the accompanying financial statements of Compassion Over Killing, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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 Compassion Over Killing, Inc. as of December 31, 2016, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Saggar & Rosenberg P.C.

Rockville, Maryland
November 8, 2017

Compassion Over Killing, Inc.
Statement of Financial Position
December 31, 2016

Assets

Current Assets	
Cash	\$ 856,749
Contributions receivable	315,954
Prepaid expenses	5,026
Inventory	8,158
Total Current Assets	<u>1,185,887</u>
Property and Equipment, Net	<u>23,312</u>
Other Assets	
Investments	72,353
Deposits	5,306
Total Other Assets	<u>77,659</u>
Total Assets	<u>\$ 1,286,858</u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 22,894
Accrued expenses	31,323
Total Liabilities	<u>54,217</u>
Net Assets	
Unrestricted	552,008
Temporarily restricted	680,633
Total Net Assets	<u>1,232,641</u>
Total Liabilities and Net Assets	<u>\$ 1,286,858</u>

See Independent Auditor's Report and Notes

Compassion Over Killing, Inc.
Statement of Activities
For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Contributions	\$ 1,291,944	\$ 506,077	\$ 1,798,021
Merchandise Sales	5,058	-	5,058
Less: Cost of Goods Sold	(4,401)	-	(4,401)
Special Event	14,909	-	14,909
Less: Cost of Direct Benefit to Donors	(6,204)	-	(6,204)
Net Investment Loss and Other Income	(924)	-	(924)
Net Assets Released From Restrictions			
Satisfaction of program restrictions	<u>47,723</u>	<u>(47,723)</u>	<u>-</u>
Total Support and Revenue	<u>1,348,105</u>	<u>458,354</u>	<u>1,806,459</u>
Expenses			
Program Services			
Vegetarian outreach	567,984	-	567,984
Investigations	346,124	-	346,124
Legal advocacy	557,463	-	557,463
Publications	<u>26,141</u>	<u>-</u>	<u>26,141</u>
Total Program Services	<u>1,497,712</u>	<u>-</u>	<u>1,497,712</u>
Supporting Services			
Management and general	78,530	-	78,530
Membership development	<u>50,285</u>	<u>-</u>	<u>50,285</u>
Total Supporting Services	<u>128,815</u>	<u>-</u>	<u>128,815</u>
Total Expenses	<u>1,626,527</u>	<u>-</u>	<u>1,626,527</u>
Change in Net Assets	(278,422)	458,354	179,932
Net Assets, Beginning of Year	<u>830,430</u>	<u>222,279</u>	<u>1,052,709</u>
Net Assets, End of Year	<u>\$ 552,008</u>	<u>\$ 680,633</u>	<u>\$ 1,232,641</u>

See Independent Auditor's Report and Notes

Compassion Over Killing, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2016

Cash Flows From Operating Activities:	
Change in net assets	\$ 179,932
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	6,373
Unrealized loss	5,608
Donated investments	(5,103)
Change in assets and liabilities:	
Increase in contributions receivable	(114,595)
Increase in prepaid expenses	(1,084)
Increase in inventory	(3,008)
Decrease in accounts payable	(19,321)
Increase in accrued expenses	<u>15,815</u>
Net Cash Provided by Operating Activities	<u>64,617</u>
Cash Flow From Investing Activities:	
Purchases of property and equipment	(9,502)
Reinvested interest and dividends and purchases of investments	<u>(3,704)</u>
Net Cash Used In Investing Activities	<u>(13,206)</u>
Net Increase in Cash	51,411
Cash at Beginning of Year	<u>805,338</u>
Cash at End of Year	<u>\$ 856,749</u>

See Independent Auditor's Report and Notes

Compassion Over Killing, Inc.
Notes to the Financial Statements

Note 1: Organization

Compassion Over Killing, Inc. (“COK”) was incorporated in Delaware on April 8, 1997. COK is a national animal protection organization working to end the abuse of farmed animals using a variety of strategies, including the following programs:

Vegetarian Outreach

COK promotes vegetarian eating among the mainstream American public through various outreach activities in local communities (leafleting, feed-ins, educational booths at festivals) as well as running 30-second advocacy commercials nationwide on television and online. Each year, COK distributes thousands of free Vegetarian Starter Guide magazines and Easy Vegan Recipe booklets, works with restaurants and food manufacturing corporations to add vegetarian options, and coordinates the popular US VegWeek pledge campaign to encourage participants to eat meat-, egg-, and dairy-free for at least one week.

Investigations

COK investigators go undercover inside factory farms and slaughter plants to gather photo and video evidence of severe animal cruelty that are often considered standard practices within animal agribusiness. As a result of this evidence, COK has received favorable attention in major media outlets as well as local newspapers, television news programs, and others. COK has completed more than 20 investigations inside the meat, egg, and dairy industries.

Legal Advocacy

COK’s Legal Advocacy program was created to further expose the horrors of animal agribusiness by proactively challenging the industry through petitions, complaints, and lawsuits. The program brought unprecedented attention to the plight of egg-laying hens through legal work against the United Egg Producers’ misleading “Animal Care Certified” logo, which according to the Federal Trade Commission, can no longer be stamped on egg cartons nationwide. COK also exposed an alleged \$9.5 billion price-fixing scheme in the dairy industry that involved the killing of 500,000 young cows in order to reduce the supply of milk resulting in artificially inflated prices in the marketplace. A class-action lawsuit based on this information was filed in 2011. The case settled in 2016 with consumers being awarded \$52 million to be paid out by the dairy industry.

Publications

COK publishes *Compassionate Action*, a bi-annual member magazine. The publication informs members and other readers of COK’s campaigns and successes, as well as offers

Compassion Over Killing, Inc.
Notes to the Financial Statements

Note 1: Organization (continued)

book reviews, interviews, delicious recipes, and more. Each issue is distributed to nearly 40,000 individuals via mail and hundreds more at outreach events.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

COK maintains its records on the accrual basis of accounting.

Revenue Recognition

All contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released from restrictions. Donor restricted contributions, whose restrictions are met in the same reporting period are reported as unrestricted support.

COK reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, COK reports expirations of donor restrictions when donated or acquired long-lived assets are placed in service.

COK recognizes service income in the period the related services are rendered.

Contributions Receivable

Receivables are stated at amounts estimated by management to be the net realizable value. COK charges off contributions receivable when it becomes apparent based upon age or circumstances that the amounts will not be collected. As of December 31, 2016, management estimates all contributions receivable to be collectible within the next year.

Compassion Over Killing, Inc.
Notes to the Financial Statements

Note 2: Summary of Significant Accounting Policies (continued)

Inventory

Inventory is valued at the lower of cost or market. Cost is determined by the weighted average method.

Property and Equipment

Property and equipment acquired by COK are stated at historical cost. COK capitalizes acquisitions that are valued at \$500 or greater and have an estimated useful life of greater than one year. Property and equipment donated to COK are recorded at fair market value at the date of donation. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently. Depreciation is calculated using the straight-line method over an estimated useful life of five years.

Investments

Investments are reported at fair value. Donated investments are recorded at fair value on the date of donation. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Purchases and sales of investments are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Interest income is recorded on the accrual basis.

Advertising Costs

Advertising costs are expensed as incurred, and approximated \$136,000 during the year end December 31, 2016.

Functional Allocation of Expenses

The costs of providing the program and supporting services have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been either directly charged to the programs and supporting services as incurred or allocated based on usage for items such as occupancy and depreciation.

Donated Materials and Services

Donated materials are recorded as contributions at their estimated fair market value at the date of receipt. COK recognizes contributed services to the extent the services create or enhance non-financial assets or require specialized skills that would be purchased if not provided by donation. COK received donated legal and advertising services during the year. For the year ended December 31, 2016, COK recognized \$409,727 in legal services

See Independent Auditor's Report

Compassion Over Killing, Inc.
Notes to the Financial Statements

Note 2: Summary of Significant Accounting Policies (continued)

and \$117,088 in advertising services for a total of \$526,815 in support of COK's Legal Advocacy and Vegetarian Outreach programs, respectively. These donated services are included in contributions on the statement of activities.

Income Taxes

COK is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and is classified as other than a private foundation.

Taxable years from December 31, 2013 and onward are subject to federal and other jurisdictions' tax authority examinations. Management is of the opinion that no significant liability will result from these actions.

Estimates

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

Subsequent Events

For the year ended December 31, 2016, COK has evaluated subsequent events for potential recognition and disclosure through November 8, 2017, the date the financial statements were available to be issued and believe there to be no further potential recognition or disclosure.

Note 3: Operating Expenses

Of the total operating expenses incurred for the year ended December 31, 2016, COK incurred 91.48% for program services, 4.80% for management and general, 3.07% for membership development, and 0.65% for cost of goods sold.

Note 4: Investments and Fair Value Measurements

The framework for measuring fair value 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) and the lowest priority to unobservable inputs (level 3).

See Independent Auditor's Report

Compassion Over Killing, Inc.
Notes to the Financial Statements

Note 4: Investments and Fair Value Measurements (continued)

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that COK 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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016.

Mutual Funds: Valued at the daily closing price as reported by the fund. Mutual funds held by COK are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by COK are deemed to be actively traded.

Equity Securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Compassion Over Killing, Inc.
Notes to the Financial Statements

Note 4: Investments and Fair Value Measurements (continued)

As required by FASB ASC 820, at December 31, 2016, COK's portfolio of investments were classified as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity Securities	\$ 45,865	\$ --	\$ --	\$ 45,865
Mutual Funds	<u>26,488</u>	<u>--</u>	<u>--</u>	<u>26,488</u>
Total Investments at Fair Value	<u>\$ 72,353</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 72,353</u>

Note 5: Net Investment Return

Net investment return included in net investment loss and other income consists of the following for the year ended December 31, 2016:

Operating Investments	
Dividend and Interest Income	\$ 4,258
Unrealized Loss	<u>(5,608)</u>
	<u>\$ (1,350)</u>

Note 6: Property and Equipment

Property and equipment at December 31, 2016 consisted of the following:

Computer Equipment	\$ 12,295
Camera Equipment	<u>31,960</u>
Property and Equipment, Cost	\$44,255
Less: Accumulated Depreciation	<u>(20,943)</u>
Property and Equipment, Net	<u>\$ 23,312</u>

Depreciation expense for the year ended December 31, 2016 was \$6,373.

Compassion Over Killing, Inc.
Notes to the Financial Statements

Note 7: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Broiler Chicken Welfare Research and Campaign Costs	\$ 500,000
TV Commercials	157,606
PR Firm	<u>23,027</u>
	<u>\$ 680,633</u>

Note 8: Operating Lease

COK leases office space under cancellable and non-cancellable operating leases. The non-cancellable lease expires in 2021. Total rent expense for 2016 was \$76,327.

Future minimum lease payments under the non-cancelable lease are as follows:

Year ending December 31,

2017	\$ 54,589
2018	56,227
2019	57,913
2020	59,651
2021	<u>35,398</u>
	<u>\$ 263,778</u>

Note 9: Concentrations

The Federal Deposit Insurance Corporation insures bank accounts up to \$250,000 at each institution. At December 31, 2016, COK exceeded the insured limit by \$614,757.

COK received approximately 39% of its total support and revenue from two donors during the year.

Note 10: Accounting Standard Updates

In May 2014, the Financial Accounting Standards Board (“FASB”) issued guidance codified in Accounting Standards Codification (“ASC”) 606, Revenue Recognition- Revenue from Contracts with Customers, which amends the guidance in form ASC 605,

See Independent Auditor’s Report

Compassion Over Killing, Inc.
Notes to the Financial Statements

Note 10: Accounting Standard Updates (continued)

Revenue Recognition, and most other existing revenue guidance in U.S. Generally Accepted Accounting Principles (“GAAP”), to require an entity to recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to customers and provide additional disclosures. As amended, the effective date for nonpublic entities is annual reporting periods beginning after December 15, 2018 and interim periods therein. As such, COK will be required to adopt the standard on July 1, 2019. Early adoption is not permitted before the first quarter of fiscal year 2017. ASC 606 may be adopted using either a full retrospective approach, in which the standard is applied to all of the periods presented, or a modified retrospective approach. COK is currently evaluating which transition method to use and how ASC 606 will affect its financial statements.

In February 2016, the FASB issued guidance codified in ASC 842, Leases, which amends the guidance in former ASC 840, Leases, requiring the recognition of lease assets and lease liabilities by leasees for those leases classified as operating leases under previous U.S. GAAP. The effective date for nonpublic entities is annual reporting periods beginning after December 15, 2019 and interim periods therein, with early adoption permitted. As such, COK will be required to adopt the standard on July 1, 2020. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. COK is currently evaluating how ASC 842 will affect its financial statements.

In August 2016, the FASB issued guidance codified in ASC 958, Not-for-Profit Entities, which changes certain requirements for the financial statements of not-for-profit entities. The effective date is annual reporting periods beginning after December 15, 2017 and interim periods therein, with early adoption permitted. As such, COK will be required to adopt the standard on July 1, 2018. COK is currently evaluating how ASC 958 will affect its financial statements.

Compassion Over Killing, Inc.
Schedule of Functional Expenses
For the Year Ended December 31, 2016

	Program Services					Supporting Services				Total Expenses
	Vegetarian Outreach	Investigations	Legal Advocacy	Publications	Total	Management and General	Membership Development	Cost of Goods Sold	Total	
Prof. svcs. and consultants	\$ 166,278	\$ 117,432	\$ 420,107	\$ 1,037	\$ 704,854	\$ 17,866	\$ 4,886	\$ -	\$ 22,752	\$ 727,606
Salaries and related expenses	212,767	133,092	103,866	2,543	452,268	42,566	27,556	-	70,122	522,390
Rent / Overhead expenses	46,798	22,387	23,121	766	93,072	10,423	10,606	-	21,029	114,101
Travel and transportation	13,866	63,038	3,477	78	80,459	1,390	1,639	-	3,029	83,488
General operating expenses	60,935	6,775	6,055	148	73,913	5,719	2,397	-	8,116	82,029
Printing and copying	26,948	434	377	10,421	38,180	129	1,262	-	1,391	39,571
Direct mail expense	13,607	93	0	11,129	24,829	54	532	-	586	25,415
Media and promotion	16,914	1,158	132	6	18,210	45	777	-	822	19,032
Postage and shipping	9,871	1,715	328	13	11,927	338	630	-	968	12,895
Cost of goods sold	-	-	-	-	-	-	-	4,401	4,401	4,401
Cost of direct benefit to donors	-	-	-	-	-	-	-	6,204	6,204	6,204
Total expenses by function	567,984	346,124	557,463	26,141	1,497,712	78,530	50,285	10,605	139,420	1,637,132
Less expenses with support and revenue										
Cost of goods sold	-	-	-	-	-	-	-	(4,401)	(4,401)	(4,401)
Cost of direct benefit to donors	-	-	-	-	-	-	-	(6,204)	(6,204)	(6,204)
Total expenses included in the expense section on the statement of activities	\$ 567,984	\$ 346,124	\$ 557,463	\$ 26,141	\$ 1,497,712	\$ 78,530	\$ 50,285	\$ -	\$ 128,815	\$ 1,626,527
Percent of total expenses by function	34.69%	21.14%	34.05%	1.60%	91.48%	4.80%	3.07%	0.65%	8.52%	100.00%

See Independent Auditor's Report and Notes