

Compassion Over Killing, Inc.

**Financial Statements
December 31, 2018**

With Independent Auditor's Report Thereon

Compassion Over Killing, Inc.

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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, 2018, and the related statements of activities, functional expenses, 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, 2018, 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.

Saggar & Rosenberg P.C.

Rockville, Maryland
November 13, 2019

Compassion Over Killing, Inc.
Statement of Financial Position
December 31, 2018

Assets

Current Assets	
Cash	\$ 98,573
Contributions receivable	583,756
Prepaid expenses	2,249
Inventory	<u>8,725</u>
Total Current Assets	<u>693,303</u>
Property and Equipment, Net	<u>17,060</u>
Other Assets	
Investments	81,429
Deposits	<u>6,345</u>
Total Other Assets	<u>87,774</u>
Total Assets	<u>\$ 798,137</u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 23,270
Accrued expenses	<u>79,069</u>
Total Liabilities	<u>102,339</u>
Net Assets	
Without donor restrictions	246,985
With donor restrictions	<u>448,813</u>
Total Net Assets	<u>695,798</u>
Total Liabilities and Net Assets	<u>\$ 798,137</u>

See Accompanying Notes

Compassion Over Killing, Inc.
Statement of Activities
For the Year Ended December 31, 2018

	<u>Without</u> <u>Donor Restrictions</u>	<u>With</u> <u>Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Contributions	\$ 2,168,831	\$ 143,725	\$ 2,312,556
Merchandise Sales	5,771	-	5,771
Less: Cost of Goods Sold	(6,441)	-	(6,441)
Special Events	6,700	-	6,700
Less: Cost of Direct Benefit to Donors	(2,723)	-	(2,723)
Net Investment Gain and Other Income	(1,692)	-	(1,692)
Subtotal	<u>2,170,446</u>	<u>143,725</u>	<u>2,314,171</u>
Net Assets Released From Restrictions	<u>536,460</u>	<u>(536,460)</u>	<u>-</u>
Total Support and Revenue	<u>2,706,906</u>	<u>(392,735)</u>	<u>2,314,171</u>
Expenses			
Program Services			
Vegetarian outreach	1,630,436	-	1,630,436
Investigations	605,283	-	605,283
Legal advocacy	118,973	-	118,973
Publications	5,067	-	5,067
Total Program Services	<u>2,359,759</u>	<u>-</u>	<u>2,359,759</u>
Supporting Services			
Management and general	168,132	-	168,132
Membership development	48,299	-	48,299
Total Supporting Services	<u>216,431</u>	<u>-</u>	<u>216,431</u>
Total Expenses	<u>2,576,190</u>	<u>-</u>	<u>2,576,190</u>
Change in Net Assets	130,716	(392,735)	(262,019)
Net Assets, Beginning of Year	<u>116,269</u>	<u>841,548</u>	<u>957,817</u>
Net Assets, End of Year	<u>\$ 246,985</u>	<u>\$ 448,813</u>	<u>\$ 695,798</u>

See Accompanying Notes

Compassion Over Killing, Inc.
Schedule of Functional Expenses
For the Year Ended December 31, 2018

	Program Services					Supporting Services				Total Expenses
	Vegetarian Outreach	Investigations	Legal Advocacy	Publications	Total	Management and General	Membership Development	Cost of Goods Sold	Total	
Professional services and consultants	\$ 209,084	\$ 169,909	\$ 14,885	\$ 818	\$ 394,696	\$ 30,500	\$ 12,501	\$ -	\$ 43,001	\$ 437,697
Salaries and related expenses	883,825	272,094	69,471	3,859	1,229,249	104,208	17,368	-	121,576	1,350,825
Rent and related expenses	74,177	21,961	21,415	259	117,812	21,575	-	-	21,575	139,387
Travel and transportation	43,289	119,074	5,579	50	167,992	2,503	292	-	2,795	170,787
General operating expenses	110,616	11,516	7,097	60	129,289	8,322	812	-	9,134	138,423
Printing and copying	23,091	-	105	-	23,196	-	123	-	123	23,319
Direct mail expense	8,791	-	-	-	8,791	-	2,802	-	2,802	11,593
Media and promotion	269,611	7,849	158	7	277,625	401	13,383	-	13,784	291,409
Postage and shipping	7,952	2,880	263	14	11,109	623	504	-	1,127	12,236
Donations to other organizations	-	-	-	-	-	-	514	-	514	514
Cost of direct benefit to donors	-	-	-	-	-	-	-	2,723	2,723	2,723
Cost of goods sold	-	-	-	-	-	-	-	6,441	6,441	6,441
Total expenses by function	1,630,436	605,283	118,973	5,067	2,359,759	168,132	48,299	9,164	225,595	2,585,354
Less expenses included with support and revenue on statement of activities										
Cost of direct benefit to donors	-	-	-	-	-	-	-	(2,723)	(2,723)	(2,723)
Cost of goods sold	-	-	-	-	-	-	-	(6,441)	(6,441)	(6,441)
Total expenses included in the expense section of the statement of activities	\$ 1,630,436	\$ 605,283	\$ 118,973	\$ 5,067	\$ 2,359,759	\$ 168,132	\$ 48,299	\$ -	\$ 216,431	\$ 2,576,190
Percentage of total expenses by function	63.29%	23.50%	4.62%	0.20%	91.61%	6.52%	1.87%	0.00%	8.39%	100.00%

See Accompanying Notes

Compassion Over Killing, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2018

Cash Flows From Operating Activities:	
Change in net assets	\$ (262,019)
Adjustment to reconcile change in net assets to net cash used in operating activities:	
Depreciation	5,981
Donated investments	(41,111)
Net realized and unrealized losses on investments	7,507
Change in assets and liabilities:	
Increase in contributions receivable	(223,965)
Decrease in prepaid expenses	2,116
Increase in inventory	(2)
Increase in deposits	(375)
Decrease in accounts payable	(5,528)
Increase in accrued expenses	20,926
	<u>(496,470)</u>
Net Cash Used In Operating Activities	
Cash Flow From Investing Activities:	
Purchases of property and equipment	(12,031)
Proceeds from sales and maturities of investments	55,446
Purchases of investments and reinvestment of interest and dividends	(6,614)
	<u>36,801</u>
Net Cash Provided By Investing Activities	
Net Decrease in Cash	(459,669)
Cash at Beginning of Year	<u>558,242</u>
Cash at End of Year	<u><u>\$ 98,573</u></u>

See Accompanying Notes

Compassion Over Killing, Inc.
Notes to the Financial Statements

Note 1: Organization

Compassion Over Killing, Inc. (“COK” or the “Organization”) 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 vegan eating among the mainstream American public through various outreach activities both in local communities (leafleting, feed-ins, educational booths at festivals) as well as nationally through the Beyond the Lies touring video pay-per-view outreach program, corporate campaigns that seek to put vegan options on menus and reduce the prevalence of animal-based ingredients, and short (15 sec to 5 min) advocacy videos 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 VegWeek pledge campaign to encourage participants to eat meat-, egg-, and dairy-free for at least one week. COK also organizes the free DC VegFest event in the nation’s capital with more than 20,000 attendees.

Investigations

COK investigators go undercover inside factory farms and slaughter plants to document the conditions inside these facilities. This regularly includes severe animal cruelty, some of which is considered standard practices within animal agribusiness. As a result of its investigations, COK has garnered 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 proactively challenging the systemic harms of animal agribusiness through litigation, criminal enforcement, and other legal advocacy. The program has repeatedly secured criminal enforcement and civil accountability for the mistreatment of animals documented in COK’s undercover investigations, including the first-ever conviction for a standard industry practice. The program also conducts strategic litigation, such as uncovering and developing the initial case theory for what ultimately became a class action against most of the dairy industry for price-fixing through a cow-killing scheme, resulting in a \$52M award to consumers in 2016, and in 2019, a settlement and consent decree in federal False Claims Act litigation alleging mistreatment of animals at a lamb slaughterhouse.

Compassion Over Killing, Inc.
Notes to the Financial Statements

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which requires the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of Compassion Over Killing, Inc.'s management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Compassion Over Killing, Inc. or by the passage of time.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Cash and Cash Equivalents

The Organization considers highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

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, 2018, management estimates all contributions receivable to be collectible within the next year.

Inventory

Inventory is made up of t-shirts and tote bags that are sold to promote the company's mission. Inventory is valued at the lower of cost or market. Cost is determined by the weighted average method.

Compassion Over Killing, Inc.
Notes to the Financial Statements

Note 2: Summary of Significant Accounting Policies (continued)

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 recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external investment expenses.

Purchases and sales of securities are reflected on the trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statement of activities in the period in which the securities are sold. Interest income is recorded on the accrual basis.

Advertising Costs

Advertising costs are expensed as incurred and approximated \$320,000 for the year ended December 31, 2018.

Compassion Over Killing, Inc.
Notes to the Financial Statements

Note 2: Summary of Significant Accounting Policies (continued)

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, 2018, COK recognized \$233,769 in legal services and \$28,406 in advertising services for a total of \$262,175 in support of COK's programs. These donated services are included in contributions on the statement of activities.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Professional services and consultants	Time and effort
Salaries and related expenses	Time and effort
Rent and related expenses	Square footage
Travel and transportation	Time and effort
General operating expenses	Time and effort
Direct mail expense	Time and effort
Media and promotion	Time and effort
Postage and shipping	Time and effort
Donations to other organizations	Time and effort

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 before December 31, 2018 are subject to federal and other jurisdictions' tax authority examinations. Management is of the opinion that no significant liability will result from these actions.

Compassion Over Killing, Inc.
Notes to the Financial Statements

Note 2: Summary of Significant Accounting Policies (continued)

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, 2018, COK has evaluated subsequent events for potential recognition and disclosure through November 13, 2019, the date the financial statements were available to be issued and believe there to be no further potential recognition or disclosure.

New accounting pronouncements

In August 2016, 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 assets 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. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these statements accordingly.

In August 2016, FASB issued *ASU 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*. This guidance is intended to reduce the diversity in practice in how certain transactions are classified in the statement of cash flows. In addition, in November 2016, FASB issued *ASU 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash*. This ASU provides additional guidance related to transfers between cash and restricted cash and how entities present, in their statements of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. The organization has adopted these provisions in the accompanying financial statements.

In May 2014, the FASB issued guidance codified in *ASC 606, Revenue Recognition – Revenue from Contracts with Customers*, which amends the guidance in former *ASC 605, 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, the

Compassion Over Killing, Inc.
Notes to the Financial Statements

Note 2: Summary of Significant Accounting Policies (continued)

Organization will be required to adopt the standard on January 1, 2019. Early adoption is not permitted before the first quarter of fiscal year 2017. *ASC 606* may be adopted either using a full retrospective approach, in which the standard is applied to all of the periods presented, or a modified retrospective approach. The Organization has adopted this *ASU* effective January 1, 2019.

In June 2018, the FASB issued *ASU 2018-08, Not-for-Profit entities (Topic 958)* intended to clarify and improve the scope and the accounting guidance for contributions received and made, primarily by not-for-profit Organization. The amendments in this *ASU* provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The effective date for a public company or a not-for-profit organization that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, is annual reporting periods beginning after June 15, 2018, including interim periods within that annual period. All other entities should apply the amendments for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption of the amendments in this *ASU* is permitted. The Organization has adopted this *ASU* effective January 1, 2019.

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 lessees 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, 2020 and interim periods therein. As such, the Organization will be required to adopt the standard on January 1, 2021. Early adoption is permitted. 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. The Organization is currently evaluating how *ASC 842* will affect its financial statements.

Note 3: Availability and Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following as of December 31, 2018.

Compassion Over Killing, Inc.
Notes to the Financial Statements

Note 3: Availability and Liquidity (continued)

Cash and cash equivalents	\$ 98,573
Contributions receivable	583,756
Investments	<u>81,429</u>
Subtotal	763,758
Financial assets available for general expenditures over the next twelve months	<u>\$ 763,758</u>

As part of the COK's liquidity management plan, the Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due, while also striving to maximize the investment of its available funds.

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).

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.

Compassion Over Killing, Inc.
Notes to the Financial Statements

Note 4: Investments and Fair Value Measurements (continued)

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, 2018.

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.

As required by FASB ASC 820, at December 31, 2018, COK's portfolio of investments was classified as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities	\$ 55,717	\$ -	\$ -	\$ 55,717
Mutual funds	25,712	-	-	25,712
Total investments at fair value	\$ 81,429	\$ -	\$ -	\$ 81,429

Note 5: Property and Equipment

Property and equipment at December 31, 2018 consisted of the following:

Computer equipment	\$ 20,470
Camera equipment	17,362
Property and equipment, cost	37,832
Less: accumulated depreciation	(20,772)
Property and equipment, net	\$ 17,060

Depreciation expense for the year ended December 31, 2018 was \$5,981.

Compassion Over Killing, Inc.
Notes to the Financial Statements

Note 6: Net Assets

Net assets with donor restrictions were as follows for the year ended December 31, 2018:

Purpose restricted:

Investigations	\$ 37,216
FARM Transformation	30,000
TV Commercials	90,740
Open Philanthropy	177,132
VegFest	13,725

Designated for future periods:

General Support	100,000
Net Assets with donor restrictions	<u>\$ 448,813</u>

Note 7: Operating Lease

COK leases office space under cancellable and non-cancellable operating leases. The non-cancellable lease expires in 2021. Total rent expense for 2018 was \$78,607.

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

Year ending December 31:

2019	57,913
2020	59,651
2021	35,398
	<u>\$ 152,962</u>

Note 8: Concentrations

The Federal Deposit Insurance Corporation insures bank accounts up to \$250,000 at each institution. At December 31, 2018, COK exceeded the insured limit by \$4,956.

For the year ended December 31, 2018, three donors accounted for 81% of contributions receivable.