

PACIFIC JUSTICE INSTITUTE
(A California Nonprofit Corporation)

FINANCIAL STATEMENTS

MAY 31, 2019

(With Independent Auditors' Report Thereon)

PACIFIC JUSTICE INSTITUTE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pacific Justice Institute
Sacramento, California

We have audited the accompanying financial statements of Pacific Justice Institute, which comprise the statement of financial position as of May 31, 2019 and the related statement of activities, statement of functional expenses and statement of 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 my 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 of 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 Pacific Justice Institute, as of May 31, 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

KPM Accounting & Management Solutions

KPM Accounting & Management Solutions

San Francisco, California
September 30, 2019

PACIFIC JUSTICE INSTITUTE
(A California Nonprofit Corporation)
STATEMENT OF FINANCIAL POSITION
MAY 31, 2019

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 1,011,730
Investments (Note 4)	99,734
Prepaid expenses	<u>20,348</u>
Total Current Assets	<u>1,131,812</u>
Noncurrent Assets:	
Furniture, equipment and automobiles, net (Note 3)	2,301
Investment in Limited Liability Company (Note 5)	396,000
Asset held for deferred compensation (Note 6)	41,066
Split-dollar life insurance note receivable - related party (Note 7)	<u>700,000</u>
Total Noncurrent Assets	<u>1,139,367</u>
Total Assets	<u><u>\$ 2,271,179</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable and accrued expenses	\$ 137,374
Net Assets:	
Without donor restrictions	<u>2,133,805</u>
Total Liabilities and Net Assets	<u><u>\$ 2,271,179</u></u>

See accompanying notes to financial statements.

PACIFIC JUSTICE INSTITUTE
(A California Nonprofit Corporation)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED MAY 31, 2019

WITHOUT DONOR RESTRICTIONS

Support and revenues:	
Contributions	\$ 2,690,066
Donated facilities (Note 8)	102,547
Donated services (Note 8)	525,000
Special event income	231,576
Special event expenses	(188,095)
Investment income - net	4,167
Miscellaneous income	257
Total support and revenues	<u>3,365,518</u>
Expenses:	
Program services:	
Legal services and outreach program	2,292,105
Support services:	
Management and general	283,397
Fundraising	117,037
Total support services	<u>400,434</u>
Total expenses	<u>2,692,539</u>
Change in net assets	672,979
Net assets, beginning of year	<u>1,460,826</u>
Net assets, end of year	<u><u>\$ 2,133,805</u></u>

See accompanying notes to financial statements.

PACIFIC JUSTICE INSTITUTE
(A California Nonprofit Corporation)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MAY 31, 2019

	Legal			
	Services and Outreach Program	Management and General	Fundraising	Totals
Salaries and wages	\$ 706,484	\$ 133,647	\$ 44,549	\$ 884,680
Payroll taxes	24,820	22,815	2,507	50,142
Employee benefits	41,001	5,857	1,953	48,811
Total Personnel	<u>772,305</u>	<u>162,319</u>	<u>49,009</u>	<u>983,633</u>
Legal services	578,721	-	-	578,721
Occupancy	79,474	23,073	-	102,547
Printing & publications	64,385	19,044	7,255	90,684
Travel	43,024	3,073	15,366	61,463
Professional fees	29,074	4,220	13,599	46,893
Postage	20,114	2,928	2,419	25,461
Telephone	5,688	10,916	1,743	18,347
Insurance	6,503	13,334	484	20,321
Conferences and seminars	7,147	-	1,677	8,824
Membership dues and subscriptions	12,333	5,541	-	17,874
Computer/computer supplies	1,757	1,558	-	3,315
Bank fees	3,074	9,088	1,203	13,365
Office supplies	3,690	-	1,507	5,197
Advertising	5,515	2,313	1,067	8,895
Contribution to PJI Foundation, LLC	530,567	-	-	530,567
Grants and other assistance to organizations	52,990	-	-	52,990
Meal	5,753	1,261	867	7,881
Depreciation	4,881	1,479	1,035	7,395
Media studio expenses	8,120	-	3,821	11,941
Utilities	2,915	649	271	3,835
Intern	263	1,537	222	2,022
Advisory Board Meeting	14,415	13,850	-	28,265
Shipping	2,925	1,143	503	4,571
Gifts	-	1,176	480	1,656
Copy and fax services	2,412	822	420	3,654
Miscellaneous	3,483	3,969	466	7,918
Web consulting and internet	30,234	-	13,583	43,817
Tax	-	-	-	-
Interest	282	80	40	402
Video/audio equipment	61	24	-	85
Total expenses	<u>\$ 2,292,105</u>	<u>\$ 283,397</u>	<u>\$ 117,037</u>	<u>\$ 2,692,539</u>

See accompanying notes to financial statements

PACIFIC JUSTICE INSTITUTE
(A California Nonprofit Corporation)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MAY 31, 2019

Cash flows from operating activities:	
Change in net assets	\$ 672,979
Adjustments to reconcile change in net assets to net cash used for operating activities	
Depreciation	7,395
Net unrealized gain on investments	(10,503)
Investment in Limited Liability Company contribution	(396,000)
Net realized loss on investments	10,848
(Increase) decrease in assets:	
Prepaid expenses	(16,603)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(8,509)
Net cash provided by operating activities	<u>259,607</u>
Cash flows from investing activities:	
Purchase investments	(11,384)
Purchase asset held for deferred compensation	(41,066)
Net cash (used in) investing activities	<u>(52,450)</u>
Cash flows from financing activities:	
Loan payable - principal payments	(9,050)
Net cash (used in) financing activities	<u>(9,050)</u>
Net increase in cash and cash equivalents	198,107
Cash and cash equivalents, beginning of year	<u>813,623</u>
Cash and cash equivalents, end of year	<u>\$ 1,011,730</u>
Supplemental Disclosure:	
Cash paid for interest	<u>\$ 402</u>

See accompanying notes to financial statements.

PACIFIC JUSTICE INSTITUTE
(A California Nonprofit Corporation)
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019

(1) CHANGE IN ACCOUNTING PRINCIPLE

Effective June 1, 2018, Pacific Justice Institute (“Institute”) adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. ASU 2016-14 is effective for financial statements issued for fiscal years beginning after December 15, 2017.

Implementation of ASU 2016-14 did not require reclassification or restatement of any opening balances related to the period presented. The Institute’s net assets previously reported as temporarily restricted are now reported as net assets with donor restrictions. Likewise, the Institute’s net assets previously reported as unrestricted are now reported as net assets without donor restrictions. The Institute did not have any permanently restricted net assets.

(2) ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Organization and nature of activities

The Institute, a nonprofit corporation, is organized under the laws of the State of California for the purpose of providing legal assistance, education and seminars on Constitutional issues. The Institute is supported primarily through contributions.

Programs

The legal services and outreach program provide specific assistance to individuals and corporations with an interest in Constitutional issues. These services are provided free of charge. The Institute has created video outreach products and conducts educational seminars to increase public awareness about current cases and issues as they arise.

(b) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP). Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor- imposed restrictions.

PACIFIC JUSTICE INSTITUTE
(A California Nonprofit Corporation)
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019

(2) ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

(c) Basis of Presentation

The Institute's net assets and changes thereto are classified and reported as follows:

- Net assets without donor restrictions – consists of amounts that are available for use in carrying out the supporting activities of the Institute and are not subject to donor-imposed stipulations.
- Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Institute and/or passage of time. When a restriction is satisfied, the associated amount is reclassified from net assets with donor restrictions to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. The Institute had no net assets with donor restrictions as of May 31, 2019.

(d) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Institute considers all highly liquid investments available for current use with an initial maturity of 90 days or less to be cash equivalents. Cash and cash equivalents include cash in banks, cash reserves and money market accounts in a brokerage house.

(e) Furniture, Equipment and Automobiles

Furniture, equipment and automobiles are stated at cost or, if donated, at estimated fair value on the date of the gift. The Institute capitalizes assets with a cost greater than \$1,000 and a life expectancy of more than one year. Maintenance and repair costs are expensed as incurred. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, which are as follows:

Computer equipment	3 years
Automobile and video equipment	5 years
Office equipment and furniture	7 years

Depreciation expense charged to operations was \$7,395 for the year ended May 31, 2019.

(f) Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide the overall support and direction of the Institute.

PACIFIC JUSTICE INSTITUTE
(A California Nonprofit Corporation)
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019

(2) ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

(g) 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. These estimates and assumptions affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(h) Income Taxes

The Institute is a qualified organization exempt from Federal income and California franchise taxes under the provisions of Sections 501(c)(3) of the Internal Revenue Code and 23701(d) of the California Revenue and Taxation Code, respectively.

(i) Fair Value

The Institute utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The carrying value of the Company's cash, accounts receivable, accounts payable, and line of credit approximated fair value as of May 31, 2019.

(j) Liquidity

Assets are presented in the accompanying statement of financial position according to their nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash.

PACIFIC JUSTICE INSTITUTE
(A California Nonprofit Corporation)
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019

(3) FURNITURE, EQUIPMENT AND AUTOMOBILES

Furniture, equipment and automobiles at May 31, 2019 consisted of the following:

Computer equipment	\$ 27,239
Video equipment	6,070
Automobile	63,422
Office equipment and furniture	26,900
Sub-total	123,631
Less: Accumulated depreciation	(121,330)
Furniture, equipment and automobiles, net	\$ 2,301

(4) INVESTMENTS - FAIR VALUE OF FINANCIAL INSTRUMENTS (ASC 820)

Below are the Company's financial instruments carried at fair value on a recurring basis by ASC 820 fair value hierarchy levels:

	Quoted Prices in Active Market for Identical Assets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value
	(Level 1)	(Level 2)	(Level 3)	
Marketable Securities	\$ 99,734	\$ -	\$ -	\$ 99,734

The marketable securities held by the Institute are classified as trading securities. Any gain or loss due to changes in fair market value are reported on the income statement. For the year ended May 31, 2019, the Institute recorded a net realized loss of (\$10,848), net unrealized gains of \$10,503 and \$1,397 in dividends.

(5) INVESTMENT IN LIMITED LIABILITY COMPANY

In December 2018 the Institute received a contribution in the amount of \$396,000 for a ninety-nine percent (99%) interest in a limited liability company (LLC). The LLC was created in 2018 to hold and manage investment assets only. Only investment income can be created and reported to the Institute on a year-end K-1. If the manager of the LLC chooses to make a distribution to the owners, the Institute will be entitled to 99% of the distribution. The LLC term is for 40 years. Upon liquidation of the LLC, the Institute will receive 99% of the liquidation value. The ownership units are freely transferrable by the Institute without restriction. All reportable income and investment income will be recorded in the Institute's Statement of Activities at year-end. As of May 31, 2019, there was no reportable investment income recorded from the LLC.

PACIFIC JUSTICE INSTITUTE
(A California Nonprofit Corporation)
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019

(6) ASSET HELD FOR DEFERRED COMPENSATION

In 2018 management purchased a Section 457(f) deferred compensation plan for an executive employee in the amount of \$42,000. The plan will fully vest in ten years (2028) at which time the executive employee will receive the original deposit plus interest earned. If the employee leaves before 2028 he will receive nothing. As of May 31, 2019, the asset balance is \$41,066 and \$1,982 of interest income has been earned.

(7) SPLIT-DOLLAR LIFE INSURANCE NOTE RECEIVABLE – RELATED PARTY

On February 23, 2018, the Institute entered into a Split-Dollar loan agreement and a Non-Recourse revolving promissory note to fund life insurance payments for the founder of the Institute. The agreement designates the Founder as the owner of the policy and calls for the Institute to pay all premiums on the policy. The Founder as the owner of the policy has sole control over the listed beneficiaries.

The loan is subject to a collateral assignment which provides security for the Founder’s indebtedness to the Institute arising out of the Premium Advances (“the Liability”). The Liability shall equal the sum of all Premium Advances. The Collateral Assignment shall give the Institute the right to collect an amount equal to the Liability as follows:

- Out of the proceeds of the Contract upon the death of the founder, or
- From the cash value of the Contract in the event that the Contract lapses, or the Contract is surrendered or cancelled before the death of the Founder.

The Note has no interest and the principal balance on the Note is due and payable by the Founder upon demand of the Institute or upon the earlier occurring death of the Founder.

The Institute has paid \$700,000 to date which is the “Initial Premium”. The Institute will make “Additional Premium” payments according the schedule below.

<u>Additional Premiums</u>	<u>Payment Date</u>
\$50,000	March 3, 2020
\$50,000	March 3, 2021
\$50,000	March 3, 2022
\$50,000	March 3, 2023
\$50,000	March 3, 2024

The Institute and the Founder agree and acknowledge that it is reasonable to expect, that the Premium Advances made under the agreement will be paid in full, and to make and file written representations in the manner prescribed by Treasury Regulation Section 1.7872-15(d)(2).

(8) DONATED SERVICES AND FACILITIES

During the year ended May 31, 2019, the Institute received the benefit of contributed office facilities and professional legal services which is reflected in the accompanying Statement of Activities and Changes in Net Assets. The Institute has estimated the approximate fair value of the annual rent and legal services to be \$102,547 and \$525,000, respectively.

PACIFIC JUSTICE INSTITUTE
(A California Nonprofit Corporation)
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019

(9) AVAILABILITY AND LIQUIDITY

The following represent Pacific Justice Institute’s financial assets at May 31, 2019 and 2018:

	2019	2018
Financial assets available to be used within one year:		
Cash and cash equivalents	\$ 1,008,814	\$ 813,623
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(3,820)	(3,820)
Financial assets available to meet general expenditures over the next twelve months.	\$ 1,004,994	\$ 809,803

PJI’s goal is generally to maintain financial assets, which consist of cash and cash equivalents on hand to meet 6 months of normal operating expenses, which are, on average around, \$843,816. The remainder can be invested into regular portfolio investments as approved by the Board of Directors. This is discussed regularly in the Board Meetings and requires a vote to transfer funds. In the event of an unanticipated liquidity need, the Board can make a request for a grant from other non-profits with similar goals or PJI can borrow against the \$700,000 split-dollar loan or call the proceeds from the loan back.

(10) RELATED-PARTY TRANSACTION

In June 2018 PJI formed a nonprofit limited liability Company (LLC) called PJI Foundation, LLC (Foundation). The Foundation is a subsidiary of PJI and was formed under the Virginia Limited Liability Company Act provisions of Chapter 12 of Title 13.1 of the Code of Virginia. It is organized for religious, charitable, and educational purposes including but not limited to helping fund the religious, charitable, and educational purposes of its sole member, PJI. In November 2018 PJI contributed \$530,567 to the Foundation.

(11) SUBSEQUENT EVENTS

The Institute has evaluated subsequent events through September 30, 2019 the date which the financial statements were available to be issued. No subsequent events were identified that required accrual or disclosure in the financial statements.