

**PACIFIC JUSTICE INSTITUTE**  
*(A California Nonprofit Corporation)*

**FINANCIAL STATEMENTS**

**MAY 31, 2021**

**(with comparative financial information for the year ended May 31, 2020)**

**(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 (Institute), which comprise the statement of financial position as of May 31, 2021, 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, 2021, 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.

***Other Matters***

***Report on Summarized Comparative Information***

We have previously audited the Institute's May 31, 2020, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 2, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2020, is consistent, in all material respects, with the May 31, 2020, audited financial statements from which it has been derived.

*KPM Accounting & Management Solutions*

KPM Accounting & Management Solutions

San Ramon, California

September 30, 2021

**PACIFIC JUSTICE INSTITUTE**  
*(A California Nonprofit Corporation)*  
**STATEMENT OF FINANCIAL POSITION**  
**MAY 31, 2021**  
**(with comparative financial information as of May 31, 2020)**

	<b>ASSETS</b>		<b>2021</b>	<b>2020</b>
Current Assets:				
Cash and cash equivalents		\$	871,408	\$ 868,308
Investments (Note 6)			331,712	300,098
Prepaid expenses			29,184	27,164
Total Current Assets			1,232,304	1,195,570
Noncurrent Assets:				
Investment in Limited Liability Company (Note 3)			49,891	55,431
Furniture, equipment and automobiles, net (Note 4)			39,608	2,146
Asset held for deferred compensation (Note 5)			191,923	135,082
Split-dollar life insurance note receivable - related party (Note 9)			800,000	750,000
Total Noncurrent Assets			1,081,422	942,659
Total Assets		\$	2,313,726	\$ 2,138,229

**LIABILITIES AND NET ASSETS**

Current Liabilities:				
Accounts payable and accrued expenses		\$	218,520	\$ 135,558
Note payable			31,711	-
Government grant advance - PPP loan (Note 10)			-	159,000
Total current liabilities			250,231	294,558
Net Assets:				
Without donor restrictions			2,063,495	1,843,671
Total Liabilities and Net Assets		\$	2,313,726	\$ 2,138,229

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, 2021**  
**(with comparative financial information as of May 31, 2020)**

	<b>Without Donor Restrictions</b>	
	<b>2021</b>	<b>2020</b>
Support and revenues:		
Contributions	\$ 3,411,918	\$ 2,650,851
Government grant advance - PPP loan	159,000	-
Donated facilities (Note 12)	78,357	78,357
Donated services (Note 12)	525,000	525,000
Special event income	138,150	90,458
Special event expenses	(76,416)	(158,310)
Investment income - net	44,923	12,934
Investment in LLC - loss	(5,540)	(190,569)
Miscellaneous income	3,959	4,609
Total support and revenues	4,279,351	3,013,330
Expenses:		
Program services:		
Legal services and outreach program	3,545,214	2,817,032
Support services:		
Management and general	385,450	272,906
Fundraising	128,863	113,526
Total support services	514,313	386,432
Total expenses	4,059,527	3,203,464
Change in net assets	219,824	(190,134)
Net assets, beginning of year	1,843,671	2,033,805
Net assets, end of year	\$ 2,063,495	\$ 1,843,671

See accompanying notes to financial statements.

**PACIFIC JUSTICE INSTITUTE**  
**(A California Nonprofit Corporation)**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED MAY 31, 2021**  
**(with summarized financial information as of May 31, 2020)**

	<b>Legal Services and</b>				
	<b>Outreach Program</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>2021 Totals</b>	<b>2020 Totals</b>
Salaries and wages	\$ 882,347	\$ 164,286	\$ 43,610	\$ 1,090,243	\$ 955,193
Payroll taxes	48,552	13,595	2,589	64,736	55,847
Employee benefits	54,595	10,918	2,731	68,244	65,207
Total Personnel	985,494	188,799	48,930	1,223,223	1,076,247
Contributions to PJI Foundation	1,500,000	-	-	1,500,000	1,003,806
Legal services	682,072	-	-	682,072	586,091
Printing and publications	99,960	16,876	12,982	129,818	86,245
Occupancy	63,124	13,414	2,367	78,905	78,357
Membership, dues, and subscriptions	15,966	47,899	-	63,865	21,557
Professional fees	10,786	29,662	13,483	53,931	35,660
Media studio expenses	32,426	-	13,897	46,323	18,130
Travel	26,335	1,881	9,405	37,621	68,810
Advertising	27,513	1,834	7,337	36,684	52,918
Postage	31,073	1,072	3,572	35,717	31,468
Web consulting and internet	19,703	3,031	7,578	30,312	32,708
Miscellaneous	9,607	16,012	1,068	26,687	3,671
Bank fees	2,646	23,817	-	26,463	21,998
Insurance	3,600	14,039	360	17,999	19,074
Telephone	4,128	9,938	1,223	15,289	13,413
Conferences and seminars	9,034	-	1,594	10,628	11,631
Office supplies	5,892	1,211	969	8,072	6,232
Computer and computer supplies	3,059	3,399	340	6,798	447
Advisory board meeting	2,552	3,510	319	6,381	3,526
Meal	2,692	1,469	734	4,895	10,053
Intern	759	2,655	379	3,793	7,206
Depreciation	2,194	665	465	3,324	155
Copy, fax, and copy services	2,321	310	464	3,095	3,401
Utilities	584	2,191	146	2,921	6,067
Shipping	1,570	856	428	2,854	2,993
Gifts	91	908	817	1,816	1,042
Interest	33	2	6	41	432
Taxes	-	-	-	-	125
Total functional expenses	\$ 3,545,214	\$ 385,450	\$ 128,863	\$ 4,059,527	\$ 3,203,464

See accompanying notes to financial statements.

**PACIFIC JUSTICE INSTITUTE**  
**(A California Nonprofit Corporation)**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED MAY 31, 2021**  
**(with comparative financial information as of May 31, 2020)**

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 219,824	\$ (190,134)
Adjustments to reconcile change in net assets to net cash used for operating activities		
Depreciation	3,324	155
Government grant advance - PPC loan forgiveness	(159,000)	-
Dividends and interest received on investments	(10,040)	(4,357)
Net realized and unrealized (gain) / loss on investments	(21,574)	2,124
Investment in LLC - charitable contributions	-	87,605
Investment in LLC - distributions to PJI	-	150,000
Investment in LLC - interest income	(489)	(1,045)
Net ordinary loss on investment in LLC	6,029	4,009
(Increase) decrease in assets:		
Prepaid expenses	(2,020)	(6,815)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	82,962	(1,816)
Net cash provided by operating activities	<u>119,016</u>	<u>39,726</u>
Cash flows from investing activities:		
Purchase investments	-	(198,132)
Purchase vehicle	(40,786)	-
Increase in split-dollar life insurance note receivable	(50,000)	(50,000)
Purchase asset held for deferred compensation	(56,841)	(94,016)
Net cash (used in) investing activities	<u>(147,627)</u>	<u>(342,148)</u>
Cash flows from financing activities:		
Proceeds from note payable	31,711	-
Proceeds from government grant advance - PPP loan	-	159,000
Net cash provided by financing activities	<u>31,711</u>	<u>159,000</u>
Net increase / (decrease) in cash and cash equivalents	3,100	(143,422)
Cash and cash equivalents, beginning of year	<u>868,308</u>	<u>1,011,730</u>
Cash and cash equivalents, end of year	<u>\$ 871,408</u>	<u>\$ 868,308</u>

See accompanying notes to financial statements.



**PACIFIC JUSTICE INSTITUTE**  
*(A California Nonprofit Corporation)*  
**NOTES TO FINANCIAL STATEMENTS**

**MAY 31, 2021**

**(with comparative financial information as of May 31, 2020)**

**(1) ORGANIZATION AND NATURE OF ACTIVITIES**

*(a) Organization and nature of activities*

Pacific Justice Institute (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.

**(2) SIGNIFICANT ACCOUNTING POLICIES**

*(a) 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.

*(b) 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, 2021, and 2020.

*(c) 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.

**PACIFIC JUSTICE INSTITUTE**  
*(A California Nonprofit Corporation)*  
**NOTES TO FINANCIAL STATEMENTS**

**MAY 31, 2021**

**(with comparative financial information as of May 31, 2020)**

**(2) SIGNIFICANT ACCOUNTING POLICIES – continued**

***(d) 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 \$3,324 and \$155 for the years ended May 31, 2021, and 2020, respectively.

***(e) 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 based on 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.

***(f) 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 Institute 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 Institute's cash, accounts receivable, accounts payable, and line of credit approximated fair value as of May 31, 2021, and 2020.

**PACIFIC JUSTICE INSTITUTE**  
**(A California Nonprofit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**MAY 31, 2021**

**(with comparative financial information as of May 31, 2020)**

**(2) 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) 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.

**(3) 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 (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. The LLC had an ordinary loss of \$(6,029) and interest income of \$489 for the year ended May 31, 2021. The LLC dispersed \$187,605 in contributions, had a (\$4,009) ordinary loss, interest income of \$1,045 and a \$150,000 distribution for the year ended May 31, 2020. The Institute’s investment in LLC was \$49,891 and \$55,431 for the years ended May 31, 2021, and 2020, respectively.

**(4) FURNITURE, EQUIPMENT AND AUTOMOBILES**

Furniture, equipment and automobiles on May 31, 2021, and 2020 consist of the following:

	<b>2021</b>	<b>2020</b>
Computer and video equipment	\$ 27,239	\$ 33,309
Automobile	40,786	63,422
Office equipment and furniture	32,970	26,900
Sub-total	100,995	123,631
Less: accumulated depreciation	( 61,387 )	( 121,485 )
Furniture, equipment and automobiles, net	<u>\$ 39,608</u>	<u>\$ 2,146</u>

**PACIFIC JUSTICE INSTITUTE**  
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**NOTES TO FINANCIAL STATEMENTS**

**MAY 31, 2021**

**(with comparative financial information as of May 31, 2020)**

**(5) ASSET HELD FOR DEFERRED COMPENSATION**

In 2019 management purchased a Section 457(f) deferred compensation plan with TD Ameritrade to go along with a plan purchased in 2018 with Ignite Funding. The plans are for an executive employee. The Ignite Funding plan was setup with an initial investment of \$42,000. Ignite Funding provides investors with a way to diversify their investment portfolio in Deeds of Trust. The Borrower executes the Promissory Note payable to the Investor (the Institute) with the intent to pay the Institute a certain interest rate on the loaned money, plus repay the principal amount within a specified timeframe. The Institute is recorded as a beneficiary to the property in the event the Borrower defaults on their loan obligation and loses its claim to the property through foreclosure. Principal and interest payments earned by the investor are transferred to the TD Ameritrade Section 457(f) upon receipt.

The Ignite Funding Section 457(f) 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, 2021, and 2020, the combined asset balance of the Ignite Funding and Ameritrade 457(f) is \$191,923 and \$135,082, respectively.

**(6) 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:

Marketable Securities	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
May 31, 2021	\$ 331,712	\$ -	\$ -	\$ 331,712
May 31, 2020	\$ 300,098	\$ -	\$ -	\$ 300,098

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, 2021, the Institute recorded net realized and unrealized gains of \$21,574 and \$6,974 in dividends. For the year ended May 31, 2020, the Institute recorded (\$2,124) in net realized and unrealized losses and \$6,859 in dividends.

**(7) RELATED-PARTY TRANSACTION**

In June 2018 the Institute formed a nonprofit limited liability Company (LLC) called the Pacific Justice Foundation, LLC (Foundation). The Foundation is a subsidiary of the Institute 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, the Institute. The Institute contributed \$1,500,000 and \$1,003,806 to the Foundation for the years ended May 31, 2021, and 2020, respectively.

**PACIFIC JUSTICE INSTITUTE**  
**(A California Nonprofit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**

**MAY 31, 2021**

**(with comparative financial information as of May 31, 2020)**

**(8) AVAILABILITY AND LIQUIDITY**

The following represent Pacific Justice Institute’s financial assets on May 31, 2021, and 2020:

	2021	2020
Financial assets available to be used within one year:		
Cash and cash equivalents	\$ 871,408	\$ 868,308
Less amounts not available to be used within one year:		
Restricted cash	(3,820)	(3,820)
Financial assets available to meet general expenditures over the next twelve months.	\$ 867,588	\$ 1,007,910

The Institute’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 the Institute can borrow against the \$750,000 split-dollar loan or call the proceeds from the loan back.

**(9) 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. For the year ended May 31, 2020, the Institute has paid \$800,000 which includes the \$700,0000 “Initial Premium” plus “Additional Premium” payments of \$100,000. The Institute will continue to make additional premium payments according to the schedule below.

Additional Premiums	Payment Date
\$50,000	March 3, 2022
\$50,000	March 3, 2023
\$50,000	March 3, 2024

**PACIFIC JUSTICE INSTITUTE**  
*(A California Nonprofit Corporation)*  
**NOTES TO FINANCIAL STATEMENTS**  
**MAY 31, 2021**

**(with comparative financial information as of May 31, 2020)**

**(9) SPLIT-DOLLAR LIFE INSURANCE NOTE RECEIVABLE – RELATED PARTY-continued**

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).

**(10) PAYCHECK PROTECTION PROGRAM LOAN (PPP LOAN)**

On April 28, 2021, the Institute received confirmations from the Small Business Administration (SBA) that their Paycheck Protection Program Loan in the amount of \$159,000 has been forgiven. The unforgiven debt is shown in the Statement of Activities and Changes in Net Assets for the current year ending May 31, 2021.

**(11) DONATED SERVICES AND FACILITIES**

During the years ended May 31, 2021, and 2020, 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 to be \$78,357 for the years ended May 31, 2021, and 2020. The legal services for each year ending May 31, 2021, and 2020 were estimated at \$525,000.

**(12) SUBSEQUENT EVENTS**

The Institute has evaluated subsequent events through September 30, 2021, 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.