

**PACIFIC JUSTICE INSTITUTE
AND SUBSIDIARY**

FINANCIAL STATEMENTS

MAY 31, 2023

(With comparative financial information for the year ended May 31, 2022)

(With Independent Auditors' Report Thereon)

**PACIFIC JUSTICE INSTITUTE
AND SUBSIDIARY**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pacific Justice Institute
Sacramento, California

Opinion

We have audited the accompanying consolidated financial statements of Pacific Justice Institute (Institute) and Subsidiary, which comprise the consolidated statement of financial position as of May 31, 2023, and the consolidated related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pacific Justice Institute and Subsidiary as of May 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note (2)(b) to the financial statements, during the year ended December 31, 2022, Healthcare Innovations Network, Inc., adopted new accounting guidance, Accounting Standards Update ("ASU") 2016-02, Topic 842 Leases, as amended. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on Summarized Comparative Information

We have previously audited the Institute’s May 31, 2022, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 15, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2022, is consistent, in all material respects, with the May 31, 2022, audited financial statements from which it has been derived.

KPM Accounting & Management Solutions

KPM Accounting & Management Solutions

San Ramon, California

March 5, 2024

PACIFIC JUSTICE INSTITUTE AND SUBSIDIARY
(A California Nonprofit Corporation)
STATEMENT OF FINANCIAL POSITION
MAY 31, 2023
(with comparative financial information as of May 31, 2022)

ASSETS

| | 2023 | 2022 |
|--|--------------|--------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 324,250 | \$ 935,341 |
| Investments (Note 5) | 1,976,060 | 1,234,802 |
| Subsidiary - Pacific Justice Institute, LLC assets (Note 6) | 5,271,261 | 5,431,563 |
| Prepaid expenses | 124,832 | 72,781 |
| Total Current Assets | 7,696,403 | 7,674,487 |
| Noncurrent Assets: | | |
| Investment in 4 for one LLC (Note 3) | 27,023 | 27,023 |
| Furniture, equipment and automobiles, net (Note 7) | 24,332 | 32,821 |
| Asset held for deferred compensation (Note 4) | 275,456 | 304,362 |
| Split-dollar life insurance note receivable - related party (Note 8) | 1,000,000 | 800,000 |
| Total Noncurrent Assets | 1,326,811 | 1,164,206 |
| Total Assets | \$ 9,023,214 | \$ 8,838,693 |

LIABILITIES AND NET ASSETS

| | | |
|---------------------------------------|--------------|--------------|
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ 349,102 | \$ 346,143 |
| Note payable | 11,117 | 23,814 |
| Total current liabilities | 360,219 | 369,957 |
| Net Assets: | | |
| Without donor restrictions | 8,662,995 | 8,468,736 |
| Total Liabilities and Net Assets | \$ 9,023,214 | \$ 8,838,693 |

See accompanying notes to financial statements.

PACIFIC JUSTICE INSTITUTE AND SUBSIDIARY
(A California Nonprofit Corporation)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED MAY 31, 2023
(with comparative financial information as of May 31, 2022)

| | Without Donor Restrictions | |
|--|---------------------------------------|--------------|
| | 2023 | 2022 |
| Support and revenues: | | |
| Contributions | \$ 4,581,419 | \$ 4,650,598 |
| Subsidiary - PJI Foundation LLC Contributions - (Note 6) | - | 5,191,062 |
| Donated facilities (Note 9) | 78,357 | 84,887 |
| Donated services (Note 9) | 525,000 | 525,000 |
| Special event income | 56,665 | 67,600 |
| Special event expenses | (318,369) | (142,413) |
| Subsidiary - PJI Foundation LLC Realized and unrealized gains (Note 6) | (160,302) | 240,501 |
| Pacific Justice Institute - Investment income - net | (32,052) | 126,553 |
| Investment in 4 for one LLC - loss | - | (22,868) |
| Total support and revenues | 4,730,718 | 10,720,920 |
| Expenses: | | |
| Program services: | | |
| Legal services and outreach program | 3,574,418 | 3,464,013 |
| Support services: | | |
| Management and general | 689,342 | 625,595 |
| Fundraising | 272,699 | 226,071 |
| Total support services | 962,041 | 851,666 |
| Total expenses | 4,536,459 | 4,315,679 |
| Change in net assets | 194,259 | 6,405,241 |
| Net assets, beginning of year | 8,468,736 | 2,063,495 |
| Net assets, end of year | \$ 8,662,995 | \$ 8,468,736 |

See accompanying notes to financial statements.

PACIFIC JUSTICE INSTITUTE AND SUBSIDIARY
(A California Nonprofit Corporation)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MAY 31, 2023
(with summarized financial information as of May 31, 2022)

| | Legal Services and Outreach | | | 2023 Totals | 2022 Totals |
|--|--|-----------------------------------|--------------------|------------------------|------------------------|
| | Program | Management and General | Fundraising | | |
| Salaries and wages | \$ 1,806,038 | \$ 308,348 | \$ 88,099 | \$ 2,202,485 | \$ 1,654,526 |
| Payroll taxes | 82,429 | 56,399 | 5,785 | 144,613 | 106,985 |
| Employee benefits | 81,101 | 16,219 | 4,056 | 101,376 | 110,891 |
| Total Personnel | 1,969,568 | 380,966 | 97,940 | 2,448,474 | 1,872,402 |
| Contribution to PJI Foundation | - | - | - | - | 700,000 |
| Legal services | 844,332 | - | - | 844,332 | 653,530 |
| Occupancy | 66,174 | 14,526 | - | 80,700 | 87,932 |
| Printing, materials, & publications | 138,356 | 8,139 | 16,277 | 162,772 | 122,967 |
| Travel | 94,735 | 6,766 | 33,835 | 135,336 | 110,794 |
| Professional fees | 21,514 | 86,055 | 15,367 | 122,936 | 103,576 |
| Postage | 50,153 | 2,477 | 9,287 | 61,917 | 50,033 |
| Telephone | 6,859 | 13,719 | 2,286 | 22,864 | 19,018 |
| Insurance | 2,515 | 21,378 | 1,258 | 25,151 | 34,463 |
| Conferences and seminars | 19,871 | 1,325 | 5,299 | 26,495 | 18,026 |
| Membership dues and subscriptions | 61,117 | 96,041 | 17,462 | 174,620 | 175,628 |
| Computer/Computer supplies | 6,417 | 16,683 | 2,567 | 25,667 | 23,960 |
| Bank fees | 458 | 6,940 | 229 | 7,627 | 11,988 |
| Office supplies | 9,257 | 6,480 | 2,777 | 18,514 | 96,746 |
| Advertising | 143,599 | - | 42,893 | 186,492 | 19,639 |
| Grants & other assistance to organizations | 76,000 | - | - | 76,000 | 17,000 |
| Meal | 2,011 | 7,373 | 4,021 | 13,405 | 15,976 |
| Depreciation | 4,669 | 2,546 | 1,273 | 8,488 | 8,313 |
| Media studio expenses | 25,547 | - | 8,516 | 34,063 | 95,941 |
| Utilities | 2,258 | 2,822 | 564 | 5,644 | 4,742 |
| Advisory Board Meeting | 8,816 | 5,142 | 735 | 14,693 | 23,674 |
| Shipping | 6,908 | 1,974 | 987 | 9,869 | 11,933 |
| Gifts | - | 360 | 294 | 654 | 3,282 |
| Copy, fax and copy services | 1,521 | 1,087 | 1,739 | 4,347 | 3,400 |
| Miscellaneous | 5,619 | 5,619 | 4,816 | 16,054 | 15,454 |
| Web consulting and internet | 5,619 | 864 | 2,161 | 8,644 | 15,097 |
| Interest | 107 | 33 | 25 | 165 | 165 |
| Video/audio equipment | 418 | 27 | 91 | 536 | - |
| Total expenses | \$ 3,574,418 | \$ 689,342 | \$ 272,699 | \$ 4,536,459 | \$ 4,315,679 |

See accompanying notes to financial statements.

PACIFIC JUSTICE INSTITUTE AN SUBSIDIARY
(A California Nonprofit Corporation)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MAY 31, 2023
(with comparative financial information as of May 31, 2022)

| | 2023 | 2022 |
|---|-------------|--------------|
| Cash flows from operating activities: | | |
| Change in net assets - as restated | \$ 194,259 | \$ 6,405,241 |
| Adjustments to reconcile change in net assets to net cash used for operating activities | | |
| Depreciation | 8,488 | 8,313 |
| Net realized and unrealized (gain) / loss on investments | - | (126,553) |
| Subsidiary - PJI Foundation LLC realized/unrealized gains | 160,302 | (240,501) |
| Investment in 4 for one LLC - interest income | - | (6) |
| Net ordinary loss on investment in 4 for one LLC | - | 22,874 |
| (Increase) decrease in assets: | | |
| Prepaid expenses | (52,051) | (43,597) |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | 2,959 | 127,623 |
| Net cash provided by operating activities | 313,957 | 6,153,394 |
| Cash flows from investing activities: | | |
| Purchase furniture, equipment and automobiles | - | (1,526) |
| Purchase long term investments | (741,257) | (776,537) |
| Subsidiary - PJI Foundation LLC contributions | - | (5,191,062) |
| Net draws for asset held for deferred compensation | 28,906 | (112,439) |
| Net cash (used in) investing activities | (712,351) | (6,081,564) |
| Cash flows from financing activities: | | |
| Increase split dollar callable loan | (200,000) | - |
| Note payable payments | (12,697) | (7,897) |
| Net cash (used in) / provided by financing activities | (212,697) | (7,897) |
| Net increase in cash and cash equivalents | (611,091) | 63,933 |
| Cash and cash equivalents, beginning of year | 935,341 | 871,408 |
| Cash and cash equivalents, end of year | \$ 324,250 | \$ 935,341 |

See accompanying notes to financial statements.

PACIFIC JUSTICE INSTITUTE AND SUBSIDIARY
(A California Nonprofit Corporation)
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2023
(With comparative financial information as of May 31, 2022)

(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.

Subsidiary

Pacific Justice Institute Foundation, LLC (the Foundation) is a company that was organized by Pacific Justice Institute's (the Institute) board as a nonprofit limited liability company under the laws of the Commonwealth of Virginia. The Institute is the sole member. As a result, the entity is recognized as a disregarded entity for the purpose of the Internal Revenue Code. A disregarded entity is not recognized for tax purposes as an entity separate from its owner. The Institute is responsible for the LLCs activities. When owned by a tax-exempt organization, a nonprofit single-member LLC is also considered to be exempt because of the parent and subsidiary relationship. The Institute receives its tax-exempt status through a determination letter sent by the IRS and the nonprofit subsidiary LLC (the Foundation) is exempt because it is owned by the charitable organization. When a contribution is made to the Foundation it is considered a contribution to the Institute and not the Foundation. The Foundation is combined with the Institute's reporting for the year ended May 31, 2023. (Refer to Note (6))

The purpose for which the Foundation has been formed supports the purpose of the Institute and to receive, maintain and administer assets in perpetuity exclusively for religious, charitable, and educational purposes, including the religious, charitable, and educational purposes of the Institute, within the meaning of §501(c)(3) of the Internal Revenue Code of 1986, as amended, (or any corresponding future Internal Revenue law of the United States) ("Code").

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.

PACIFIC JUSTICE INSTITUTE AND SUBSIDIARY
(A California Nonprofit Corporation)
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2023
(With comparative financial information as of May 31, 2022)

(2) SIGNIFICANT ACCOUNTING POLICIES – continued

(b) Adoption of New Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2016-02, *Leases* (Topic 842), as amended. FASB Accounting Standards Codification (“ASC”) 842 supersedes the lease requirements in FASB ASC 840. The new standard requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. It establishes a right of use (“ROU”) that requires the lessee to recognize an ROU asset and lease liability on the balance sheet for all leases with a term longer than twelve months. Leases are classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. The Institute is required to implement the new standard statements on a modified retrospective basis, and to apply the new standard to all leases existing at the date of initial application. Management elected to use the effective date of January 1, 2022, as the date of initial application and elected the package of practical expedients under ASC 842 whereby an entity need not reassess (1) whether any expired or existing leases are or contain leases, (2) the lease classification for any expired or existing leases, and (3) initial direct costs for any existing leases. As of May 31, 2023 the Institute has no leases that meet the requirements of ASC 842.

(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, 2023, and 2022.

(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:

PACIFIC JUSTICE INSTITUTE AND SUBSIDIARY
(A California Nonprofit Corporation)
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2023
(With comparative financial information as of May 31, 2022)

(2) SIGNIFICANT ACCOUNTING POLICIES – continued

(f) Furniture, Equipment and Automobiles – continued

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

Depreciation expense charged to operations was \$8,488 and \$8,313 for the years ended May 31, 2023, and 2022, respectively.

(g) 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.

(h) 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, 2023, and 2022.

(i) 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.

PACIFIC JUSTICE INSTITUTE AND SUBSIDIARY
(A California Nonprofit Corporation)
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2023
(With comparative financial information as of May 31, 2022)

(2) SIGNIFICANT ACCOUNTING POLICIES – continued

(j) *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.

(k) *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 – 4 FOR ONE LLC

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 named (4 For One). If the manager of 4 For One chooses to make a distribution to the owners, the Institute will be entitled to 99% of the distribution. The 4 For One term is for 40 years. Upon liquidation of 4 For One, 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. 4 For One had an ordinary loss of (\$4,133), distributions totaling (\$18,741) and interest income of \$6 for the year ended May 31, 2023. The Institute's investment 4 For One is \$27,023 for the years ended May 31, 2023, and 2022, respectively.

(4) 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, 2023, and 2022, the combined asset balance of the Ignite Funding and Ameritrade 457(f) is \$275,456 and \$304,362 respectively.

PACIFIC JUSTICE INSTITUTE AND SUBSIDIARY
(A California Nonprofit Corporation)
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2023
(With comparative financial information as of May 31, 2022)

(5) 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. 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 statement of activities.

| 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, 2023 | \$ 1,976,060 | \$ - | \$ - | \$ 1,976,060 |
| May 31, 2022 | \$ 1,234,802 | \$ - | \$ - | \$ 1,234,802 |
| Beginning balance – 5/01/2023 | | \$ 1,234,802 | | |
| Cash | | (3,820) | | |
| Fees | | (3,844) | | |
| Interest and dividends | | 53,552 | | |
| Gains | | 4,840 | | |
| Losses | | (109,470) | | |
| Transfers in and out, net | | 800,000 | | |
| Ending balance - 5/31/2023 | | <u>\$ 1,976,060</u> | | |

(6) SUBSIDIARY – PACIFIC JUSTICE FOUNDATION LLC

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 consolidated reporting shows an asset at market value totaling \$5,271,261 in the Statement of Financial Position. The Statement of Activities shows (\$160,302) in net gains and losses for the year ending May 31, 2023.

The cost and market values are as follows on May 31, 2023.

| Category | Cost | Market Value |
|------------------------------|---------------------|---------------------|
| Cash | \$ 16,524 | \$ 16,524 |
| Allocation equity | 145,576 | 135,886 |
| International & other equity | 2,704,845 | 2,934,644 |
| Sector equity | 16,548 | 15,304 |
| Taxable bond | 521,807 | 507,059 |
| U.S. equity | 1,726,355 | 1,822,146 |
| Total including cash | <u>\$ 5,131,655</u> | <u>\$ 5,431,563</u> |
| Less: gains (losses), net | | <u>(160,302)</u> |
| | | <u>\$ 5,271,261</u> |

PACIFIC JUSTICE INSTITUTE AND SUBSIDIARY
(A California Nonprofit Corporation)
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2023
(With comparative financial information as of May 31, 2022)

(7) FURNITURE, EQUIPMENT AND AUTOMOBILES

Furniture, equipment, and automobiles on May 31, 2023, and 2022 consist of the following:

| | <u>2023</u> | <u>2022</u> |
|---|-------------------|-------------------|
| Computer and video equipment | \$ 28,459 | \$ 27,239 |
| Automobile | 40,786 | 40,786 |
| Office equipment and furniture | <u>32,970</u> | <u>34,495</u> |
| Sub-total | 102,215 | 102,520 |
| Less: accumulated depreciation | <u>(77,883)</u> | <u>(69,699)</u> |
| Furniture, equipment and automobiles, net | <u>\$ 24,332</u> | <u>\$ 32,821</u> |

(8) 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 if 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 \$700,000 “Initial Premium” plus “Additional Premium” payments of \$100,000. The Institute will continue to make additional premium payments according to the schedule below.

| <u>Additional Premiums</u> | <u>Payment Date</u> |
|----------------------------|---------------------|
| \$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).

(9) DONATED SERVICES AND FACILITIES

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, 2023, and 2022. The legal services for each year ending May 31, 2023, and 2022 are estimated at \$525,000.

PACIFIC JUSTICE INSTITUTE AND SUBSIDIARY
(A California Nonprofit Corporation)
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2023
(With comparative financial information as of May 31, 2022)

(10) AVAILABILITY AND LIQUIDITY

The following represent Pacific Justice Institute’s financial assets on May 31, 2023:

| Financial assets available to be used within one year: | 2023 |
|--|--------------|
| Cash and cash equivalents | \$ 324,250 |
| Investments | 1,976,060 |
| Less amounts not available to be used within one year: | |
| Restricted cash | (3,820) |
| Financial assets available to meet general expenditures over the next twelve months. | \$ 2,296,490 |

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.

(11) SUBSEQUENT EVENTS

The Institute has evaluated subsequent events through March 5, 2024, 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.