

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

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEAR ENDED MAY 31, 2018

# 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, 2018 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, 2018, 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  
August 27, 2018

**PACIFIC JUSTICE INSTITUTE**  
*(A California Nonprofit Corporation)*  
**STATEMENT OF FINANCIAL POSITION**  
**MAY 31, 2018**

**ASSETS**

Current Assets:	
Cash and cash equivalents	\$ 813,623
Investments (Note 2)	88,695
Prepaid expenses	3,745
Total Current Assets	906,063
Furniture, equipment and automobiles, net of accumulated depreciation of \$113,935 (Note 3)	9,696
Other assets:	
Split-dollar life insurance note receivable - related party (Note 4)	700,000
Total Assets	\$ 1,615,759

**LIABILITIES AND NET ASSETS**

Current Liabilities:	
Accounts payable and accrued expenses	\$ 145,883
Loan payable (Note 5)	9,050
Total Current Liabilities	154,933
Net Assets:	
Unrestricted	1,460,826
Total Net Assets	1,460,826
Total Liabilities and Net Assets	\$ 1,615,759

See accompanying notes to financial statements.

**PACIFIC JUSTICE INSTITUTE**  
*(A California Nonprofit Corporation)*  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MAY 31, 2018**

**UNRESTRICTED NET ASSETS**

Support and revenues:	
Contributions	\$ 1,785,039
Donated facilities (Note 6)	98,110
Donated services (Note 6)	525,000
Special event income	77,691
Special event expenses	(190,270)
Investment income - net	1,214
Miscellaneous income	4,696
Total support and revenues	<u>2,301,480</u>
Expenses:	
Program services:	
Legal services and outreach program	1,674,813
Support services:	
Management and general	225,936
Fundraising	157,413
Total support services	<u>383,349</u>
Total expenses	<u>2,058,162</u>
Change in net assets	243,318
Net assets, beginning of year	<u>1,217,508</u>
Net assets, end of year	<u><u>\$ 1,460,826</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, 2018**

	<b>Legal</b>			
	<b>Services and</b>			
	<b>Outreach</b>	<b>Management</b>	<b>Fundraising</b>	<b>Totals</b>
	<b>Program</b>	<b>and General</b>		
Salaries and wages	\$ 574,427	\$ 87,539	\$ 61,494	\$ 723,460
Payroll taxes	32,510	4,954	3,480	40,944
Employee benefits	44,524	5,901	2,101	52,526
<b>Total Personnel</b>	<b>651,461</b>	<b>98,394</b>	<b>67,075</b>	<b>816,930</b>
Legal services	596,109	9,078	-	605,187
Occupancy	77,016	21,094	-	98,110
Printing & publications	65,492	18,448	8,302	92,242
Advertising	51,948	-	16,018	67,966
Professional fees	31,712	11,002	22,004	64,718
Travel	38,530	1,926	14,586	55,042
Web consulting and internet	28,346	2,617	12,647	43,610
Grants and other assistance to organizations	35,554	-	-	35,554
Postage	17,726	661	3,633	22,020
Membership dues and subscriptions	14,487	5,223	-	19,710
Intern	3,118	12,555	1,180	16,853
Telephone	6,913	5,991	2,458	15,362
Advisory Board Meeting	8,051	6,326	-	14,377
Bank fees	2,651	10,500	1,144	14,295
Insurance	2,550	11,070	166	13,786
Media studio expenses	7,230	-	2,953	10,183
Utilities	5,987	912	641	7,540
Depreciation	5,453	1,253	663	7,369
Conferences and seminars	5,347	-	1,213	6,560
Office supplies	4,050	1,198	456	5,704
Video/audio equipment	4,122	661	305	5,088
Copy, fax and copy services	3,216	873	506	4,595
Shipping	2,813	683	523	4,019
Meal	2,497	808	367	3,672
Miscellaneous	723	2,232	189	3,144
Computer/Computer supplies	1,410	1,244	-	2,654
Gifts	-	949	316	1,265
Interest	259	154	26	439
Tax	42	84	42	168
<b>Total expenses</b>	<b>\$ 1,674,813</b>	<b>\$ 225,936</b>	<b>\$ 157,413</b>	<b>\$ 2,058,162</b>

**PACIFIC JUSTICE INSTITUTE**  
*(A California Nonprofit Corporation)*  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED MAY 31, 2018**

Cash flows from operating activities:	
Change in net assets	\$ 243,318
Adjustments to reconcile change in net assets to net cash used for operating activities	
Depreciation	7,369
Net unrealized loss on investments	11,026
Net realized gain on investments	(11,044)
(Increase) decrease in assets:	
Prepaid expenses	23,695
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	<u>(19,982)</u>
Net cash provided by operating activities	<u>254,382</u>
Cash flows from investing activities:	
Purchase property and equipment	(774)
Split-dollar life insurance premium payment	(700,000)
Cash investment transfers to operating account	589,917
Sale of investments	89,115
Purchase investments	<u>(249,508)</u>
Net cash used provided by investing activities	<u>(271,250)</u>
Cash flows from financing activities:	
Loan payable - principal payments	<u>(7,241)</u>
Net cash used in financing activities	<u>(7,241)</u>
Net increase in cash and cash equivalents	(24,109)
Cash and cash equivalents, beginning of year	<u>837,732</u>
Cash and cash equivalents, end of year	<u>\$ 813,623</u>
Supplemental Disclosure:	
Cash paid for interest	<u>\$ 439</u>

See accompanying notes to financial statements.

**PACIFIC JUSTICE INSTITUTE**  
*(A California Nonprofit Corporation)*  
**NOTES TO FINANCIAL STATEMENTS**  
**MAY 31, 2018**

**(1) ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

*(a) Organization and nature of activities*

Pacific Justice Institute (“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 provides 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. Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred.

*(c) Basis of Presentation*

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Institute and changes therein are classified and reported as follows:

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets - 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 expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. An increase in unrestricted net assets is reported if the restriction expires in the fiscal year in which the contributions are recognized. The Institute has no temporarily restricted net assets for the year ended May 31, 2018.
- Permanently restricted net assets-Net assets subject to donor-imposed stipulations that they be maintained permanently by the Institute. Generally, the donors of these assets permit the Institute to use all or part of the income earned on related investments for general or specific purposes. The Institute does not have permanently restricted net assets for the year ended May 31, 2018.

**PACIFIC JUSTICE INSTITUTE**  
*(A California Nonprofit Corporation)*  
**NOTES TO FINANCIAL STATEMENTS**  
**MAY 31, 2018**

**(1) ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - continued**

*(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
Video equipment	5 years
Automobile	5 years
Office equipment and furniture	7 years

Depreciation expense charged to operations was \$7,369 for the year ended May 31, 2018.

*(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.

*(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.

**PACIFIC JUSTICE INSTITUTE**  
**(A California Nonprofit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**MAY 31, 2018**

**(1) ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - continued**

*(i) Fair Value*

The Company 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, 2018.

**(2) 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 (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Marketable Securities	\$ 88,695	\$ -	\$ -	\$ 88,695

The marketable securities held by the Organization are classified as trading securities. Trading securities are bought for the purpose of selling within a short period of time. Any gain or loss due to changes in fair market value are reported on the income statement. For the year ended May 31, 2017, the Organization recorded net realized loss of (\$11,026) and net unrealized gains of \$11,044.

**PACIFIC JUSTICE INSTITUTE**  
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**NOTES TO FINANCIAL STATEMENTS**  
**MAY 31, 2018**

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

Furniture, equipment and automobiles at May 31, 2017 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	(113,935)
Furniture, equipment and automobiles, net	\$ 9,696

**(4) 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:

- (1) Out of the proceeds of the Contract upon the death of the founder, or
- (2) 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.

Additional Premiums	Payment Date
\$50,000	March 3, 2019
\$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).

**PACIFIC JUSTICE INSTITUTE**  
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**NOTES TO FINANCIAL STATEMENTS**  
**MAY 31, 2018**

**(5) LOAN PAYABLE**

The loan payable in the amount of \$16,291 is secured by an automobile, payable in monthly installments of \$640, including interest at 1.97% and matures in 2019.

Future maturities of long-term debt are as follows:

Year ended May 31,	
2019 current portion	<u>\$ 9,050</u>

**(6) DONATED SERVICES AND FACILITIES**

During the year ended May 31, 2018, 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 \$98,110 and \$525,000, respectively.

**(7) SUBSEQUENT EVENTS**

The Institute has evaluated subsequent events through August 27, 2018 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.