

PACIFIC JUSTICE INSTITUTE
(A California Nonprofit Corporation)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEAR ENDED MAY 31, 2017

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, 2017 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, 2017, 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

Ken Mierzwiniski, CPA

Ken Mierzwiniski, CPA
KPM Accounting & Management Solutions

San Francisco, California
September 21, 2017

PACIFIC JUSTICE INSTITUTE
(A California Nonprofit Corporation)
STATEMENT OF FINANCIAL POSITION
MAY 31, 2017

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 837,732
Investments (Note 2)	518,202
Prepaid expenses	<u>27,440</u>
Total Current Assets	1,383,374
Furniture, equipment and automobiles, net of accumulated depreciation of \$106,566 (Note 3)	<u>16,291</u>
Total Assets	<u><u>\$ 1,399,665</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable and accrued expenses	\$ 165,866
Loan payable - current portion (Note 4)	<u>7,423</u>
Total Current Liabilities	173,289
Long Term Liabilities	
Loan payable - net of current portion (Note 4)	<u>8,868</u>
Total Liabilities	182,157
Net Assets:	
Unrestricted	<u>1,217,508</u>
Total Net Assets	<u>1,217,508</u>
Total Liabilities and Net Assets	<u><u>\$ 1,399,665</u></u>

See accompanying notes to financial statements.

PACIFIC JUSTICE INSTITUTE
(A California Nonprofit Corporation)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2017

UNRESTRICTED NET ASSETS

Support and revenues:	
Contributions	\$ 1,480,507
Donated facilities (Note 5)	70,611
Donated services (Note 5)	525,000
Special event income	90,355
Special event expenses	(146,875)
Investment income - net	29,633
Miscellaneous income	9,497
Total support and revenues	<u>2,058,728</u>
Expenses:	
Program services:	
Legal services and outreach program	1,500,332
Support services:	
Management and general	240,355
Fundraising	127,652
Total support services	<u>368,007</u>
Total expenses	<u>1,868,339</u>
Change in net assets	190,389
Net assets, beginning of year	<u>1,027,119</u>
Net assets, end of year	<u><u>\$ 1,217,508</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, 2017

	Legal Services and Outreach			Management and Fundraising	Total
	Program	General			
Salaries and wages	\$ 541,717	\$ 97,178	\$ 50,312	\$ 689,207	
Payroll taxes	17,339	16,830	1,798	35,967	
Employee benefits	40,509	6,689	1,966	49,164	
Total personnel	599,565	120,697	54,076	774,338	
Legal services	561,057	8,544	-	569,601	
Printing, materials, & publications	68,627	19,332	8,699	96,658	
Occupancy	52,958	17,653	-	70,611	
Advertising	41,651	694	11,053	53,398	
Professional fees	25,036	8,345	15,709	49,090	
Travel	28,888	2,063	10,317	41,268	
Web consulting and internet	25,438	3,230	11,710	40,378	
Postage	21,570	1,323	3,573	26,466	
Telephone	7,802	7,455	2,080	17,337	
Insurance	3,490	12,775	198	16,463	
Bank fees	3,297	8,836	1,055	13,188	
Membership dues and subscriptions	9,998	3,157	-	13,155	
Advisory Board Meeting	7,747	4,358	-	12,105	
Intern	2,013	7,296	755	10,064	
Depreciation	6,419	1,516	981	8,916	
Conferences and seminars	6,571	-	1,643	8,214	
Media studio expenses	5,351	-	2,756	8,107	
Miscellaneous	2,349	4,623	606	7,578	
Computer/Computer supplies	3,955	3,236	-	7,191	
Office supplies	4,968	1,419	710	7,097	
Utilities	4,132	988	390	5,510	
Meal	3,324	665	443	4,432	
Shipping	2,359	893	322	3,574	
Copy, fax and copy services	1,511	378	270	2,159	
Gifts	-	806	269	1,075	
Interest	256	73	37	366	
Total expenses	\$ 1,500,332	\$ 240,355	\$ 127,652	\$ 1,868,339	

See accompanying notes to financial statements.

PACIFIC JUSTICE INSTITUTE
(A California Nonprofit Corporation)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MAY 31, 2017

Cash flows from operating activities:	
Change in net assets	\$ 190,389
Adjustments to reconcile change in net assets to net cash used for operating activities	
Depreciation	8,916
Net unrealized gain on investments	(15,599)
Net realized gain on investments	(13,712)
(Increase) decrease in assets:	
Prepaid expenses	(20,231)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	54,588
Net cash provided by operating activities	<u>204,351</u>
Cash flows from investing activities:	
Sale of investments	45,931
Purchase investments	<u>(45,008)</u>
Net cash used provided by investing activities	<u>923</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	198,033
Cash and cash equivalents, beginning of year	<u>639,699</u>
Cash and cash equivalents, end of year	<u>\$ 837,732</u>
Supplemental Disclosure:	
Cash paid for interest	<u>\$ 366</u>

See accompanying notes to financial statements.

PACIFIC JUSTICE INSTITUTE
(A California Nonprofit Corporation)
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2017

(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, 2017.
- 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, 2017.

PACIFIC JUSTICE INSTITUTE
(A California Nonprofit Corporation)
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2017

(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 \$8,916 for the year ended May 31, 2017.

(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, 2017

(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, 2017.

(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	\$ 518,202	\$ -	\$ -	\$ 518,202

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 gains of \$13,712 and net unrealized gains of \$15,599.

PACIFIC JUSTICE INSTITUTE
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NOTES TO FINANCIAL STATEMENTS
MAY 31, 2017

(3) FURNITURE, EQUIPMENT AND AUTOMOBILES

Furniture, equipment and automobiles at May 31, 2017 consisted of the following:

Computer equipment	\$ 26,465
Video equipment	6,070
Automobile	63,422
Office equipment and furniture	26,900
Sub-total	122,857
Less: Accumulated depreciation	(106,566)
Furniture, equipment and automobiles, net	\$ 16,291

(4) 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,	
2018	\$ 7,423
2019	8,868
Total	\$ 16,291
Less: current portion	(7,423)
Long term portion	\$ 8,868

(5) DONATED SERVICES AND FACILITIES

During the year ended May 31, 2017, 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 \$70,611 and \$525,000, respectively.

(6) SUBSEQUENT EVENTS

The Institute has evaluated subsequent events through September 21, 2017 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.