

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

FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

May 31, 2015

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

May 31, 2015

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## Independent Auditors' Report

Board of Directors  
Pacific Justice Institute  
Sacramento, CA 95827

We have audited the accompanying financial statements of Pacific Justice Institute, which comprise the statement of financial position as of May 31, 2015, and the related statements of activities, functional expenses, and 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 our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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, 2015, 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.

*Hall & Company*

Irvine, California  
June 15, 2016

**PACIFIC JUSTICE INSTITUTE**  
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STATEMENT OF FINANCIAL POSITION

May 31, 2015

**ASSETS**

Current Assets:

Cash and cash equivalents	\$ 592,735
Prepaid Expenses	4,816
Investments	310,109
Total Current Assets	<u>907,660</u>

Furniture, equipment, and automobiles, net of accumulated depreciation of \$88,734 (Note 2)	34,123
	<u>\$ 941,783</u>

**LIABILITIES AND NET ASSETS**

Current Liabilities:

Accounts payable and accrued expenses	\$ 177,969
Loan payable- current	<u>6,588</u>
Total Current Liabilities	184,557

Long Term Liabilities:

Loan Payable-term	<u>24,184</u>
Total Long Term Liabilities	24,184

Total Liabilities	<u>208,741</u>
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Net Assets:

Unrestricted	<u>733,042</u>
Total Net Assets	<u>733,042</u>
Total Liabilities and net assets	<u>\$ 941,783</u>

See accompanying notes to financial statements.

**PACIFIC JUSTICE INSTITUTE**  
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STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MAY 31, 2015

**UNRESTRICTED NET ASSETS**

Support and Revenues:		
Contributions	\$	1,214,893
Donated facilities (Note 3)		78,357
Donated services (Note 3)		525,000
Special event income		105,942
Special event expenses		(142,383)
Investment income - net		11,801
Miscellaneous income		<u>1,243</u>
Total support and revenues		<u>1,794,853</u>
Expenses:		
Program Services		
Legal services and outreach program		1,311,647
Support Services		
Management and General		214,510
Fundraising		<u>72,906</u>
Total support services		<u>287,416</u>
Total expenses		<u>1,599,063</u>
Change in net assets		195,790
Net assets, beginning of year		623,720
Prior period adjustment		<u>(86,469)</u>
Net assets, end of year	\$	<u><u>733,042</u></u>

See accompanying notes to financial statements.

**PACIFIC JUSTICE INSTITUTE**  
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STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED MAY 31, 2015

	<b>Legal Services and Outreach Program</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Totals</b>
Salaries and wages	\$ 445,571	\$ 84,973	\$ 30,726	\$ 561,270
Payroll taxes	18,899	18,344	1,960	39,204
Employee benefits	52,681	8,699	2,557	63,937
Total personnel	<u>517,152</u>	<u>112,016</u>	<u>35,244</u>	<u>664,411</u>
Legal services	539,517	8,216	-	547,733
Occupancy	58,768	19,589	-	78,357
Printing, Edu materials, and publications	50,050	17,208	5,081	72,339
Travel	31,798	2,955	9,107	43,860
Professional fees	18,448	4,332	8,566	31,345
Postage	15,486	2,075	1,630	19,191
Telephone	7,159	8,575	1,556	17,290
Insurance	4,227	11,434	382	16,043
Conferences and seminars	8,673	-	1,984	10,656
Membership dues and subscriptions	5,855	4,790	-	10,645
Computer/Computer supplies	5,161	2,779	-	7,940
Bank fees	1,943	5,208	622	7,774
Advertising	5,224	636	1,800	7,660
Office supplies	6,098	1,143	381	7,622
Grants and other assistance to organizations	7,138	-	-	7,138
Meals	5,334	1,067	711	7,112
Depreciation	5,302	1,060	707	7,070
Media studio expenses	4,267	-	2,198	6,465
Utilities	4,090	978	386	5,454
Intern	528	4,224	528	5,279
Advisory Board Meeting	2,902	1,935	-	4,837
Shipping	2,738	1,037	373	4,148
Gifts	-	1,510	503	2,013
Copy, fax and copy services	1,495	299	199	1,994
Miscellaneous	643	763	120	1,526
Web consulting and internet	983	-	506	1,489
Tax	288	575	288	1,151
Interest	247	49	33	329
Video/audio equipment	132	56	-	188
Total expenses	<u>\$ 1,311,647</u>	<u>\$ 214,510</u>	<u>\$ 72,906</u>	<u>\$ 1,599,063</u>

See accompanying notes to financial statements.

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STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MAY 31, 2015

Cash flows from operating activities:	
Change in net assets	\$ 195,790
Adjustments to reconcile change in net assets to net cash used for operating activities	
Depreciation expense	7,070
Changes in operating assets and liabilities:	
Prepaid expenses and other current assets	(4,816)
Accounts payable and accrued expenses	22,322
Accrued compensation	<u>30,213</u>
Net cash provided by operating activities	<u>250,579</u>
Cash flows from investing activities:	
Cash used for Investing	(310,109)
Purchases of property and equipment	<u>(1,393)</u>
Net cash used in investing activities	<u>(311,502)</u>
Net decrease in cash and cash equivalents	(60,923)
Cash and cash equivalents, beginning of year	<u>653,658</u>
Cash and cash equivalents, end of year	<u><u>\$ 592,735</u></u>

Supplemental Disclosure of cash flow information

Supplemental Disclosures

Cash paid for the year ended May 31, 2015:	
Interest	329

There was one item of non-cash financing during the year. A vehicle costing \$36,202 was purchased in exchange for a note payable.

See accompanying notes to financial statements.

**PACIFIC JUSTICE INSTITUTE**  
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NOTES TO FINANCIAL STATEMENTS

MAY 31, 2015

**(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, 2015.
- 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, 2015.



**PACIFIC JUSTICE INSTITUTE**  
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NOTES TO FINANCIAL STATEMENTS

MAY 31, 2015

**(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 \$7,070 for the year ended May 31, 2015.

***(f) Donated Goods and Services***

Donated labor consisting of volunteer labor is recognized as contribution revenue in the financial statements if such labor is ordinarily purchased and of a specialized nature. The Institute's hours of service provided by licensed attorneys on behalf of clients are valued at average market rates for these services. Legal services donated for the year ended May 31, 2015 were \$525,000.

***(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 on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide the overall support and direction of the Institute.

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

MAY 31, 2015

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

***(h) 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.

***(i) 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.

***(j) 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 payable, and investments approximated fair value as of May 31, 2015.

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NOTES TO FINANCIAL STATEMENTS

MAY 31, 2015

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

Furniture, equipment and automobiles at May 31, 2015 consisted of the following:

Computer equipment	\$ 26,465
Video equipment	6,070
Automobile	63,422
Office equipment and furniture	<u>26,900</u>
Sub-total	122,857
Less: Accumulated depreciation	<u>(88,734)</u>
Furniture, equipment and automobiles, net	\$ <u>34,123</u>

**(3) DONATED SERVICES AND FACILITIES**

During the year ended May 31, 2015, 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 \$78,357 and \$525,000, respectively.

**(4) PRIOR PERIOD ADJUSTMENT**

While preparing the financial statements, some errors from prior accounting periods were discovered. Previously, the institute had not been accruing the correct amount of vacation owed to employees. In addition, there were some errors in the accounts payable account. Liabilities had been over accrued. Below is the specific numbers for each of these errors.

Vacation Payable	99,737
Accounts Payable	<u>(13,268)</u>
Total prior period adjustment	86,469

The errors resulted in liabilities for the prior period being understated by \$86,469 and net income overstated by \$86,469. Retained earnings was reduced by this amount as of June 1, 2014 to compensate for this error.

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NOTES TO FINANCIAL STATEMENTS

MAY 31, 2015

**(5) 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:

As of May 31, 2015				
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Assets:</b>				
Marketable securities	\$ 310,109	\$ -	\$ -	\$ 310,109
	\$ 310,109	\$ -	\$ -	\$ 310,109

The marketable securities held by the Company 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 ending May 31, 2015, the Company recorded realized gain of \$2,110 and unrealized gain of \$8,696.

**(6) LOAN PAYABLE**

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

The maturities for the loan payable for the next five years are as follows:

<u>Year Ending May 31,</u>	
2016	\$ 6,588
2017	7,282
2018	7,423
2019	7,565
2020	1,914
	\$ 30,772

**(7) SUBSEQUENT EVENTS**

The Institute has evaluated subsequent events through June 15, 2016 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.