

**PACIFIC LEGAL FOUNDATION
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT**

**YEAR ENDED
JUNE 30, 2020**

INDEPENDENT AUDITOR’S REPORT

**Board of Trustees
Pacific Legal Foundation and Subsidiary
Sacramento, California**

We have audited the accompanying consolidated financial statements of Pacific Legal Foundation and Subsidiary (Organization), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating statements on pages 16 through 17 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.



GILBERT CPAs
Sacramento, California

October 13, 2020

PACIFIC LEGAL FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION JUNE 30, 2020

ASSETS:

Cash and cash equivalents	\$ 1,514,756
Investments	54,909,227
Contributions and other receivables	1,024,440
Prepaid expenses and deposits	220,161
Other assets	20,724
Charitable remainder trust assets	3,346,060
Property and equipment, net	<u>3,140,384</u>

TOTAL ASSETS **\$ 64,175,752**

LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts payable	\$ 149,355
Accrued expenses and other liabilities	1,049,200
Liability to beneficiaries	<u>2,718,319</u>
Total liabilities	<u>3,916,874</u>

NET ASSETS:

Without donor restrictions:	
Undesignated	4,470,037
Board designated	51,855,315
With donor restrictions	<u>3,933,526</u>
Total net assets	<u>60,258,878</u>

TOTAL LIABILITIES AND NET ASSETS **\$ 64,175,752**

PACIFIC LEGAL FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2020

NET ASSETS WITHOUT DONOR RESTRICTIONS:	
OPERATING REVENUES:	
Contributions	\$ 9,613,103
Grants	3,580,430
Court-awarded attorney fees	416,400
Other income	155,488
Net assets released from restrictions	<u>492,984</u>
Total revenues	<u>14,258,405</u>
OPERATING EXPENSES:	
Program services:	
Legal activities	8,496,095
Public education	<u>4,139,591</u>
Total program services	12,635,686
Supporting services:	
Revenue development	2,045,201
General and administrative	<u>1,795,794</u>
Total expenses	<u>16,476,681</u>
LOSS FROM OPERATIONS	(2,218,276)
OTHER ACTIVITY WITHOUT RESTRICTIONS:	
Investment income	<u>1,125,124</u>
DECREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(1,093,152)</u>
NET ASSETS WITH DONOR RESTRICTIONS:	
Contributions	568,628
Receivables deemed uncollectable	(218,910)
Change in value of split-interest agreements	(46,601)
Investment income	7,067
Net assets released from restrictions	<u>(492,984)</u>
DECREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(182,800)</u>
DECREASE IN NET ASSETS	(1,275,952)
NET ASSETS, Beginning of period	<u>61,534,830</u>
NET ASSETS, End of period	<u>\$ 60,258,878</u>

The accompanying notes are an integral part of these consolidated financial statements.

PACIFIC LEGAL FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2020

	<u>Program Services</u>			<u>Supporting Services</u>		
	<u>Legal Activities</u>	<u>Public Education</u>	<u>Total Program Services</u>	<u>Revenue Development</u>	<u>General & Admin.</u>	<u>Total</u>
Salaries	\$ 5,716,388	\$ 2,295,004	\$ 8,011,392	\$ 818,718	\$ 851,883	\$ 9,681,993
Employee benefits and insurance	1,168,757	213,733	1,382,490	209,283	174,091	1,765,864
Payroll taxes	388,960	98,671	487,631	93,059	71,597	652,287
Total compensation	7,274,105	2,607,408	9,881,513	1,121,060	1,097,571	12,100,144
Professional services	51,619	826,157	877,776	138,865	233,284	1,249,925
Office expenses	99,221	149,637	248,858	554,722	180,018	983,598
Travel	146,570	215,289	361,859	81,801	89,431	533,091
Rent	260,526	104,785	365,311	37,322	38,810	441,443
Depreciation	152,850	61,477	214,327	21,897	22,770	258,994
Fees	146,099	87,154	233,253	7,075	8,761	249,089
Library and research	147,546	4,411	151,957			151,957
Telephone	68,164	27,416	95,580	9,765	10,154	115,499
Equipment rental	63,786	25,655	89,441	9,138	9,502	108,081
Utilities	48,748	19,607	68,355	6,983	7,262	82,600
Insurance	26,343	10,595	36,938	3,774	3,924	44,636
Miscellaneous expenses	10,518		10,518	52,799	94,307	157,624
Total expenses	<u>\$ 8,496,095</u>	<u>\$ 4,139,591</u>	<u>\$ 12,635,686</u>	<u>\$ 2,045,201</u>	<u>\$ 1,795,794</u>	<u>\$ 16,476,681</u>

The accompanying notes are an integral part of these consolidated financial statements.

PACIFIC LEGAL FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Decrease in net assets	\$ (1,275,952)
Reconciliation to net cash used by operating activities:	
Net realized and unrealized loss on investments	124,824
Donated investments	(636,559)
Loss on sale of property and equipment	350
Depreciation	258,994
Changes in:	
Contributions and other receivables	504,687
Prepaid expenses and deposits	(54,248)
Charitable remainder trust assets	72,724
Accounts payable	(82,224)
Accrued expenses and other liabilities	383,490
Liability to beneficiaries	(14,824)
Net cash used by operating activities	<u>(718,738)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment	(38,668)
Purchase of investments	(15,501,742)
Proceeds from sale of investments	<u>16,800,845</u>
Net cash provided by investing activities	<u>1,260,435</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 541,697

CASH AND CASH EQUIVALENTS, Beginning of period 973,059

CASH AND CASH EQUIVALENTS, End of period \$ 1,514,756

NON-CASH TRANSACTIONS:

Charitable remainder trust assets transferred to investments	<u>\$ 62,107</u>
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PACIFIC LEGAL FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020

1. ORGANIZATION

Pacific Legal Foundation (Foundation) is a nonprofit public benefit corporation operating on voluntary, tax-deductible donations from the private sector, or through court-awarded attorneys fees. Contributors consist of individuals, businesses, associations, and foundations from across the United States. The Foundation litigates nationwide to secure all Americans' inalienable rights to live responsibly and productively in their pursuit of happiness. The Foundation combines strategic and principled litigation, communications and research to achieve landmark court victories enforcing the Constitution's guarantee of individual liberty. The Foundation is headquartered in Sacramento, California, with additional locations in the states of Florida, Washington, and Virginia.

PLF Building, LLC (LLC) is a wholly-owned subsidiary of the Foundation established to act as a title holding company.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation – The accompanying financial statements reflect the consolidation of the Foundation and the LLC (collectively, the Organization). Material transactions between entities have been eliminated in consolidation.

Basis of accounting and financial statement presentation – The consolidated financial statements are prepared on the accrual basis of accounting in conformity with professional standards applicable to not-for-profit entities. The Organization reports information regarding its financial position and activities according to two classes of net assets:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of management.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. When a restriction expires (generally, as payments are made to fulfill the purposes of the contribution), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Revenue recognition – Contributions, grants, and promises to give are recognized in full when received or unconditionally promised, in accordance with professional standards. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. The Organization did not have any unrecognized conditional contributions at June 30, 2020. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in net assets with donor restrictions. Net assets with donor restrictions become unrestricted, when the time restrictions expire or the contributions are used for the restricted purpose and are reported in the *Consolidated Statement of Activities* as net assets released from restrictions. Net assets with donor restrictions whose restrictions are met in the same reporting period are shown as net assets without donor restrictions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020

Court-awarded attorney fees are recorded when received.

Cash and cash equivalents – For financial statement purposes, the Organization considers all investments with a maturity at purchase of three months or less to be cash equivalents, unless held for long-term purposes.

The Organization minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Organization held cash with financial institutions in excess of federal depository insurance limits was \$1,042,187 at June 30, 2020. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash.

Investments are stated at fair value.

Property and equipment – Furniture, office equipment, library, leasehold improvements, building and land are recorded at cost. The Organization capitalizes all expenditures of property and equipment in excess of \$1,000. Depreciable assets are depreciated using the straight-line method over estimated useful lives of three to thirty years.

Charitable remainder trust assets include the estimated fair value of irrevocable charitable trusts in which the Organization is both the trustee and secondary beneficiary, as well as the estimated fair value of the Organization's remainder interest in irrevocable trusts for which the Organization is the secondary beneficiary. The fair value of the Organization's remainder interest in irrevocable trusts is determined using investment returns consistent with the composition of the asset portfolios, life expectancies, and relevant discount rate. Irrevocable charitable trusts whose use is limited by the Organization due to time or donor-imposed restrictions increase temporarily restricted net assets.

Liability to beneficiaries represents the present value of the liability due to primary beneficiaries and other secondary beneficiaries of the irrevocable charitable remainder trusts and charitable gift annuities for which the Organization is both trustee and secondary beneficiary. On an annual basis, the Organization reviews the need to revalue the liability to make distributions to the designated beneficiaries based upon actuarial assumptions. The present value of the estimated future payments is calculated using discount rates ranging from 2.0% to 8.92% and applicable mortality tables. The total liability to beneficiaries of \$2,718,319 comprises \$2,167,398 related to irrevocable charitable remainder trusts, and \$550,921 related to charitable gift annuities. The current portion of the liability to beneficiaries at June 30, 2020 is \$407,196.

Functional expenses – The costs of providing the program and supporting services have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Salaries and related expenses are allocated based on time and effort. Library and research, and case costs are fully allocated to legal activities. All other expenses are allocated based on the payroll allocations, or management's estimate of the usage of resources.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Income taxes – The Foundation is exempt from income taxes under Internal Revenue Code Section 501(c)(3), and is classified as a public charity within the meaning of Internal Revenue Code Section 509(a).

Use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Recent accounting pronouncements – In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new accounting standard clarifies and improves the guidance for (1) evaluating whether transactions should be accounted for as contributions within the scope of Topic 958 or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. The Organization has implemented this accounting standard in the accompanying consolidated financial statements effective July 1, 2019 under the modified prospective basis. Accordingly, there is no effect on beginning net assets in connection with the implementation of ASU 2018-08.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurements*. The new accounting standard improves the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by generally accepted accounting principles (GAAP) that is most important to users of each entity's financial statements. Application of this statement is effective for the year ending June 30, 2021. The Organization is currently evaluating the impact this pronouncement will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The new accounting standard requires lessees to recognize a lease liability measured on a discounted basis and a right-of-use asset for all leases with terms longer than 12 months. Application of this statement is effective for the year ending June 30, 2023. The Organization is currently evaluating the impact this pronouncement will have on the consolidated financial statements.

Subsequent events have been evaluated through the October 13, 2020 the financial statements were issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively impact income. Other financial impact could occur though such potential impact is unknown at this time.

PACIFIC LEGAL FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization's financial assets available within one year of the consolidated statement of financial position date for general expenditure are as follows:

Cash and cash equivalents	\$ 1,514,756
Investments	54,909,227
Contributions and other receivables	<u>1,024,440</u>
Total financial assets	57,448,423
Less:	
Amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose restrictions	(419,128)
Receivables due to be collected in more than one year	(560,000)
Restricted by donors in perpetuity	(1,343,022)
Board restricted endowment	<u>(51,855,315)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 3,270,958</u>

The Organization's endowments consist of donor-restricted contributions and reserve funds that are not restricted by donor intent but are designated by the board as endowments, internally referred to in the Organization's financial materials as the board-designated reserve fund.

Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditures.

The Organization's board-designated reserve fund is, per board-approved policy, subject to an annual spending rate of 5.5 percent of a three-year rolling average. Although the Organization does not intend to spend from the board-designated reserve fund in excess of this annual appropriation, these amounts could be made available if necessary. The Organization invests cash in excess of daily requirements in short-term money market funds.

4. CONTRIBUTIONS AND OTHER RECEIVABLES

Contributions and other receivables consist of the following:

Contributions receivable	\$ 140,690
Pledges receivable	<u>883,750</u>
Total	<u>\$ 1,024,440</u>

PACIFIC LEGAL FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020

Contributions, and other receivables are due to be collected as follows:

Within one year	\$ 464,440
In one to five years	<u>560,000</u>
Total	<u>\$ 1,024,440</u>

At June 30, 2020, \$600,000 of pledges receivable is due from one donor.

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Land	\$ 900,000
Building and related property	2,600,000
Office furniture and equipment	1,014,467
Leasehold improvements	<u>976,651</u>
Total	5,491,118
Less accumulated depreciation and amortization	<u>(2,350,734)</u>
Property and equipment, net	<u>\$ 3,140,384</u>

6. CHARITABLE REMAINDER TRUST ASSETS

Charitable remainder trust assets consist of the following:

Assets held in charitable remainder trusts in which the Organization is both trustee and secondary beneficiary	\$ 3,258,310
Charitable remainder interests receivable from third parties	<u>87,750</u>
Total	<u>\$ 3,346,060</u>

PACIFIC LEGAL FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020

7. INVESTMENTS

Investments consist of the following:

Money market funds	\$ 4,909,243
Mutual funds (equity):	
Core	10,797,791
Emerging markets	4,116,723
International markets	238,152
Growth	85,376
Mutual funds (fixed income):	
High yield	1,833,489
Emerging markets	2,154,666
U.S investment grade bonds	326,926
Equity securities:	
Core	8,625,527
Foreign	4,714,614
Mid cap	2,693,035
Small cap	588,252
Real estate investment trusts	982,906
Other real assets	2,214,682
Hedge funds:	
Equity	1,768,127
Relative value	931,622
Government bonds	7,928,096
Total	<u>\$ 54,909,227</u>

Investment income consists of the following:

Interest and dividends	\$ 1,257,015
Net realized and unrealized loss	<u>(124,824)</u>
Total	<u>\$ 1,132,191</u>

Investment income is reported net of broker fees and commissions of \$139,538 in 2020.

8. FAIR VALUE MEASUREMENTS

Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes

PACIFIC LEGAL FOUNDATION AND SUBSIDIARY

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JUNE 30, 2020

the liability). In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

- Level 1 Inputs Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2 Inputs Inputs other than quoted prices in active markets that are observable either directly or indirectly.
- Level 3 Inputs Unobservable inputs for the assets or liabilities.

When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, a reporting entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

The Organization's assets subject to fair value are classified as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
Investments	\$ 43,298,746	\$ 7,928,096		\$ 3,682,655
Investments held in charitable remainder trusts in which the Foundation is both trustee and secondary beneficiary	3,258,310			
Charitable remainder interests receivable from third parties			\$ 87,750	
Total	<u>\$ 46,557,056</u>	<u>\$ 7,928,096</u>	<u>\$ 87,750</u>	<u>\$ 3,682,655</u>

The Organization's investments and investments held in charitable remainder trusts in which the Organization is both trustee and secondary beneficiary are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative sources with reasonable levels of price transparency. The Organization's charitable remainder interests receivable from third parties are classified within Level 3 of the hierarchy because determination of the present value of future cash flows is based on little or no market data and requires management to develop their own assumptions. The Organization's government bond investments are classified within Level 2 of the hierarchy because the value is calculated on the basis of pricing information obtained from various pricing sources and from inputs other than quoted prices in active markets.

Changes in the Level 3 assets consist of:

July 1, 2019	\$ 600,272
Transfer of charitable remainder interest to level 1	(450,594)
Maturity of charitable remainder interests receivable	(62,107)
Unrealized gain in fair value	<u>179</u>
June 30, 2020	<u>\$ 87,750</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020

In the year ended June 30, 2020, one charitable remainder interest receivable previously included in Level 3 of the hierarchy was transferred to Level 1. This transfer occurred because the Organization became the trustee of the assets after the occurrence of certain events stipulated in the irrevocable trust agreement.

The Foundation has three investments totaling \$3,682,655 at June 30, 2020 in multi-adviser hedge funds that are valued using the net asset value reported by the fund managers, which is used as a practical expedient to estimate the fair value. There are no outstanding capital calls on these investments and they are fully redeemable on a quarterly tender basis.

9. LINE OF CREDIT

The Organization has a \$3,000,000 revolving line of credit agreement with Wells Fargo Bank that expires on July 10, 2025. The interest on the line of credit is variable and is equal to the Daily One Month LIBOR plus 1.5%. There was no outstanding balance as of June 30, 2020.

10. LEASE OBLIGATIONS

The Organization leases certain equipment and office space under long-term operating lease agreements, which expire at various dates through 2026. Rental expense related to these agreements for June 30, 2020 was \$325,068. Future minimum lease payments are as follows:

<u>Fiscal year ending June 30:</u>	
2021	\$ 377,427
2022	371,065
2023	378,490
2024	295,820
2025	273,285
Thereafter	<u>209,924</u>
Total	<u>\$ 1,906,011</u>

11. NET ASSETS

Net assets with donor restrictions are available for the following purposes:

Time Restriction:	
General operations	\$ 991,332
Charitable remainder trusts	1,180,055
Purpose Restriction:	
Litigation	419,128
Perpetual in nature	<u>1,343,022</u>
Total	<u>\$ 3,933,537</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The Organization's endowments include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization classifies as net assets with donor restrictions that are perpetual in nature (a) the original value of gifts donated to the permanent endowment, (b) accumulated unrealized appreciation and depreciation of endowment investments if directed by the donor gift instrument, (c) the original value of subsequent gifts to the permanent endowments, and (d) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Net assets with donor restrictions that are perpetual in nature as of June 30, 2020 consist of one endowment fund, and are to be invested in perpetuity with gains and losses. Interest and dividends are to be used for operating or other purposes as designated by the Board of Trustees.

Board endowments of \$51,855,315 at June 30, 2020 have been designated to provide annual income that is predictable and reliable to assure the ability of the Organization to meet long-term professional obligations inherent in the nature of its litigation services.

The endowment investment policy, approved by the Board of Trustees, emphasizes preservation of capital as its primary objective and growth and income as secondary objectives. As such, the overall investment objectives are to maximize returns without exposure to undue risk. The assets for the endowment may be invested in a mix of equity, fixed income, real asset, and alternative investment/hedge funds. The desired investment objective of the endowment is an overall annualized time weighted net of investment related fees long-term return on assets in excess of core inflation of at least 4%.

It is the policy of the Board to allocate each year 5.5% of the average endowment over the period of three years from the endowment accounts for expenditure for program operations for the next fiscal year. As a part of the annual budget process the Board will review the status of the endowment and may approve any change to its allocation level for the next fiscal year. Changes in endowment net assets are as follows:

	Board Designated Unrestricted	Permanently Restricted
Endowment net assets, beginning of period	\$ 52,772,096	\$ 1,335,955
Investment income	1,066,545	7,067
Contributions	3,037,510	
Endowment funds used for operations	(4,889,523)	
Endowment expenditures	<u>(131,313)</u>	
Endowment net assets, end of period	<u>\$ 51,855,315</u>	<u>\$ 1,343,022</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2020

12. PENSION PLAN

The Organization has a defined contribution pension plan under Internal Revenue Code Section 403(b). Employees are eligible to participate upon date of hire and are eligible to receive employer contributions after completing six months of service. On a discretionary basis, the Organization may make nonelective contributions. Plan expense was \$680,737 for 2020.

SUPPLEMENTAL INFORMATION

PACIFIC LEGAL FOUNDATION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION JUNE 30, 2020

	<u>Foundation</u>	<u>LLC</u>	<u>Total</u>
ASSETS:			
Cash and cash equivalents	\$ 1,504,847	\$ 9,909	\$ 1,514,756
Investments	54,909,227		54,909,227
Contributions and other receivables	1,024,440		1,024,440
Prepaid expenses and deposits	220,161		220,161
Other assets	20,724		20,724
Charitable remainder trust assets	3,346,060		3,346,060
Property and equipment, net	<u>153,162</u>	<u>2,987,222</u>	<u>3,140,384</u>
TOTAL ASSETS	<u>\$ 61,178,621</u>	<u>\$ 2,997,131</u>	<u>\$ 64,175,752</u>
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts payable	\$ 149,355		\$ 149,355
Accrued expenses and other liabilities	1,049,200		1,049,200
Liability to beneficiaries	<u>2,718,319</u>		<u>2,718,319</u>
Total liabilities	<u>3,916,874</u>		<u>3,916,874</u>
NET ASSETS:			
Without donor restrictions:			
Undesignated	1,472,906	\$ 2,997,131	4,470,037
Board designated	51,855,315		51,855,315
With donor restrictions	<u>3,933,526</u>		<u>3,933,526</u>
Total net assets	<u>57,261,747</u>	<u>2,997,131</u>	<u>60,258,878</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 61,178,621</u>	<u>\$ 2,997,131</u>	<u>\$ 64,175,752</u>

PACIFIC LEGAL FOUNDATION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2020

	<u>Foundation</u>	<u>LLC</u>	<u>Total</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:			
OPERATING REVENUES:			
Contributions	\$ 9,613,103		\$ 9,613,103
Grants	3,580,430		3,580,430
Court-awarded attorney fees	416,400		416,400
Other income	155,488		155,488
Net assets released from restrictions	492,984		492,984
Total revenues	<u>14,258,405</u>		<u>14,258,405</u>
OPERATING EXPENSES:			
Program services:			
Legal activities	8,496,095		8,496,095
Public education	4,139,591		4,139,591
Total program services	<u>12,635,686</u>		<u>12,635,686</u>
Supporting services:			
Revenue development	2,045,201		2,045,201
General and administrative	1,709,127	\$ 86,667	1,795,794
Total expenses	<u>16,390,014</u>	<u>86,667</u>	<u>16,476,681</u>
LOSS FROM OPERATIONS	(2,131,609)	(86,667)	(2,218,276)
OTHER ACTIVITY WITHOUT RESTRICTIONS:			
Investment income	1,125,124		1,125,124
DECREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(1,006,485)</u>	<u>(86,667)</u>	<u>(1,093,152)</u>
NET ASSETS WITH DONOR RESTRICTIONS:			
Contributions	568,628		568,628
Receivables deemed uncollectable	(218,910)		(218,910)
Change in value of split-interest agreements	(46,601)		(46,601)
Investment income	7,067		7,067
Net assets released from restrictions	(492,984)		(492,984)
DECREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(182,800)</u>		<u>(182,800)</u>
DECREASE IN NET ASSETS	(1,189,285)	(86,667)	(1,275,952)
NET ASSETS, Beginning of period	<u>58,451,032</u>	<u>3,083,798</u>	<u>61,534,830</u>
NET ASSETS, End of period	<u>\$ 57,261,747</u>	<u>\$ 2,997,131</u>	<u>\$ 60,258,878</u>