

**Pacific Legal Foundation**

Financial Statements  
and Independent Auditor's Report

June 30, 2024 and 2023

# Pacific Legal Foundation

Financial Statements  
June 30, 2024 and 2023

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
Pacific Legal Foundation

### *Opinion*

We have audited the accompanying financial statements of Pacific Legal Foundation (“the Foundation”), which comprise the statements of financial position as of June 30, 2024 and 2023; the related statements of activities, functional expenses, and cash flows for the years then ended; and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2024 and 2023, 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.

### *Basis for Opinion*

We conducted our audits 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 Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *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.

***Responsibilities of Management for the Financial Statements (continued)***

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 Foundation'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 generally 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, including omissions, 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 the Foundation'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 Foundation's ability to continue as a going concern for a reasonable period of time.

*Auditor's Responsibilities for the Audit of the Financial Statements (continued)*

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.

Handwritten signature in black ink that reads "Rogers + Company PLLC". The signature is written in a cursive, flowing style.

Vienna, Virginia  
September 19, 2024

## Pacific Legal Foundation

### Statements of Financial Position June 30, 2024 and 2023

	2024	2023
<b>Assets</b>		
Cash	\$ 6,757,191	\$ 4,301,308
Investments	98,866,422	74,068,139
Contributions and grants receivable	2,447,855	845,639
Prepaid expenses and deposits	412,255	399,007
Charitable remainder trusts receivable	2,959,210	2,872,777
Property and equipment, net	615,634	776,013
Right-of-use assets – operating leases	1,496,268	1,957,377
Total assets	<u>\$ 113,554,835</u>	<u>\$ 85,220,260</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 1,496,661	\$ 1,454,478
Refundable advance	17,500	-
Liability to beneficiaries	3,796,938	3,437,469
Lease liabilities – operating leases	1,740,614	2,283,857
Total liabilities	<u>7,051,713</u>	<u>7,175,804</u>
<b>Net Assets</b>		
Without donor restrictions:		
Undesignated	7,548,305	5,457,708
Board-designated endowment fund	92,598,093	68,638,393
Total without donor restrictions	100,146,398	74,096,101
With donor restrictions	6,356,724	3,948,355
Total net assets	<u>106,503,122</u>	<u>78,044,456</u>
Total liabilities and net assets	<u>\$ 113,554,835</u>	<u>\$ 85,220,260</u>

See accompanying notes.

## Pacific Legal Foundation

Statement of Activities  
For the Year Ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Revenue and Support</b>			
Contributions and grants	\$ 40,704,945	\$ 3,487,458	\$ 44,192,403
Court-awarded attorney fees	260,246	-	260,246
Other income	20,895	-	20,895
Net assets released from restrictions	1,236,316	(1,236,316)	-
<b>Total operating revenue and support</b>	<b>42,222,402</b>	<b>2,251,142</b>	<b>44,473,544</b>
<b>Expenses</b>			
Program services:			
Legal activities	15,636,052	-	15,636,052
Public education	6,258,709	-	6,258,709
<b>Total program services</b>	<b>21,894,761</b>	<b>-</b>	<b>21,894,761</b>
Supporting services:			
Revenue development	2,139,581	-	2,139,581
General and administrative	2,805,971	-	2,805,971
<b>Total supporting services</b>	<b>4,945,552</b>	<b>-</b>	<b>4,945,552</b>
<b>Total expenses</b>	<b>26,840,313</b>	<b>-</b>	<b>26,840,313</b>
<b>Change in Net Assets from Operations</b>	<b>15,382,089</b>	<b>2,251,142</b>	<b>17,633,231</b>
<b>Non-Operating Activities</b>			
Investment return, net	10,429,426	130,393	10,559,819
Change in value of split-interest agreement	238,782	26,834	265,616
<b>Change in Net Assets</b>	<b>26,050,297</b>	<b>2,408,369</b>	<b>28,458,666</b>
<b>Net Assets, beginning of year</b>	<b>74,096,101</b>	<b>3,948,355</b>	<b>78,044,456</b>
<b>Net Assets, end of year</b>	<b>\$ 100,146,398</b>	<b>\$ 6,356,724</b>	<b>\$ 106,503,122</b>

See accompanying notes.

## Pacific Legal Foundation

Statement of Activities  
For the Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Revenue and Support</b>			
Contributions and grants	\$ 20,586,859	\$ 1,184,931	\$ 21,771,790
Court-awarded attorney fees	1,128,139	-	1,128,139
In-kind contributions	8,900	-	8,900
Other income	32,006	-	32,006
Net assets released from restrictions	2,682,118	(2,682,118)	-
<b>Total operating revenue and support</b>	<b>24,438,022</b>	<b>(1,497,187)</b>	<b>22,940,835</b>
<b>Expenses</b>			
Program services:			
Legal activities	13,544,312	-	13,544,312
Public education	6,737,446	-	6,737,446
<b>Total program services</b>	<b>20,281,758</b>	<b>-</b>	<b>20,281,758</b>
Supporting services:			
Revenue development	2,039,190	-	2,039,190
General and administrative	3,095,361	-	3,095,361
<b>Total supporting services</b>	<b>5,134,551</b>	<b>-</b>	<b>5,134,551</b>
<b>Total expenses</b>	<b>25,416,309</b>	<b>-</b>	<b>25,416,309</b>
<b>Change in Net Assets from Operations</b>	<b>(978,287)</b>	<b>(1,497,187)</b>	<b>(2,475,474)</b>
<b>Non-Operating Activities</b>			
Investment return, net	7,449,128	123,009	7,572,137
Change in value of split-interest agreement	698,338	(471,520)	226,818
Gain on sale of property and equipment	804,487	-	804,487
<b>Change in Net Assets</b>	<b>7,973,666</b>	<b>(1,845,698)</b>	<b>6,127,968</b>
<b>Net Assets, beginning of year</b>	<b>66,122,435</b>	<b>5,794,053</b>	<b>71,916,488</b>
<b>Net Assets, end of year</b>	<b>\$ 74,096,101</b>	<b>\$ 3,948,355</b>	<b>\$ 78,044,456</b>

See accompanying notes.



**Pacific Legal Foundation**

Statement of Functional Expenses  
For the Year Ended June 30, 2024

	Program Services			Supporting Services			Total
	Legal Activities	Public Education	Total Program Services	Revenue Development	General and Administrative	Total Supporting Services	
Salaries	\$ 10,354,030	\$ 3,201,066	\$ 13,555,096	\$ 758,029	\$ 1,050,091	\$ 1,808,120	\$ 15,363,216
Employee benefits and insurance	1,915,798	286,519	2,202,317	207,178	403,736	610,914	2,813,231
Payroll taxes	761,333	151,907	913,240	103,529	168,857	272,386	1,185,626
Office expenses	146,688	430,359	577,047	676,964	261,949	938,913	1,515,960
Professional services	424,918	1,155,621	1,580,539	77,031	358,220	435,251	2,015,790
Rent	524,527	162,164	686,691	38,401	53,197	91,598	778,289
Travel	816,039	731,437	1,547,476	243,487	321,734	565,221	2,112,697
Depreciation and amortization	186,687	57,716	244,403	13,668	18,934	32,602	277,005
Library and research	155,762	-	155,762	-	-	-	155,762
Fees	201,044	34,743	235,787	10,023	101,781	111,804	347,591
Telephone	20,791	6,428	27,219	1,522	2,109	3,631	30,850
Utilities	20,698	6,399	27,097	1,515	2,099	3,614	30,711
Equipment rental	29,217	9,033	38,250	2,139	2,963	5,102	43,352
Insurance	74,415	23,006	97,421	5,448	7,547	12,995	110,416
Miscellaneous	4,105	2,311	6,416	647	52,754	53,401	59,817
<b>Total Expenses</b>	<b>\$ 15,636,052</b>	<b>\$ 6,258,709</b>	<b>\$ 21,894,761</b>	<b>\$ 2,139,581</b>	<b>\$ 2,805,971</b>	<b>\$ 4,945,552</b>	<b>\$ 26,840,313</b>

See accompanying notes.

**Pacific Legal Foundation**

Statement of Functional Expenses  
For the Year Ended June 30, 2023

	Program Services			Supporting Services			Total
	Legal Activities	Public Education	Total Program Services	Revenue Development	General and Administrative	Total Supporting Services	
Salaries	\$ 8,605,844	\$ 2,940,878	\$ 11,546,722	\$ 748,521	\$ 1,560,991	\$ 2,309,512	\$ 13,856,234
Employee benefits and insurance	1,821,090	307,294	2,128,384	248,557	444,567	693,124	2,821,508
Payroll taxes	624,271	123,755	748,026	96,034	131,276	227,310	975,336
Office expenses	218,417	567,592	786,009	647,551	378,340	1,025,891	1,811,900
Professional services	437,320	1,719,705	2,157,025	62,406	208,999	271,405	2,428,430
Rent	471,358	161,077	632,435	40,998	85,498	126,496	758,931
Travel	727,493	705,586	1,433,079	152,063	188,953	341,016	1,774,095
Depreciation and amortization	151,672	51,934	203,606	12,918	30,853	43,771	247,377
Library and research	168,240	5,552	173,792	-	1,300	1,300	175,092
Fees	153,198	97,480	250,678	7,035	29,481	36,516	287,194
Telephone	23,797	8,148	31,945	2,027	4,292	6,319	38,264
Utilities	8,347	2,858	11,205	711	1,505	2,216	13,421
Equipment rental	64,570	22,065	86,635	5,616	11,712	17,328	103,963
Insurance	66,304	22,703	89,007	5,649	11,957	17,606	106,613
Miscellaneous	2,391	819	3,210	9,104	5,637	14,741	17,951
<b>Total Expenses</b>	<b>\$ 13,544,312</b>	<b>\$ 6,737,446</b>	<b>\$ 20,281,758</b>	<b>\$ 2,039,190</b>	<b>\$ 3,095,361</b>	<b>\$ 5,134,551</b>	<b>\$ 25,416,309</b>

See accompanying notes.

**Pacific Legal Foundation**

Statements of Cash Flows  
For the Years Ended June 30, 2024 and 2023

	2024	2023
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 28,458,666	\$ 6,127,968
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	277,005	247,377
Gain on sale of property and equipment	-	(804,487)
Donation of marketable securities	(519,587)	(954,366)
Net realized and unrealized gain on investments	(8,864,409)	(6,080,693)
Amortization of right-of-use assets – operating leases	461,109	543,846
Change in operating assets and liabilities:		
(Increase) decrease in:		
Contributions and grants receivable	(1,602,216)	2,333,046
Prepaid expenses and deposits	(13,248)	(24,745)
Charitable remainder trusts receivable	(86,433)	553,485
Increase (decrease) in:		
Accounts payable and accrued expenses	42,183	236,746
Refundable advance	17,500	-
Liability to beneficiaries	359,469	(204,490)
Lease liabilities – operating leases, net	(543,243)	(217,366)
Net cash provided by operating activities	17,986,796	1,756,321
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(116,626)	(659,805)
Proceeds from sale of property and equipment	-	3,628,286
Purchases of investments	(30,870,587)	(18,450,153)
Proceeds from sales of investments	15,456,300	16,386,980
Net cash (used in) provided by investing activities	(15,530,913)	905,308
<b>Net Increase in Cash</b>	2,455,883	2,661,629
<b>Cash, beginning of year</b>	4,301,308	1,639,679
<b>Cash, end of year</b>	\$ 6,757,191	\$ 4,301,308
<b>Noncash Transactions Arising from ASC 842 Adoption:</b>		
Establishment of right-of-use assets – operating leases	\$ 8,707	\$ 2,501,223
Establishment of lease liabilities – operating leases	\$ 8,707	\$ 2,501,223

See accompanying notes.

## Pacific Legal Foundation

Notes to Financial Statements  
June 30, 2024 and 2023

### 1. Nature of Operations

Pacific Legal Foundation (“the Foundation”) is a nonprofit public benefit corporation operating on voluntary, tax-deductible donations from the private sector, or through court-awarded attorney 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.

### 2. Summary of Significant Accounting Policies

#### Basis of Accounting and Presentation

The financial statements of the Foundation are prepared on the accrual basis of accounting. Net assets are reported based on the presence or absence of donor-imposed restrictions, as follows:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Net assets without donor restrictions include both undesignated and Board-designated amounts. The Foundation’s Board of Trustees has segregated amounts received without donor restrictions from various donors into a Board-designated fund, and has implemented an investment policy that includes an annual discretionary transfer of amounts to undesignated net assets to support operations.
- *Net Assets With Donor Restrictions* – Net assets subject to donor (or certain grantor) imposed restrictions. The Foundation reports contributions and grants restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted grants and contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

## Pacific Legal Foundation

Notes to Financial Statements  
June 30, 2024 and 2023

### 2. Summary of Significant Accounting Policies (continued)

#### Investments

Investments are recorded at fair value based on quoted market prices. Realized and unrealized gains and losses, net of investment management fees, are reported as a component of net investment return in the accompanying statements of activities. Money market and short-term investment funds, held as a portion of the Foundation's investment portfolio, are not considered to be cash equivalents for purposes of cash flows.

#### Contributions and Grants Receivable

Contributions and grants receivable represent unconditional amounts committed to the Foundation. All contributions and grants receivable are expected to be collected within one year, and are recorded at net realizable value. Management determines the allowance for doubtful accounts based upon review of outstanding receivables, historical collection information, and existing economic conditions. Receivables are written off when deemed uncollectible. Management believes that all contributions receivable are collectible at June 30, 2024 and 2023, and accordingly, no allowance for uncollectible accounts has been established.

#### Charitable Remainder Trusts Receivable

Charitable remainder trusts assets include the estimated fair value of irrevocable charitable trusts in which the Foundation is both the trustee and secondary beneficiary, as well as the estimated fair value of the Foundation's remainder interest in irrevocable trusts for which the Foundation is the secondary beneficiary.

The fair value of the Foundation'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 Foundation due to time or donor-imposed restrictions increase net assets with donor restrictions.

## Pacific Legal Foundation

Notes to Financial Statements  
June 30, 2024 and 2023

### 2. Summary of Significant Accounting Policies (continued)

#### Property and Equipment

Property and equipment acquisitions with a cost greater than \$1,000 and a projected useful life exceeding one year are capitalized and recorded at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets, which is three to five years. Upon disposal of depreciable assets, the cost and related accumulated depreciation and amortization are eliminated from the accounts and the resulting gain or loss is credited or charged to income. Expenditures for repairs and maintenance are expensed as incurred.

#### Operating Leases

The Foundation determines if an arrangement is a lease at inception. Operating leases are included in right-of-use (ROU) assets, which represent the Foundation's right to use an underlying asset for the lease terms, and lease liabilities represent the Foundation's obligation to make lease payments arising from a lease. Operating ROU lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As the Foundation's leases do not provide an implicit rate, the Foundation used a risk-free rate based on the information available at the commencement date in determining the present value of lease payments.

#### Charitable Gift Annuities

Charitable gift annuities represent 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 Foundation is both trustee and secondary beneficiary. On an annual basis, the Foundation 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 7.00% to 7.60%, and applicable mortality tables.

At June 30, 2024, the total liability to beneficiaries of \$3,796,938 comprises \$1,921,684 related to irrevocable charitable remainder trusts, and \$1,875,254 related to charitable gift annuities. At June 30, 2023, the total liability to beneficiaries of \$3,437,469 comprises \$1,862,085 related to irrevocable charitable remainder trusts, and \$1,575,384 related to charitable gift annuities. The current portion of the liability to beneficiaries at June 30, 2024 and 2023 is \$560,028 and \$517,331, respectively.

## Pacific Legal Foundation

Notes to Financial Statements  
June 30, 2024 and 2023

### 2. Summary of Significant Accounting Policies (continued)

#### Revenue Recognition

##### *Revenue Accounted for in Accordance with Contribution Accounting*

The Foundation recognizes grants and contributions as revenue when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. 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.

##### *Revenue Accounted for as Contracts with Customers*

Revenue is recognized when the Foundation satisfies a performance obligation by transferring a promised good to, or performing a service for, a customer. The amount of revenue recognized reflects the consideration the Foundation expects to receive in exchange for satisfying distinct performance obligations. Fees or amounts received in advance of satisfying contractual performance obligations are reflected as deferred revenue in the statements of financial position, if any. Revenue is recognized either over time or at the point in time that contractual obligations are met.

Specifically, for the various types of contracts, the Foundation recognizes revenue as follows:

Court-awarded attorney fees are recorded when received, which is when the sole performance obligation is satisfied.

Revenue from all other sources is recognized when earned.

#### In-Kind Contributions

The value of contributions that enhance a nonfinancial asset, which are considered specialized and can be estimated, and would have been purchased if not donated, are reflected in the accompanying statements of activities as in-kind contributions. In-kind contributions consist of donated advertising that benefits both program and supporting services. In-kind contributions are recognized as revenue and expense in the accompanying statements of activities at their estimated fair value, as provided by the donor, at the date of receipt, or calculated fair value of use of property in the period the property is used. During the years ended June 30, 2024 and 2023, the Foundation received donated advertising services with an estimated fair value of \$0 and \$8,900, respectively.

## **Pacific Legal Foundation**

Notes to Financial Statements  
June 30, 2024 and 2023

### **2. Summary of Significant Accounting Policies (continued)**

#### Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### Advertising Costs

Advertising costs are expensed as incurred. The Foundation's advertising costs totaled \$202,379 and \$426,158 during the years ended June 30, 2024 and 2023, respectively.

#### Measure of Operations

The Foundation includes in its measure of operations all revenues and expenses that are an integral part of its programs and supporting activities, and excludes net investment return, change in value of split-interest agreements, and gain on sale of property and equipment.

#### 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 that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 19, 2024, the date the financial statements were available to be issued.

### **3. Liquidity and Availability**

The Foundation has a goal to maintain financial assets on hand to meet 60 days of normal operating expenses. As part of this liquidity management, the management periodically reviews the Foundation's liquid asset needs and invests in various investments including money market funds, and other funds.



## Pacific Legal Foundation

Notes to Financial Statements  
June 30, 2024 and 2023

### 3. Liquidity and Availability (continued)

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, comprise the following at June 30:

	<u>2024</u>	<u>2023</u>
Cash	\$ 6,757,191	\$ 4,301,308
Investments	98,866,422	74,068,139
Contributions and grants receivable	<u>2,447,855</u>	<u>845,639</u>
Total financial assets	108,071,468	79,215,086
Less: restricted by donors with purpose restrictions	(1,194,225)	-
Less: restricted by donors in perpetuity	(1,677,116)	(1,546,723)
Less: Board-designated endowment fund	<u>(92,598,093)</u>	<u>(68,638,393)</u>
Total available for general expenditures	<u>\$ 12,602,034</u>	<u>\$ 9,029,970</u>

The Foundation's Board-designated reserve fund is, per Board-approved policy, subject to an annual spending rate of 5.5% of a three-year rolling average. Although the Foundation 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 Foundation invests cash in excess of daily requirements in short-term money market funds.

### 4. Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to significant concentrations of credit risk consist of cash and investments. The Foundation maintains cash deposit and transaction accounts, along with investments, with various financial institutions and these values, from time to time, exceed insurable limits under the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). The Foundation has not experienced any credit losses on its cash and investments to date as it relates to FDIC and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

## Pacific Legal Foundation

Notes to Financial Statements  
June 30, 2024 and 2023

### 4. Concentration of Credit Risk (continued)

Investments are exposed to various risks such as interest rate, market, and credit risks. The Foundation's charitable remainder trusts receivable are due from donor trusts that hold investments that are subject to the same types of investment risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the investments and charitable remainder trusts receivable balances, and the amounts reported in the statements of financial position.

### 5. Investments and Fair Value Measurements

Net investment return consists of the following for the years ended June 30:

	2024	2023
Interest and dividends	\$ 1,879,186	\$ 1,646,192
Net realized and unrealized gain	8,864,409	6,080,693
Less: investment management fees	<u>(183,776)</u>	<u>(154,748)</u>
Total investment return, net	<u>\$ 10,559,819</u>	<u>\$ 7,572,137</u>

The Foundation follows Financial Accounting Standards Board Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*, for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The inputs used in measuring fair value are categorized into three levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period.

## **Pacific Legal Foundation**

Notes to Financial Statements  
June 30, 2024 and 2023

### **5. Investments and Fair Value Measurements (continued)**

In general, and where applicable, the Foundation uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.

The Foundation's Level 3 financial liabilities, whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement, consist of split-interest agreements.

Investments in alternative funds are valued, as a practical expedient, utilizing the net asset value (NAV) provided by the underlying private investment companies and/or their administrators, without adjustment, when NAV of the investments is calculated in a manner consistent with generally accepted accounting principles (GAAP) for investment companies. The Foundation applies the practical expedient to its investments in private companies, unless it is probable that the Foundation will sell a portion of an investment at an amount different from NAV or in other situations where the practical expedient is not available, the Foundation considers other factors in addition to the NAV, such as features of the investment, including subscription and redemption rights, expected discounted cash flows, transactions in the secondary market, bids received from potential buyers, and overall market conditions in its determination of fair value.

The Foundation's investments and investments held in charitable remainder trusts in which the Foundation 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 Foundation'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 Foundation's fixed income securities 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.

## Pacific Legal Foundation

### Notes to Financial Statements June 30, 2024 and 2023

#### 5. Investments and Fair Value Measurements (continued)

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2024:

	Level 1	Level 2	Level 3	NAV	Total
Investments:					
Money market accounts	\$ 1,133,150	\$ -	\$ -	\$ -	\$ 1,133,150
Equity mutual funds:					
Core	11,510,733	-	-	-	11,510,733
Emerging markets	2,977,512	-	-	-	2,977,512
International markets	584,025	-	-	-	584,025
Fixed-income mutual funds:					
High yield	3,673,723	-	-	-	3,673,723
Emerging markets	245,943	-	-	-	245,943
U.S. investment grade bonds	1,020,265	-	-	-	1,020,265
Equity securities:					
Core	23,385,774	-	-	-	23,385,774
Foreign	8,428,447	-	-	-	8,428,447
Mid cap	7,621,345	-	-	-	7,621,345
Small cap	4,776,243	-	-	-	4,776,243
Other real assets	4,423,157	-	-	-	4,423,157
Fixed income securities	-	29,086,105	-	-	29,086,105
Total investments	69,780,317	29,086,105	-	-	98,866,422
Beneficial interests in trusts:					
Charitable remainder trusts in which the Foundation is both trustee and secondary beneficiary	2,942,576	-	-	-	2,942,576
Charitable remainder interests receivable from third parties	-	-	16,634	-	16,634
Total beneficial interests in trusts	2,942,576	-	16,634	-	2,959,210
Total assets at fair value	\$ 72,722,893	\$ 29,086,105	\$ 16,634	\$ -	\$ 101,825,632

## Pacific Legal Foundation

### Notes to Financial Statements June 30, 2024 and 2023

#### 5. Investments and Fair Value Measurements (continued)

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2023:

	Level 1	Level 2	Level 3	NAV	Total
Investments:					
Money market accounts	\$ 2,782,740	\$ -	\$ -	\$ -	\$ 2,782,740
Equity mutual funds:					
Core	9,940,095	-	-	-	9,940,095
Emerging markets	3,530,570	-	-	-	3,530,570
International markets	418,021	-	-	-	418,021
Fixed-income mutual funds:					
High yield	4,081,373	-	-	-	4,081,373
Emerging markets	87,708	-	-	-	87,708
U.S. investment grade bonds	578,602	-	-	-	578,602
Equity securities:					
Core	18,846,575	-	-	-	18,846,575
Foreign	6,608,074	-	-	-	6,608,074
Mid cap	6,514,561	-	-	-	6,514,561
Small cap	3,938,082	-	-	-	3,938,082
Real estate investment trusts	-	-	-	1,441,934	1,441,934
Other real assets	79,397	-	-	-	79,397
Hedge funds:					
Equity	-	-	-	1,996,289	1,996,289
Relative value	-	-	-	1,119,443	1,119,443
Fixed income securities	-	12,104,675	-	-	12,104,675
<b>Total investments</b>	<b>57,405,798</b>	<b>12,104,675</b>	<b>-</b>	<b>4,557,666</b>	<b>74,068,139</b>
Beneficial interests in trusts:					
Charitable remainder trusts in which the Foundation is both trustee and secondary beneficiary	2,854,731	-	-	-	2,854,731
Charitable remainder interests receivable from third parties	-	-	18,046	-	18,046
<b>Total beneficial interests in trusts</b>	<b>2,854,731</b>	<b>-</b>	<b>18,046</b>	<b>-</b>	<b>2,872,777</b>
<b>Total assets at fair value</b>	<b>\$ 60,260,529</b>	<b>\$ 12,104,675</b>	<b>\$ 18,046</b>	<b>\$ 4,557,666</b>	<b>\$ 76,940,916</b>

## Pacific Legal Foundation

Notes to Financial Statements  
June 30, 2024 and 2023

### 5. Investments and Fair Value Measurements (continued)

In accordance with GAAP, certain investments are measured at fair value using the NAV per share (or its equivalent) as a practical expedient and are not required to be classified in the fair value hierarchy. The amounts presented in the tables above are intended to permit reconciliation to the amounts presented in the statements of financial position.

#### *Alternative Investments*

The Foundation has three investments 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.

#### *Valued as Level 3 Investment Funds*

The following table provides a summary of changes in fair value of the Foundation's Level 3 assets for the years ended June 30:

	<u>2024</u>	<u>2023</u>
Beginning balance	\$ 18,046	\$ 17,820
Unrealized (loss) gain in fair value	<u>(1,412)</u>	<u>226</u>
Ending balance	<u>\$ 16,634</u>	<u>\$ 18,046</u>

### 6. Charitable Remainder Trusts Receivable

Charitable remainder trusts receivable consists of the following at June 30:

	<u>2024</u>	<u>2023</u>
Assets held in charitable remainder trusts in which the Foundation is both trustee and secondary beneficiary	\$ 2,942,576	\$ 2,854,731
Charitable remainder interests receivable from third parties	<u>16,634</u>	<u>18,046</u>
Total charitable remainder trusts receivable	<u>\$ 2,959,210</u>	<u>\$ 2,872,777</u>

## Pacific Legal Foundation

Notes to Financial Statements  
June 30, 2024 and 2023

### 7. Property and Equipment

On September 22, 2022, the Foundation sold real estate property consisting of land, a building, and building improvements located in Sacramento, California at a gross sales price of \$3,800,000. The book value of the property at the time of sale was \$2,813,889. The resulting net gain on the sale after netting closing costs, settlement charges, as well as the book value of the property, was \$804,487, which is included in the statement of activities for the year ended June 30, 2023 as revenue from non-operating activities.

Property and equipment consists of the following at June 30:

	<u>2024</u>	<u>2023</u>
Leasehold improvements	\$ 1,691,430	\$ 1,666,307
Furniture and equipment	<u>764,317</u>	<u>879,887</u>
Total property and equipment	2,455,747	2,546,194
Less: accumulated depreciation and amortization	<u>(1,840,113)</u>	<u>(1,770,181)</u>
Property and equipment, net	<u><u>\$ 615,634</u></u>	<u><u>\$ 776,013</u></u>

### 8. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at June 30:

	<u>2024</u>	<u>2023</u>
Time restricted:		
General operations	\$ 2,447,855	\$ 1,390,939
Charitable remainder trusts	1,037,528	1,010,693
Purpose restricted:		
Litigation	1,125,006	-
Communication	69,219	-
Perpetual in nature	<u>1,677,116</u>	<u>1,546,723</u>
Total net assets with donor restrictions	<u><u>\$ 6,356,724</u></u>	<u><u>\$ 3,948,355</u></u>

## Pacific Legal Foundation

Notes to Financial Statements  
June 30, 2024 and 2023

### 9. Endowments

The Foundation'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.

Net assets with donor restrictions that are perpetual in nature as of June 30, 2024 and 2023 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 \$92,598,093 and \$68,638,393 at June 30, 2024 and 2023, respectively, have been designated to provide annual income that is predictable and reliable to assure the ability of the Foundation to meet long-term professional obligations inherent in the nature of its litigation services.

#### Interpretation of Relevant Law

The Board of Trustees of the Foundation has interpreted the District of Columbia's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial gift amounts donated to the endowment, (b) the original value of subsequent gift amounts donated to the endowment, and (c) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Foundation and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation or depreciation of investments; (6) other resources of the Foundation; and (7) the investment policies of the Foundation.



## Pacific Legal Foundation

Notes to Financial Statements  
June 30, 2024 and 2023

### 9. Endowments (continued)

#### Spending Policy

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.

#### Return Objectives, Risk Parameters, and Strategies

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 long-term return on assets in excess of core inflation of at least 4%, net of investment-related fees.

#### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature would be reported by the Foundation in net assets with donor restrictions. There were no fund deficiencies at both June 30, 2024 and 2023.

#### Composition of Endowment Net Assets

Endowment net assets composition was as follows at June 30, 2024:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,677,116	\$ 1,677,116
Board-designated endowment fund	92,598,093	-	92,598,093
Total endowment net assets	<u>\$ 92,598,093</u>	<u>\$ 1,677,116</u>	<u>\$ 94,275,209</u>

## Pacific Legal Foundation

Notes to Financial Statements  
June 30, 2024 and 2023

### 9. Endowments (continued)

#### Composition of Endowment Net Assets (continued)

Endowment net assets composition was as follows at June 30, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 1,546,723	\$ 1,546,723
Board-designated endowment fund	68,638,393	-	68,638,393
Total endowment net assets	\$ 68,638,393	\$ 1,546,723	\$ 70,185,116

#### Changes in Endowment Net Assets

Changes in endowment net assets were as follows for the year ended June 30, 2024:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2023	\$ 68,638,393	\$ 1,546,723	\$ 70,185,116
Investment return, net	10,518,292	134,176	10,652,468
Contributions	20,529,729	-	20,529,729
Endowment funds used for operations	(6,904,545)	-	(6,904,545)
Endowment expenditures	(183,776)	(3,783)	(187,559)
Endowment net assets, June 30, 2024	\$ 92,598,093	\$ 1,677,116	\$ 94,275,209

## Pacific Legal Foundation

Notes to Financial Statements  
June 30, 2024 and 2023

### 9. Endowments (continued)

#### Changes in Endowment Net Assets (continued)

Changes in endowment net assets were as follows for the year ended June 30, 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2022	\$ 59,780,329	\$ 1,423,714	\$ 61,204,043
Investment return, net	7,460,798	126,582	7,587,380
Contributions	8,031,016	-	8,031,016
Endowment funds used for operations	(6,478,296)	-	(6,478,296)
Endowment expenditures	<u>(155,454)</u>	<u>(3,573)</u>	<u>(159,027)</u>
Endowment net assets, June 30, 2023	<u>\$ 68,638,393</u>	<u>\$ 1,546,723</u>	<u>\$ 70,185,116</u>

### 10. Line of Credit

The Foundation has a \$3,000,000 revolving line of credit agreement with Wells Fargo Bank that expires on July 10, 2025. This line of credit bears interest at a variable rate equal to the bank's prime rate of 6.92% and 6.66% for the years ended June 30, 2024 and 2023, respectively. There was no outstanding balance as of June 30, 2024 and 2023.

### 11. Leases

#### Office Leases

The Foundation leases office space for its headquarters in California under a long-term operating lease agreement, which expires on December 1, 2027. Additionally, the Foundation has an office lease in Virginia that expires on February 1, 2026, and another office lease in Florida that expires on January 1, 2027. Rental expense related to these agreements for June 30, 2024 and 2023 was \$778,289 and \$758,931, respectively.

**Pacific Legal Foundation**

Notes to Financial Statements  
June 30, 2024 and 2023

**11. Leases (continued)**

Office Leases (continued)

The Foundation adopted Topic 842 and recorded ROU assets and lease liabilities in the accompanying statements of financial position for the year ended June 30, 2023. To determine the present value of the lease payments, a weighted average discount rate was calculated using U.S Treasury bond rates as of July 1, 2023 with maturities aligned with the lease terms.

Supplemental qualitative information related to the operating office leases is as follows as of, and for the years ended June 30:

	2024	2023
Operating lease cost (lease expense)	\$ 632,949	\$ 631,511
Cash paid for amounts included in the measurement of lease liabilities – operating cash flows	\$ 628,617	\$ 305,030
ROU assets obtained in exchange for lease obligations	\$ 119,677	\$ 2,327,402
Weighted-average remaining lease term (in years)	2.5	3.3
Weighted-average discount rate	4.37%	4.43%

Maturities of the lease liabilities under the Foundation’s operating office leases are as follows for the years ending June 30:

2025	\$	760,429
2026		602,639
2027		233,810
2028		103,356
Total minimum lease payments		1,700,234
Less: discount to present value at 4.37%		(94,216)
Present value of operating lease liabilities	\$	1,606,018

## Pacific Legal Foundation

### Notes to Financial Statements June 30, 2024 and 2023

#### 11. Leases (continued)

##### Equipment Leases

The Foundation also leases office equipment under various operating leases. Total operating lease costs under these leases totaled \$42,288 and \$14,865 for the years ended June 30, 2024 and 2023, respectively. The ROU assets obtained in exchange for lease obligations under these leases totaled \$7,914 and \$160,986 at June 30, 2024 and 2023, respectively. The present value of lease liabilities under these leases totaled \$134,597 and \$160,986 at June 30, 2024 and 2023, respectively. The weighted-average discount rate used was 4.17% and 4.21% for the years ended June 30, 2024 and 2023, respectively.

Maturities of the lease liabilities under the Foundation's equipment leases are as follows for the years ending June 30:

2025	\$	38,786
2026		38,786
2027		38,786
2028		<u>29,274</u>
Total minimum lease payments		145,632
Less: discount to present value at 4.17%		<u>(11,036)</u>
Present value of operating lease liabilities	\$	<u><u>134,596</u></u>

#### 12. Pension Plan

The Foundation has a defined contribution pension plan under Section 403(b) of the Internal Revenue Code (IRC). 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 Foundation may make nonelective contributions. Plan expense was \$919,198 and \$1,097,538 for the years ended June 30, 2024 and 2023, respectively.

## **Pacific Legal Foundation**

Notes to Financial Statements  
June 30, 2024 and 2023

### **13. Methods Used for Allocation of Expenses from Management and General Activities**

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.

### **14. Income Taxes**

The Internal Revenue Service has determined that the Foundation is exempt from federal income taxes under IRC Section 501(c)(3), except for taxes on unrelated business income. The Foundation is not a private foundation under IRC Section 509(a)(1). No tax expense is recorded in the accompanying financial statements for the years ended June 30, 2024 and 2023, as there were no unrelated business activities.

Management evaluated the Foundation's tax positions and has concluded that the Foundation has taken no uncertain tax positions that require either recognition or disclosure in the accompanying financial statements.