

Pacific Legal Foundation

Financial Statements
and Independent Auditor's Report

June 30, 2025 and 2024

Pacific Legal Foundation

Financial Statements
June 30, 2025 and 2024

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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, 2025 and 2024; 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, 2025 and 2024, 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 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, slightly stylized font.

Vienna, Virginia
January 22, 2026

Pacific Legal Foundation

Statements of Financial Position June 30, 2025 and 2024

	2025	2024
Assets		
Cash	\$ 5,839,544	\$ 6,757,191
Investments	104,998,459	98,866,422
Contributions and grants receivable	1,813,549	2,447,855
Prepaid expenses and other assets	1,149,477	412,255
Charitable remainder trusts receivable	2,943,468	2,959,210
Property and equipment, net	678,696	615,634
Right-of-use assets – operating leases	797,641	1,496,268
Deferred compensation assets	707,115	464,414
Total assets	<u>\$ 118,927,949</u>	<u>\$ 114,019,249</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 2,897,942	\$ 1,496,661
Refundable advance	-	17,500
Liability to beneficiaries	3,801,341	3,796,938
Lease liabilities – operating leases	905,603	1,740,614
Deferred compensation liabilities	911,775	464,414
Total liabilities	<u>8,516,661</u>	<u>7,516,127</u>
Net Assets		
Without donor restrictions:		
Undesignated	6,547,174	7,522,488
Board-designated endowment fund	97,428,975	92,598,093
Total without donor restrictions	103,976,149	100,120,581
With donor restrictions	6,435,139	6,382,541
Total net assets	<u>110,411,288</u>	<u>106,503,122</u>
Total liabilities and net assets	<u>\$ 118,927,949</u>	<u>\$ 114,019,249</u>

See accompanying notes.

Pacific Legal Foundation

Statement of Activities
For the Year Ended June 30, 2025

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support			
Contributions and grants	\$ 22,086,314	\$ 4,191,816	\$ 26,278,130
Court-awarded attorney fees	982,021	-	982,021
Other income	93,498	-	93,498
Net assets released from restrictions	4,412,530	(4,412,530)	-
Total operating revenue and support	27,574,363	(220,714)	27,353,649
Expenses			
Program services:			
Legal activities	20,060,148	-	20,060,148
Public education	8,889,710	-	8,889,710
Total program services	28,949,858	-	28,949,858
Supporting services:			
Revenue development	2,522,463	-	2,522,463
General and administrative	3,768,615	-	3,768,615
Total supporting services	6,291,078	-	6,291,078
Total expenses	35,240,936	-	35,240,936
Change in Net Assets from Operations	(7,666,573)	(220,714)	(7,887,287)
Non-Operating Activities			
Investment return, net	11,041,706	200,031	11,241,737
Change in value of split-interest agreement	480,435	73,281	553,716
Change in Net Assets	3,855,568	52,598	3,908,166
Net Assets, beginning of year	100,120,581	6,382,541	106,503,122
Net Assets, end of year	\$ 103,976,149	\$ 6,435,139	\$ 110,411,288

See accompanying notes.

Pacific Legal Foundation

Statement of Activities
For the Year Ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support			
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)	-
Total operating revenue and support	42,222,402	2,251,142	44,473,544
Expenses			
Program services:			
Legal activities	15,564,349	-	15,564,349
Public education	6,223,966	-	6,223,966
Total program services	21,788,315	-	21,788,315
Supporting services:			
Revenue development	2,128,911	-	2,128,911
General and administrative	2,923,087	-	2,923,087
Total supporting services	5,051,998	-	5,051,998
Total expenses	26,840,313	-	26,840,313
Change in Net Assets from Operations	15,382,089	2,251,142	17,633,231
Non-Operating Activities			
Investment return, net	10,403,609	156,210	10,559,819
Change in value of split-interest agreement	238,782	26,834	265,616
Change in Net Assets	26,024,480	2,434,186	28,458,666
Net Assets, beginning of year	74,096,101	3,948,355	78,044,456
Net Assets, end of year	\$ 100,120,581	\$ 6,382,541	\$ 106,503,122

See accompanying notes.

Pacific Legal Foundation

Statement of Functional Expenses
For the Year Ended June 30, 2025

	Program Services			Supporting Services			Total
	Legal Activities	Public Education	Total Program Services	Revenue Development	General and Administrative	Total Supporting Services	
Personnel	\$ 16,660,596	\$ 5,195,510	\$ 21,856,106	\$ 1,453,008	\$ 2,248,596	\$ 3,701,604	\$ 25,557,710
Office expenses	434,935	546,300	981,235	664,501	275,348	939,849	1,921,084
Professional services	512,652	1,915,329	2,427,981	95,118	566,325	661,443	3,089,424
Occupancy	616,239	204,878	821,117	54,230	22,965	77,195	898,312
Travel, meetings, and events	1,085,533	962,494	2,048,027	239,072	355,726	594,798	2,642,825
Depreciation and amortization	188,398	58,956	247,354	16,534	5,793	22,327	269,681
Legal research	284,528	-	284,528	-	-	-	284,528
Direct case costs	188,938	-	188,938	-	814	814	189,752
Bank and business fees	-	-	-	-	197,424	197,424	197,424
Insurance	88,329	6,243	94,572	-	95,624	95,624	190,196
Total Expenses	\$ 20,060,148	\$ 8,889,710	\$ 28,949,858	\$ 2,522,463	\$ 3,768,615	\$ 6,291,078	\$ 35,240,936

See accompanying notes.

Pacific Legal Foundation

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

	Program Services			Supporting Services			
	Legal Activities	Public Education	Total Program Services	Revenue Development	General and Administrative	Total Supporting Services	Total
Personnel	\$ 13,031,161	\$ 3,639,492	\$ 16,670,653	\$ 1,068,736	\$ 1,622,684	\$ 2,691,420	\$ 19,362,073
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
Occupancy	598,554	186,335	784,889	43,577	86,199	129,776	914,665
Travel, meetings, and events	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
Legal research	155,762	-	155,762	-	-	-	155,762
Direct case costs	130,125	-	130,125	-	-	-	130,125
Bank and business fees	-	-	-	-	245,820	245,820	245,820
Insurance	74,415	23,006	97,421	5,448	7,547	12,995	110,416
Total Expenses	\$ 15,564,349	\$ 6,223,966	\$ 21,788,315	\$ 2,128,911	\$ 2,923,087	\$ 5,051,998	\$ 26,840,313

See accompanying notes.

Pacific Legal Foundation

Statements of Cash Flows
For the Years Ended June 30, 2025 and 2024

	2025	2024
Cash Flows from Operating Activities		
Change in net assets	\$ 3,908,166	\$ 28,458,666
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	269,681	277,005
Gain on disposal of property and equipment	(12,432)	-
Donation of marketable securities	(338,034)	(519,587)
Net realized and unrealized gain on investments	(9,090,108)	(8,864,409)
Amortization of right-of-use assets – operating leases	698,627	461,109
Change in operating assets and liabilities:		
(Increase) decrease in:		
Contributions and grants receivable	634,306	(1,602,216)
Prepaid expenses and other assets	(737,222)	(13,248)
Charitable remainder trusts receivable	15,742	(86,433)
Increase (decrease) in:		
Accounts payable and accrued expenses	1,401,281	42,183
Refundable advance	(17,500)	17,500
Liability to beneficiaries	4,403	359,469
Lease liabilities – operating leases, net	(835,011)	(543,243)
Deferred compensation liabilities, net	204,660	-
Net cash (used in) provided by operating activities	(3,893,441)	17,986,796
Cash Flows from Investing Activities		
Purchases of property and equipment	(320,311)	(116,626)
Purchases of investments	(25,531,105)	(30,870,587)
Proceeds from sales of investments	28,827,210	15,456,300
Net cash provided by (used in) investing activities	2,975,794	(15,530,913)
Net (Decrease) Increase in Cash	(917,647)	2,455,883
Cash, beginning of year	6,757,191	4,301,308
Cash, end of year	\$ 5,839,544	\$ 6,757,191

See accompanying notes.

Pacific Legal Foundation

Notes to Financial Statements
June 30, 2025 and 2024

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 guarantees of individual liberty.

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, 2025 and 2024

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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.

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 both June 30, 2025 and 2024, and accordingly, no allowance for uncollectible accounts has been established.

Charitable Remainder Trusts Receivable

Charitable remainder trust assets include the estimated fair value of irrevocable charitable trusts in which the Foundation is both trustee and secondary beneficiary, as well as irrevocable trusts in which the Foundation holds a beneficial interest, but is not trustee.

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 rates. 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, 2025 and 2024

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment acquisitions with a cost greater than \$5,000 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. Leasehold improvement costs are amortized ratably over the term of the respective leases.

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.

Liability to Beneficiaries

Liabilities to beneficiaries represent the present value of the future expected future cash flows to be paid to beneficiaries of irrevocable charitable remainder trusts and charitable gift annuities for which the Foundation is trustee and/or 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, 2025, the total liability to beneficiaries amount of \$3,801,341 comprised \$1,923,659 related to irrevocable charitable remainder trusts and \$1,877,682 related to charitable gift annuities. At June 30, 2024, the total liability to beneficiaries amount of \$3,796,938 comprised \$1,921,684 related to irrevocable charitable remainder trusts and \$1,875,254 related to charitable gift annuities. The total current portion of the liability to beneficiaries amount was \$599,279 and \$560,028 at June 30, 2025 and 2024, respectively.

Pacific Legal Foundation

Notes to Financial Statements
June 30, 2025 and 2024

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

Court-awarded attorney fees are recorded when collection is assured.

Revenue from all other sources is recognized when earned.

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 \$91,630 and \$202,379 during the years ended June 30, 2025 and 2024, respectively.

Reclassifications

Certain amounts in the 2024 financial statements have been reclassified to conform to the 2025 presentation. These reclassifications have no effect on the change in net assets previously reported.

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 and changes in value of split-interest agreements.

Pacific Legal Foundation

Notes to Financial Statements
June 30, 2025 and 2024

2. Summary of Significant Accounting Policies (continued)

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through January 22, 2026, 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.

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>2025</u>	<u>2024</u>
Cash	\$ 5,839,544	\$ 6,757,191
Investments	104,998,459	98,866,422
Contributions and grants receivable	<u>1,813,549</u>	<u>2,447,855</u>
Total financial assets	112,651,552	108,071,468
Less: restricted by donors with purpose restrictions	(2,700,515)	(1,194,225)
Less: restricted by donors with time restrictions	(450,000)	(700,000)
Less: donor-restricted endowment fund	(1,899,181)	(1,699,150)
Less: Board-designated endowment fund	<u>(97,428,975)</u>	<u>(92,598,093)</u>
Total available for general expenditures	<u>\$ 10,172,881</u>	<u>\$ 11,880,000</u>

Pacific Legal Foundation

Notes to Financial Statements
June 30, 2025 and 2024

3. Liquidity and Availability (continued)

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. As part of the annual budget process the Board reviews the status of the reserve fund and recommends any change to this allocation level for the next fiscal year. Although the Foundation does not intend to spend from the Board-designated reserve fund in excess of any annual appropriation, these funds could be made available in necessary. The Foundation invests cash in excess of daily requirements in short-term money market funds.

4. Concentrations 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.

Investments are exposed to various risks such as interest rate, market, and credit risks. The Foundation's charitable remainder trusts receivable are invested and subjected to the same 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:

	2025	2024
Interest and dividends	\$ 2,450,541	\$ 1,952,497
Net realized and unrealized gain	9,090,108	8,864,409
Less: investment management fees	<u>(298,912)</u>	<u>(257,087)</u>
Total investment return, net	<u>\$ 11,241,737</u>	<u>\$ 10,559,819</u>

Pacific Legal Foundation

Notes to Financial Statements
June 30, 2025 and 2024

5. Investments and Fair Value Measurements (continued)

The Foundation follows Financial Accounting Standards Board Accounting Standards Codification (ASC) 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.

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.

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 fair value hierarchy because their values are based on observable inputs, including quoted prices for similar securities and other market-corroborated data obtained from pricing services, rather than unadjusted quoted prices in active markets.

Pacific Legal Foundation

Notes to Financial Statements June 30, 2025 and 2024

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, 2025:

	Level 1	Level 2	Level 3	Total
Investments:				
Money market accounts	\$ 1,552,078	\$ -	\$ -	\$ 1,552,078
Equity mutual funds:				
Core	11,605,092	-	-	11,605,092
Emerging markets	2,325,420	-	-	2,325,420
International markets	4,161,174	-	-	4,161,174
Fixed income mutual funds:				
High yield	2,546,313	-	-	2,546,313
Emerging markets	158,743	-	-	158,743
U.S. investment grade bonds	900,524	-	-	900,524
Equity securities:				
Core	51,281,548	-	-	51,281,548
Foreign	1,207,142	-	-	1,207,142
Other real assets	2,577,740	-	-	2,577,740
Fixed income securities	-	26,682,685	-	26,682,685
Total investments	78,315,774	26,682,685	-	104,998,459
Beneficial interests in trusts:				
Charitable remainder trusts in which the Foundation is both trustee and secondary beneficiary	2,928,507	-	-	2,928,507
Charitable remainder interests receivable from third parties	-	-	14,961	14,961
Total beneficial interests in trusts	2,928,507	-	14,961	2,943,468
Total assets at fair value	\$ 81,244,281	\$ 26,682,685	\$ 14,961	\$ 107,941,927

Pacific Legal Foundation

Notes to Financial Statements June 30, 2025 and 2024

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	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, 2025 and 2024

5. Investments and Fair Value Measurements (continued)

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>2025</u>	<u>2024</u>
Beginning balance	\$ 16,634	\$ 18,046
Unrealized loss in fair value	<u>(1,673)</u>	<u>(1,412)</u>
Ending balance	<u><u>\$ 14,961</u></u>	<u><u>\$ 16,634</u></u>

6. Charitable Remainder Trusts Receivable

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

	<u>2025</u>	<u>2024</u>
Assets held in charitable remainder trusts in which the Foundation is both trustee and secondary beneficiary	\$ 2,928,507	\$ 2,942,576
Charitable remainder interests receivable from third parties	<u>14,961</u>	<u>16,634</u>
Total charitable remainder trusts receivable	<u><u>\$ 2,943,468</u></u>	<u><u>\$ 2,959,210</u></u>

Pacific Legal Foundation

Notes to Financial Statements
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7. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2025</u>	<u>2024</u>
Leasehold improvements	\$ 737,408	\$ 1,691,430
Construction in progress	28,390	-
Furniture and equipment	<u>529,497</u>	<u>764,317</u>
Total property and equipment	1,295,295	2,455,747
Less: accumulated depreciation and amortization	<u>(616,599)</u>	<u>(1,840,113)</u>
Property and equipment, net	<u><u>\$ 678,696</u></u>	<u><u>\$ 615,634</u></u>

8. Net Assets With Donor Restrictions

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

	<u>2025</u>	<u>2024</u>
Time restricted:		
General operations	\$ 724,634	\$ 2,437,888
Charitable remainder trusts	1,110,809	1,037,528
Purpose restricted:		
Property Rights	837,707	13,750
Equality and Opportunity	200,000	69,219
Separation of Powers	1,547,808	1,125,006
Legal operations (non-endowed)	115,000	-
Legal operations (unspent endowment earnings)	75,411	22,034
Perpetual in nature (corpuses)	<u>1,823,770</u>	<u>1,677,116</u>
Total net assets with donor restrictions	<u><u>\$ 6,435,139</u></u>	<u><u>\$ 6,382,541</u></u>

Pacific Legal Foundation

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9. Endowments

The Foundation's endowments include two donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments and are included with investments in the statements of financial position. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Board endowments of \$97,860,317 and \$92,598,093 at June 30, 2025 and 2024, 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. These funds are classified as net assets without donor restrictions.

Donor-restricted endowments of \$1,899,181 and \$1,699,150 as of June 30, 2025 and 2024, respectively, consist of two endowment funds to be invested in perpetuity. Gains, losses, and interest and dividends on donor-restricted endowments are available for appropriation for purposes as designated by the Board of Trustees in accordance with donor intent.

Interpretation of Relevant Law

The Foundation follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the state of California requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result, the Foundation classifies the original value of donor-restricted endowments as restricted in perpetuity and any accumulations as temporarily restricted (subject to donor intent) until appropriated for expenditure within net assets with donor restrictions.

Spending Policy

It is the policy of the Board of Trustees to allocate approximately 5.5% of the average endowment value, which includes both board-designated and donor-restricted endowment funds, over a three-year period for program operations. As part of the annual budget process, the Board of Trustees will review the status of the board-designated endowment fund and may approve any change to its allocation level for the next fiscal year. Any change in allocation level for donor-restricted funds will be consistent with donor intent and the prudence of care standards under UPMIFA for donor-restricted funds.

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Notes to Financial Statements
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9. Endowments (continued)

Return Objectives and Investment Policies

The endowment is invested to maximize returns without undue risk, with a target annualized return exceeding core inflation of at least 4%, net of fees.

Funds with Deficiencies

The fair value of assets associated with 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. There were no deficiencies reported in net assets with donor restrictions for the years ended June 30, 2025 and 2024.

Composition and Changes in Endowment Net Assets

Changes in endowment net assets were as follows for the year ended June 30, 2025:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2024	\$ 92,598,093	\$ 1,699,150	\$ 94,297,243
Investment return, net	10,763,359	204,025	10,967,384
Contributions	5,866,755	-	5,866,755
Endowment funds used for operations	(11,583,562)	-	(11,583,562)
Endowment expenditures	<u>(215,670)</u>	<u>(3,994)</u>	<u>(219,664)</u>
Endowment net assets, June 30, 2025	<u>\$ 97,428,975</u>	<u>\$ 1,899,181</u>	<u>\$ 99,328,156</u>

Pacific Legal Foundation

Notes to Financial Statements
June 30, 2025 and 2024

9. Endowments (continued)

Composition and Changes in Endowment Net Assets (continued)

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2023	\$ 68,638,393	\$ 1,546,723	\$ 70,185,116
Investment return, net	10,518,292	156,210	10,674,502
Contributions	20,529,729	-	20,529,729
Endowment funds used for operations	(6,904,545)	-	(6,904,545)
Endowment expenditures	<u>(183,776)</u>	<u>(3,783)</u>	<u>(187,559)</u>
Endowment net assets, June 30, 2024	<u>\$ 92,598,093</u>	<u>\$ 1,699,150</u>	<u>\$ 94,297,243</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 Secured Overnight Financing Rate (SOFR) + 1.5%. There was no outstanding balance as of June 30, 2025 and 2024.

11. Office Leases

The Foundation leases office space in Virginia, California, and Florida under long-term operating leases that expire between February 1, 2026 and December 1, 2027.

During 2025, the Foundation executed a lease agreement for its Virginia office that is scheduled to commence in fiscal year 2026; accordingly, the related lease liability and ROU asset will be recognized upon commencement of the lease in accordance with ASC 842.

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Notes to Financial Statements
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11. Office Leases (continued)

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

	2025	2024
Operating lease cost (lease expense)	\$ 642,490	\$ 632,949
Cash paid for amounts included in the measurement of lease liabilities – operating cash flows	\$ 760,429	\$ 628,617
Weighted-average remaining lease term (in years)	1.5	2.5
Weighted-average discount rate	4.37%	4.37%

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

2026	\$ 602,639
2027	233,810
2028	103,356
Total minimum lease payments	939,805
Less: discount to present value at 4.37%	(34,202)
Present value of operating lease liabilities	\$ 905,603

12. Retirement Plans

Defined Contribution

The Foundation has a defined contribution pension plan under Section 403(b) of the Internal Revenue Code (IRC). Employees are eligible to participate in the plan immediately upon hire. On a discretionary basis, the Foundation may elect to match part of an employee’s contributions, make a nonelective contribution, or both. Plan expense was \$1,693,904 and \$919,198 for the years ended June 30, 2025 and 2024, respectively.

Pacific Legal Foundation

Notes to Financial Statements
June 30, 2025 and 2024

12. Retirement Plans (continued)

Deferred Compensation

The Foundation has established a deferred compensation plan for certain eligible executives under IRC Section 457(b). The plan is a nonqualified deferred compensation plan. The Foundation made nonelective contributions under this plan, which totaled \$83,500 during the year ended June 30, 2025. Deferred compensation and investments designated for such deferrals are only available and taxable upon termination of employment, retirement, death, or an unforeseeable emergency. Until paid or made available to the participant or beneficiary, all deferred amounts, and investment earnings related thereto, are solely the property and rights of the Foundation. The balance in this plan as of June 30, 2025 and 2024 totaled \$707,115 and \$464,414, respectively. The assets are invested in equity and fixed income mutual funds which represent Level 1 assets and the related liability is considered a Level 2 instrument.

The Foundation also maintains a nonqualified deferred compensation plan under IRC Section 457(f) for certain key employees. The plan provides for deferred compensation payments contingent upon the employee's continued service through specified vesting dates. Deferred compensation expense is recognized over the requisite service period based on the present value of the benefits expected to be paid. The related liability is included in deferred compensation in the accompanying statements of financial position and is adjusted each period to reflect changes in assumptions, vesting status, and accretion of the obligation.

The plan is unfunded, and no assets have been set aside or segregated to fund the obligation. Accordingly, all benefits will be paid from the Foundation's general operating resources when amounts become payable. Because the plan is unfunded, participants have no secured interest in any specific assets of the Foundation, and the obligation remains subject to the claims of the Foundation's general creditors. At June 30, 2025, the deferred compensation liability and expense recorded under this plan totaled \$204,660.

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. These expenses are allocated on a reasonable basis that is consistently applied. When costs can be directly identified to a specific program or function, they are charged accordingly. Costs that support multiple program areas or functions are allocated based on labor allocations.

Pacific Legal Foundation

Notes to Financial Statements
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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, 2025 and 2024, 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.