



**WESTERN CENTER ON LAW AND POVERTY, INC.
AND THE WCLP ENDOWMENT FOUNDATION**

**CONSOLIDATED FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
and
ADDITIONAL INFORMATION**

DECEMBER 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Western Center on Law and Poverty, Inc.
and The WCLP Endowment Foundation

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Western Center on Law and Poverty, Inc. and The WCLP Endowment Foundation (nonprofit organizations), which comprise the Consolidated Statement of Financial Position as of December 31, 2018, and the related Consolidated Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Western Center on Law and Poverty, Inc. and The WCLP Endowment Foundation as of December 31, 2018, and the changes in its net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

continued

Other Matters

Other Information

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

Report on Summarized Comparative Information

We have previously audited Western Center on Law and Poverty, Inc. and The WCLP Endowment Foundation's December 31, 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated June 2, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2019, on our consideration of Western Center on Law and Poverty, Inc. and The WCLP Endowment Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Western Center on Law and Poverty, Inc. and The WCLP Endowment Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Western Center on Law and Poverty, Inc. and The WCLP Endowment Foundation's internal control over financial reporting and compliance.

Harrington Group

Pasadena, California

May 31, 2019

**WESTERN CENTER ON LAW AND POVERTY, INC.
AND THE WCLP ENDOWMENT FOUNDATION**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2018

With comparative totals at December 31, 2017

	Without Donor Restrictions	Without Donor Restrictions Board Designated	Total Without Donor Restrictions	With Donor Restrictions	2018	2017
ASSETS						
Cash	\$ 539,493	\$ 878	\$ 540,371	\$ 395,227	\$ 935,598	\$ 542,832
Grants and accounts receivable	185,525		185,525	1,151,514	1,337,039	1,092,192
Pledges receivable (Note 4)	149,596		149,596		149,596	170,505
Prepaid expenses and other assets	93,454		93,454		93,454	78,821
Investments (Note 5)	326,252	3,362,767	3,689,019		3,689,019	3,848,424
Property and equipment (Note 6)			-		-	-
TOTAL ASSETS	\$ 1,294,320	\$ 3,363,645	\$ 4,657,965	\$ 1,546,741	\$ 6,204,706	\$ 5,732,774
LIABILITIES AND NET ASSETS						
LIABILITIES						
Accounts payable	\$ 189,277	\$ -	\$ 189,277	\$ -	\$ 189,277	\$ 41,053
Accrued liabilities (Note 7)	248,636		248,636		248,636	212,950
TOTAL LIABILITIES	437,913	-	437,913	-	437,913	254,003
NET ASSETS						
Without donor restrictions	856,407		856,407		856,407	557,612
Without donor restrictions - board designated (Notes 2 and 10)		3,363,645	3,363,645		3,363,645	3,509,495
With donor restrictions (Note 9)			-	1,546,741	1,546,741	1,411,664
TOTAL NET ASSETS	856,407	3,363,645	4,220,052	1,546,741	5,766,793	5,478,771
TOTAL LIABILITIES AND NET ASSETS	\$ 1,294,320	\$ 3,363,645	\$ 4,657,965	\$ 1,546,741	\$ 6,204,706	\$ 5,732,774

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

**WESTERN CENTER ON LAW AND POVERTY, INC.
AND THE WCLP ENDOWMENT FOUNDATION**

CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended December 31, 2018
With comparative totals for the year ended December 31, 2017

	Without Donor Restrictions	Without Donor Restrictions Board Designated	Total Without Donor Restrictions	With Donor Restrictions	2018	2017
REVENUE AND SUPPORT						
Grants	\$ 290,000	\$ -	\$ 290,000	\$ 1,722,827	\$ 2,012,827	\$ 1,990,296
Court awarded fees and costs	1,210,350		1,210,350		1,210,350	855,678
Special events, net of direct benefits of \$90,047	934,892		934,892		934,892	884,157
Contract revenue	183,646		183,646		183,646	241,427
Contributions	77,158		77,158		77,158	78,369
Other income	7,426	204	7,630		7,630	15,418
Publications, net	4,956		4,956		4,956	19,308
Cy-près	725		725		725	24,918
Investment (loss)/income, net	(8,805)	(146,054)	(154,859)		(154,859)	448,266
Net assets released from purpose restrictions	1,013,602		1,013,602	(1,013,602)	-	-
Net assets released from time restrictions	574,148		574,148	(574,148)	-	-
TOTAL REVENUE AND SUPPORT	4,288,098	(145,850)	4,142,248	135,077	4,277,325	4,557,837
EXPENSES						
Program services	3,151,554		3,151,554		3,151,554	3,162,821
Management and general	359,035		359,035		359,035	360,322
Fundraising	478,714		478,714		478,714	480,431
TOTAL EXPENSES	3,989,303	-	3,989,303	-	3,989,303	4,003,574
CHANGE IN NET ASSETS	298,795	(145,850)	152,945	135,077	288,022	554,263
NET ASSETS, BEGINNING OF YEAR	557,612	3,509,495	4,067,107	1,411,664	5,478,771	4,924,508
NET ASSETS, END OF YEAR	\$ 856,407	\$ 3,363,645	\$ 4,220,052	\$ 1,546,741	\$ 5,766,793	\$ 5,478,771

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

**WESTERN CENTER ON LAW AND POVERTY, INC.
AND THE WCLP ENDOWMENT FOUNDATION**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2018

With comparative totals for the year ended December 31, 2017

	Program	Management		Total Expenses	
	Services	and General		Fundraising	2018
Salaries	\$ 1,979,365	\$ 225,497	\$ 300,663	\$ 2,505,525	\$ 2,636,780
Payroll taxes	146,312	16,668	22,224	185,204	194,814
Employee benefits	307,768	35,062	46,750	389,580	338,327
Total personnel costs	<u>2,433,445</u>	<u>277,227</u>	<u>369,637</u>	<u>3,080,309</u>	<u>3,169,921</u>
Occupancy	255,185	29,072	38,762	323,019	313,371
Contract expenses	118,724	13,525	18,034	150,283	61,358
Library and online research	60,823	6,929	9,239	76,991	51,055
Travel	46,921	5,345	7,127	59,393	64,833
Office expenses	46,733	5,324	7,099	59,156	71,134
Telephone	40,477	4,611	6,148	51,236	58,596
Technology	29,509	3,362	4,482	37,353	48,901
Dues and subscriptions	29,457	3,356	4,474	37,287	35,252
Insurance	21,317	2,429	3,238	26,984	26,905
Accounting	20,754	2,364	3,152	26,270	23,899
Litigation and advocacy	17,408	1,983	2,644	22,035	16,296
Staff development	14,484	1,650	2,200	18,334	17,952
Printing and publications	8,086	921	1,228	10,235	3,787
Postage and shipping	4,847	552	736	6,135	5,196
Conferences and meetings	3,384	385	514	4,283	35,118
TOTAL 2018 FUNCTIONAL EXPENSES	<u><u>\$ 3,151,554</u></u>	<u><u>\$ 359,035</u></u>	<u><u>\$ 478,714</u></u>	<u><u>\$ 3,989,303</u></u>	
TOTAL 2017 FUNCTIONAL EXPENSES	<u><u>\$ 3,162,821</u></u>	<u><u>\$ 360,322</u></u>	<u><u>\$ 480,431</u></u>		<u><u>\$ 4,003,574</u></u>

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

**WESTERN CENTER ON LAW AND POVERTY, INC.
AND THE WCLP ENDOWMENT FOUNDATION**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

With comparative totals for the year ended December 31, 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 288,022	\$ 554,263
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss/(gain) on investments, net	224,959	(355,129)
Reinvested interest and dividends	(85,081)	(89,976)
(Increase) decrease in operating assets:		
Grants and accounts receivable	(244,847)	306,997
Pledges receivable	20,909	(63,630)
Prepaid expenses and other assets	(14,633)	(216)
Increase (decrease) in operating liabilities:		
Accounts payable	148,224	(50,037)
Accrued liabilities	35,686	(283,262)
	373,239	19,010
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	19,527	257,128
Purchases of investments	-	(260,548)
	19,527	(3,420)
NET INCREASE IN CASH	392,766	15,590
CASH, BEGINNING OF YEAR	542,832	527,242
CASH, END OF YEAR	\$ 935,598	\$ 542,832

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

WESTERN CENTER ON LAW AND POVERTY, INC. AND THE WCLP ENDOWMENT FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Organization**

Mission

Western Center on Law and Poverty, Inc. (“WCLP”), leads the fight in the courts, counties, and capital to secure housing, health care, and a strong safety net for low-income Californians. We fight to end poverty in California. The WCLP Endowment Foundation (“Foundation”) was formed as a supporting organization to WCLP. Due to common control of these organizations and an economic interest, consolidated financial statements are prepared for both WCLP and the Foundation, collectively referred to as (“the Center”).

History

WCLP was founded in 1967 during the War on Poverty by a passionate group of attorneys and legal scholars from California law schools who sought to create a unique organization, guided by the belief that all Californians deserve the finest possible legal representation before the institutions that shape their lives. WCLP’s founders recognized that, while frontline legal aid programs were invaluable to individuals, there was a need for coordinated strategies to win expansive victories for thousands, and in some cases millions, of Californians at a time.

Programs

Today, working for, and with, poor communities and communities of color, WCLP’s approach has evolved into a multi-issue model that artfully combines high impact litigation, policy and administrative advocacy, and technical assistance and education for nearly 100 California legal aid programs as well as community-based organizations. WCLP’s millions of clients include immigrants, women and girls, disabled individuals, people experiencing homelessness, and low-income working families. By applying a coordinated concert of tools, WCLP ensures that low-income Californians receive the support they are entitled to, and fights for them to keep the precious assets they do have. In all of its work, WCLP actively seeks to eliminate racial disparities and achieve racial equity in California.

Housing and Homelessness: WCLP ensures that residents have access to healthy, sustainable and affordable housing in neighborhoods of their choosing, and we advocate for strong, clear, and enforceable anti-displacement protections. All of WCLP’s work seeks to address California’s housing crisis and its disproportionate effects on the most vulnerable Californians and unhoused individuals by: (1) protecting tenants from eviction and landlord abuse, and ensuring access to housing; (2) preserving the existing housing stock; and (3) promoting equitable planning and development.

Financial Security: WCLP works to make our state a more equitable place to live by providing a roadmap to financial security and economic justice for families and individuals who need it most by: (1) expanding access to jobs, take home income, and opportunity for Californians experiencing poverty; (2) ensuring state and local governments adequately implement mandated public benefits, and taking them to court if and when they don’t; (3) reducing the criminalization of poverty and racial bias in anti-poverty programs, public institutions, work environments, and child support systems; (4) fighting to end the high costs of poverty by reducing or eliminating high fees, fines and costs associated with the criminal justice system, traffic courts, parking tickets and towing of cars; and (5) ending predatory financial services and laws that allow debt-collector-take-all practices.

**WESTERN CENTER ON LAW AND POVERTY, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization, continued

Health Care: WCLP believes access to health care is a human right. California led the way in implementing the Affordable Care Act, but many Californians still do not have care, and even more are paying too much for the care they have. WCLP works to preserve and expand access to health care for all Californians regardless of immigration, age, or health status and help them avoid the health-poverty trap by: (1) advocating for improvements to health programs that serve low-income Californians; (2) enforcing health consumer rights and protections; (3) expanding Medi-Cal to cover ALL Californians who need it, and ensuring that Medi-Cal plans and providers deliver equitable, quality care; and (4) shoring up state health care policies to protect Californians from federal attacks on its health care system.

Access to Justice: WCLP believes that the right to be heard in the courts, administrative hearings and in Sacramento is the entitlement of every Californian. WCLP works to: (1) enforce due process and language access rights to guarantee every poor person their “day in court”; (2) ensure adequate funding for legal services programs and that they will be fairly paid for their work by assisting local programs secure attorneys’ fees; and (3) increase access to civil legal representation.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements is as follows:

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of WCLP and the Foundation. All intercompany transactions and balances have been eliminated upon consolidation.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the Center are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

**WESTERN CENTER ON LAW AND POVERTY, INC.
AND THE WCLP ENDOWMENT FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Without Donor Restrictions. These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Without Donor Restrictions – Board Designated. These are comprised of resources that the Board of Directors has established as being designated for future program operations and are comprised of Board designated, endowed funds. For purposes of complying with net assets accounting, these assets are included in net assets without donor restrictions at December 31, 2018. The Center has Board designated net assets of \$3,363,645 at December 31, 2018.

With Donor Restrictions. The Center reports gifts of cash and other assets as donor-restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, donor-restricted net assets are reclassified to net assets without donor restrictions and reported in the Consolidated Statement of Activities as net assets released from restrictions. The Center has donor-restricted net assets of \$1,546,741 at December 31, 2018.

Client Cash Accounts

The Center maintains a separate cash account for its clients. These are funds awarded by the court for WCLP clients and are maintained in these accounts until distribution.

Investments

The Center values its investments at fair value. Realized and unrealized gains or losses (including investments bought, sold, and held during the period) are reflected in the Consolidated Statement of Activities as investment income (loss) gain, net.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

The Center is required to measure certain investments at fair value. The specified technique used to measure fair value for the consolidated financial statement element is described in the note below that relates to the element.

continued

**WESTERN CENTER ON LAW AND POVERTY, INC.
AND THE WCLP ENDOWMENT FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Grants and Accounts Receivable, and Pledges Receivable

The Center receives substantial grant revenue from private foundations, as well as support from individuals, corporations, and trusts. Unconditional contributions and pledges are recognized as revenues in the period received or pledged. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. The Center reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the contribution.

Court awarded fees and cy-près are recognized as revenue upon the court's final approval of the settlement.

At December 31, 2018, management assessed the collectability of grants and accounts receivable, and pledges receivable, concluding that no allowance was considered necessary. Furthermore, management did not record discounts on its grants receivable which are expected to be collected in greater than one year as the amount is not deemed material to the consolidated financial statements.

Concentration of Credit Risks

The Center places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. The Center has not incurred losses related to these investments.

The Center holds investments in the form of money market funds, bond funds, equity funds, and a private placement limited partnership. Market values of such investments are routinely reviewed by the Investment Committee.

Property and Equipment

Property and equipment are recorded at cost or at fair value at the date of donation, if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Estimated useful lives of equipment and the law library are 3-7 years, and 10 years, respectively. The law library was donated to the Center in 1975 and recorded at fair value.

Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to five thousand dollars and the useful life is greater than one year.

Income Taxes

The Center is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

**WESTERN CENTER ON LAW AND POVERTY, INC.
AND THE WCLP ENDOWMENT FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Center in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Center's returns are subject to examination by federal taxing authorities, generally for three years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing the Center's programs and other activities have been presented in the Consolidated Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. The Center uses the percentage of staff time to allocate indirect costs.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Recently Adopted Accounting Pronouncement

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now titled "without donor restrictions" and "with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed-in-service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for the periods prior to adoption. The Center's consolidated financial statements for year-ended December 31, 2018 are presented in accordance with ASU 2016-14.

**WESTERN CENTER ON LAW AND POVERTY, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Comparative Totals

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center's consolidated financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Reclassifications

Certain amounts have been reclassified for the year ended December 31, 2017 to conform to the presentation for the year ended December 31, 2018.

Subsequent Events

Management has evaluated subsequent events through May 31, 2019, the date which the consolidated financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the consolidated financial statements.

3. Liquidity and Availability of Resources

WCLP regularly monitors liquidity required to meet its operating needs. A detailed monthly cash flow statement is maintained over a twenty-four-month period. WCLP has various sources of liquidity at its disposal, including cash, cash equivalents and an investment account.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, WCLP considers all expenditures related to its ongoing activities.

In addition to financial assets available to meet general expenditures over the next 12 months, WCLP operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted revenue.

WCLP's Board designated (quasi-endowment) fund, managed by the Foundation Board, consists of invested funds. The board-designated endowment, in the amount of \$3,363,645 as of December 31, 2018, is subject to an annual spending rate of 4.5 percent. However, the Board may distribute funds as cash flows needs or opportunities are presented for general use. Although we do not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of our Board's annual budget approval and appropriation policies), these amounts could be made available if necessary, in the event of delayed attorneys' fee awards or other contingencies.

**WESTERN CENTER ON LAW AND POVERTY, INC.
AND THE WCLP ENDOWMENT FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Liquidity and Availability of Resources, continued

The information below shows the total liquid financial assets held by WCLP at December 31, 2018 which would be available to meet general expenditures within one year of the statement of financial position date. These assets are in addition to the invested funds (noted above) as held by the Foundation.

Cash	\$ 934,663
Grants and accounts receivable**	1,337,039
Pledges receivable	149,596
Investments convertible to cash	<u>326,252</u>
	<u>\$2,747,550</u>

**Includes grants restricted by donors for purpose and time but expected to be released for expenditures within one year of the statement of financial position date.

4. Pledges Receivable

Pledges receivable are recorded as support when pledged unless designated otherwise. Management deems pledges receivable to be fully collectible and, therefore, no allowance for doubtful accounts has been established. Pledges receivable at December 31, 2018 consists of \$149,596. The balance of pledges receivable at December 31, 2018 is expected to be collected within one year.

5. Investments

Composition of investments at December 31, 2018 is as follows:

Equity funds	\$2,056,402
Bond funds	1,502,433
Private limited partnership	118,173
Money market funds	<u>12,011</u>
Total	<u>\$3,689,019</u>

Significant information about investments at December 31, 2018 is summarized as follows:

Beginning balance, January 1, 2018	\$3,848,424
Purchases	-
Sales	(19,527)
Loss on investments	(224,959)
Interest and dividends reinvested	<u>85,081</u>
Ending balance, December 31, 2018	<u>\$3,689,019</u>

continued

**WESTERN CENTER ON LAW AND POVERTY, INC.
AND THE WCLP ENDOWMENT FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Property and Equipment

Property and equipment at December 31, 2018 consists of the following:

Law library	\$ 240,330
Computer equipment	19,310
Less: accumulated depreciation	<u>(259,640)</u>
	<u>\$ -</u>

7. Accrued Liabilities

Accrued liabilities at December 31, 2018 consist of the following:

Accrued vacation and compensatory time	\$241,358
Other accrued liabilities	<u>7,278</u>
	<u>\$248,636</u>

8. Commitments and Contingencies

Obligations Under Operating Leases

The Center leases offices under operating leases. Future minimum payments under these leases, with an initial or remaining term of one year or more, are as follows:

<u>Year ending December 31,</u>	
2019	\$224,276
2020	231,021
2021	<u>73,921</u>
	<u>\$529,218</u>

Rental expense under operating leases was \$255,596 for the year ended December 31, 2018, and is included in occupancy expense in the Consolidated Statement of Functional Expenses. Rental income from month-to-month subleases for the year ended December 31, 2018 was \$9,000.

Contracts and Grants

The Center's contracts and grants are subject to inspection and audit by the appropriate state and county funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously-funded program costs. The ultimate liability, if any, which may result from these audits cannot be reasonably estimated and, accordingly, the Center has no provisions for the possible disallowance of program costs on its consolidated financial statements.

continued

**WESTERN CENTER ON LAW AND POVERTY, INC.
AND THE WCLP ENDOWMENT FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2018 consist of assets restricted for the following:

<u>Purpose restrictions</u>	
Public Benefits	\$ 438,688
Health	329,369
Housing	<u>283,908</u>
	1,051,965
<u>Time restrictions</u>	<u>494,776</u>
	<u>\$1,546,741</u>

10. Board Designated Endowment

The board-designated endowment, in the amount of \$3,363,645 as of December 31, 2018, is subject to an annual spending rate of 4.5 percent. However, the Center Board may distribute funds as cash flows needs or opportunities are presented for general use. As a Board designated endowment, these assets are included as a component of net assets without donor restrictions. Significant information about the Board designated endowment as of December 31, 2018 is as follows:

Board designated endowment net asset composition by type of fund:

Board designated	<u>\$3,363,645</u>
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Changes in board designated endowment net assets:

	<u>Unrestricted</u>
Beginning of year, January 1, 2018	\$3,509,495
Purchases (add to cash in bank)	204
Sales	-
Investment loss, net	<u>(146,054)</u>
End of year, December 31, 2018	<u>\$3,363,645</u>

<u>Investment loss, net</u>	
Interest and dividends	\$ 74,976
Loss on investments	<u>(221,030)</u>
	<u>\$ (146,054)</u>

**WESTERN CENTER ON LAW AND POVERTY, INC.
AND THE WCLP ENDOWMENT FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Fair Market Value

The table below presents the balances of assets or liabilities measured at fair value at December 31, 2018 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Government money market fund	\$ 12,011	\$ -	\$ -	\$ 12,011
Bond funds				
Intermediate core bond	977,457			977,457
High income bond	186,674			186,674
Inflation-protected	152,395			152,395
Intermediate-term	130,530			130,530
Multisector	32,220			32,220
Tactical allocation bond	<u>23,157</u>			<u>23,157</u>
	<u>1,502,433</u>	-	-	<u>1,502,433</u>
Stock funds				
Large blend	1,663,739			1,663,739
Foreign large blend	252,539			252,539
Emerging markets	87,993			87,993
Large growth	<u>52,131</u>			<u>52,131</u>
	<u>2,056,402</u>	-	-	<u>2,056,402</u>
Private limited partnership			<u>118,173</u>	<u>118,173</u>
Fair value at December 31, 2018	<u>\$3,570,846</u>	<u>\$ -</u>	<u>\$118,173</u>	<u>\$3,689,019</u>

The fair value of marketable securities within the Level 1 inputs are based on quoted market prices as of the closing of the last business day of the fiscal year.

The fair value of the private limited partnership within the Level 3 inputs is based on estimates using the best information available when there is little or no market. As of December 31, 2018, the fair value of the private limited partnership (as shown in the investment statement provided by the Center's securities institution) is based on information provided to them by the management of the partnership and represents the estimated share of net assets.

Beginning balance, private limited partnership at January 1, 2018	\$137,700
Purchases	-
Sales	<u>(19,527)</u>
Ending balance, private limited partnership at December 31, 2018	<u>\$118,173</u>

continued

**WESTERN CENTER ON LAW AND POVERTY, INC.
AND THE WCLP ENDOWMENT FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Employee Benefit Plan

The Center sponsors a 403(b) tax shelter annuity (“TSA”) plan for the benefit of its employees, all of whom are eligible to participate after meeting minimum eligibility requirements. The Center has elected to make bi-weekly discretionary contributions to the TSA plan on behalf of participating employees, as well as a dollar for dollar matching contribution up to \$1,000 of a participating employee’s salary deferral. For the year ended December 31, 2018, the Center’s contributions to the plan were \$127,008.

SUPPLEMENTARY INFORMATION

**WESTERN CENTER ON LAW AND POVERTY, INC.
AND THE WCLP ENDOWMENT FOUNDATION**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2018

With comparative totals at December 31, 2017

	WCLP	The WCLP Endowment Foundation	2018	2017
Assets				
Cash	\$ 934,720	\$ 878	\$ 935,598	\$ 542,832
Grants and accounts receivable	1,337,039		1,337,039	1,092,192
Pledges receivable (Note 4)	149,596		149,596	170,505
Prepaid expenses and other assets	93,454		93,454	78,821
Investments (Note 5)	326,252	3,362,767	3,689,019	3,848,424
Property and equipment (Note 6)			-	-
Total assets	\$ 2,841,061	\$ 3,363,645	\$ 6,204,706	\$ 5,732,774
Liabilities and net assets				
Liabilities				
Accounts payable	\$ 189,277	\$ -	\$ 189,277	\$ 41,053
Accrued liabilities (Note 7)	248,636		248,636	212,950
Total liabilities	437,913	-	437,913	254,003
Net assets				
Without donor restrictions	856,407		856,407	557,612
Without donor restrictions - Board designated (Notes 2 and 10)		3,363,645	3,363,645	3,509,495
With donor restrictions (Note 9)	1,546,741		1,546,741	1,411,664
Total net assets	2,403,148	3,363,645	5,766,793	5,478,771
Total liabilities and net assets	\$ 2,841,061	\$ 3,363,645	\$ 6,204,706	\$ 5,732,774

See independent auditors' report.

**WESTERN CENTER ON LAW AND POVERTY, INC.
AND THE WCLP ENDOWMENT FOUNDATION**

CONSOLIDATING STATEMENT OF ACTIVITIES

For the year ended December 31, 2018

With comparative totals for the year ended December 31, 2017

	WCLP	The WCLP Endowment Foundation	2018	2017
Revenue and support				
Grants	\$ 2,012,827	\$ -	\$ 2,012,827	\$ 1,990,296
Court awarded fees and costs	1,210,350		1,210,350	855,678
Special events, net of direct benefits of \$90,047	934,892		934,892	884,157
Contract revenue	183,646		183,646	241,427
Contributions	77,158		77,158	78,369
Other income	7,426	204	7,630	15,418
Publications, net	4,956		4,956	19,308
Cy-près	725		725	24,918
Investment (loss)/income, net	(8,805)	(146,054)	(154,859)	448,266
Total revenue and support	4,423,175	(145,850)	4,277,325	4,557,837
Expenses				
Program services	3,151,554		3,151,554	3,162,821
Management and general	359,035		359,035	360,322
Fundraising	478,714		478,714	480,431
Total expenses	3,989,303	-	3,989,303	4,003,574
Change in net assets	433,872	(145,850)	288,022	554,263
Net assets, beginning of year	1,969,276	3,509,495	5,478,771	4,924,508
Net assets, end of year	\$ 2,403,148	\$ 3,363,645	\$ 5,766,793	\$ 5,478,771

See independent auditors' report.

ADDITIONAL INFORMATION



**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

To the Board of Directors
Western Center on Law and Poverty, Inc.
and The WCLP Endowment Foundation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to consolidated financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Western Center on Law and Poverty, Inc. and The WCLP Endowment Foundation, collectively referred to as (“the Center”) which comprise the Consolidated Statement of Financial Position as of December 31, 2018, and the related Consolidated Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 31, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Center’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Center’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***
continued

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Group

Pasadena, California
May 31, 2019