

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

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

DECEMBER 31, 2022

CONTENTS

Independent Auditors' Report	1-2
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5-6
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8-17
Supplementary Information:	
Consolidating Statement of Financial Position	18
Consolidating Statement of Activities	19
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 <i>Government Auditing Standards</i>	20-21

INDEPENDENT AUDITORS' REPORT

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

Opinion

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, 2022, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Western Center on Law and Poverty, Inc. and The WCLP Endowment Foundation as of December 31, 2022, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Western Center on Law and Poverty, Inc. and The WCLP Endowment Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Western Center on Law and Poverty, Inc. and The WCLP Endowment Foundation's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 and *Government 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 consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

continued

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Western Center on Law and Poverty, Inc. and The WCLP Endowment 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Western Center on Law and Poverty, Inc. and The WCLP Endowment Foundation's ability to continue as a going concern for a reasonable period of time.

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.

Other Matter

Report on Summarized Comparative Information

We have previously audited Western Center on Law and Poverty, Inc. and The WCLP Endowment Foundation's December 31, 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated June 28, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, 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 1, 2023, 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 1, 2023

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2022

With comparative totals at December 31, 2021

	Without Donor Restrictions	Without Donor Restrictions Board Designated	Total Without Donor Restrictions	With Donor Restrictions	2022	2021
ASSETS						
Cash	\$ 97,068	\$ 706	\$ 97,774	\$ 1,466,353	\$ 1,564,127	\$ 1,015,670
Grants and accounts receivable	84,381		84,381	2,035,584	2,119,965	2,270,354
Pledges receivable (Note 4)	34,827		34,827		34,827	35,194
Prepaid expenses and other assets	138,558		138,558		138,558	133,094
Investments (Note 5)	377,671	3,875,102	4,252,773		4,252,773	5,275,184
Property and equipment (Note 6)			-		-	-
Right of use assets - operating (Note 8)	971,503		971,503		971,503	-
TOTAL ASSETS	\$ 1,704,008	\$ 3,875,808	\$ 5,579,816	\$ 3,501,937	\$ 9,081,753	\$ 8,729,496
LIABILITIES AND NET ASSETS						
LIABILITIES						
Accounts payable	\$ 21,121	\$ -	\$ 21,121	\$ -	\$ 21,121	\$ 63,117
Accrued liabilities (Note 7)	294,757		294,757		294,757	304,964
Lease liability - operating leases (Note 8)	984,074		984,074		984,074	-
TOTAL LIABILITIES	1,299,952	-	1,299,952	-	1,299,952	368,081
NET ASSETS						
Without donor restrictions	404,056		404,056		404,056	628,703
Without donor restrictions - board designated (Notes 2 and 11)		3,875,808	3,875,808		3,875,808	4,848,777
With donor restrictions (Notes 2 and 10)			-	3,501,937	3,501,937	2,883,935
TOTAL NET ASSETS	404,056	3,875,808	4,279,864	3,501,937	7,781,801	8,361,415
TOTAL LIABILITIES AND NET ASSETS	\$ 1,704,008	\$ 3,875,808	\$ 5,579,816	\$ 3,501,937	\$ 9,081,753	\$ 8,729,496

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, 2022
With comparative totals for the year ended December 31, 2021

	Without Donor Restrictions	Without Donor Restrictions Board Designated	Total Without Donor Restrictions	With Donor Restrictions	2022	2021
REVENUE AND SUPPORT						
Grants	\$ 118,435	\$ -	\$ 118,435	\$ 3,688,759	\$ 3,807,194	\$ 3,033,882
Special events, net of costs of \$119,462	453,651		453,651		453,651	490,728
Court awarded fees and costs	453,339		453,339		453,339	810,715
Contributions	349,117		349,117		349,117	429,842
Contract revenue	160,955		160,955		160,955	161,472
Publications, net	3,812		3,812		3,812	-
Investment (loss) income, net	(44,804)	(792,865)	(837,669)		(837,669)	651,613
Cy-près awards			-		-	45,000
Net assets released from purpose restrictions	3,070,757		3,070,757	(3,070,757)	-	-
Net assets released from board designation	180,000	(180,000)	-		-	-
TOTAL REVENUE AND SUPPORT	4,745,262	(972,865)	3,772,397	618,002	4,390,399	5,623,252
EXPENSES						
Program services	4,025,709		4,025,709		4,025,709	3,880,936
Management and general	596,299	104	596,403		596,403	540,385
Fundraising	347,901		347,901		347,901	491,259
TOTAL EXPENSES	4,969,909	104	4,970,013	-	4,970,013	4,912,580
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	(224,647)	(972,969)	(1,197,616)	618,002	(579,614)	710,672
OTHER CHANGES						
Forgiveness of paycheck protection program loan			-		-	668,750
CHANGE IN NET ASSETS	(224,647)	(972,969)	(1,197,616)	618,002	(579,614)	1,379,422
NET ASSETS, BEGINNING OF YEAR	628,703	4,848,777	5,477,480	2,883,935	8,361,415	6,981,993
NET ASSETS, END OF YEAR	\$ 404,056	\$ 3,875,808	\$ 4,279,864	\$ 3,501,937	\$ 7,781,801	\$ 8,361,415

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, 2022

With comparative totals for the year ended December 31, 2021

	<u>Program Services</u>			<u>Total Program Services</u>
	<u>Health</u>	<u>Housing</u>	<u>Public Benefits/ Economic Justice</u>	
Salaries	\$ 801,350	\$ 832,559	\$ 823,467	\$ 2,457,376
Payroll taxes	58,913	61,207	60,538	180,658
Employee benefits	99,698	103,580	102,449	305,727
Total personnel costs	<u>959,961</u>	<u>997,346</u>	<u>986,454</u>	<u>2,943,761</u>
Occupancy	96,382	100,135	99,042	295,559
Contract expenses	91,619	95,187	94,147	280,953
Office expenses	36,242	37,654	37,242	111,138
Library and online research	26,496	27,529	27,228	81,253
Dues and subscriptions	15,454	16,056	15,881	47,391
Telephone	15,427	16,028	15,853	47,308
Insurance	14,333	14,892	14,729	43,954
Travel	13,112	13,622	13,473	40,207
Technology	10,377	10,782	10,664	31,823
Staff development	8,625	8,960	8,862	26,447
Accounting	8,244	8,566	8,472	25,282
Litigation and advocacy	7,763	8,065	7,977	23,805
Printing and publications	4,158	4,320	4,273	12,751
Conferences and meetings	3,551	3,690	3,650	10,891
Postage and shipping	1,039	1,079	1,068	3,186
TOTAL 2022 FUNCTIONAL EXPENSES	<u>\$ 1,312,783</u>	<u>\$ 1,363,911</u>	<u>\$ 1,349,015</u>	<u>\$ 4,025,709</u>
TOTAL 2021 FUNCTIONAL EXPENSES	<u>\$ 1,265,573</u>	<u>\$ 1,314,861</u>	<u>\$ 1,300,502</u>	<u>\$ 3,880,936</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 FUNCTIONAL EXPENSES

For the year ended December 31, 2022

With comparative totals for the year ended December 31, 2021

continued

	Total Program Services	Management and General	Fundraising	Total Expenses	
				2022	2021
Salaries	\$ 2,457,376	\$ 364,056	\$ 212,366	\$ 3,033,798	\$ 3,121,314
Payroll taxes	180,658	26,764	15,612	223,034	230,836
Employee benefits	305,727	45,293	26,421	377,441	449,995
Total personnel costs	<u>2,943,761</u>	<u>436,113</u>	<u>254,399</u>	<u>3,634,273</u>	<u>3,802,145</u>
Occupancy	295,559	43,786	25,542	364,887	349,806
Contract expenses	280,953	41,623	24,280	346,856	293,072
Office expenses	111,138	16,465	9,605	137,208	94,136
Library and online research	81,253	12,037	7,022	100,312	95,141
Dues and subscriptions	47,391	7,021	4,096	58,508	53,949
Telephone	47,308	7,008	4,088	58,404	67,387
Insurance	43,954	6,512	3,798	54,264	44,858
Travel	40,207	5,958	3,475	49,640	5,211
Technology	31,823	4,715	2,750	39,288	40,861
Staff development	26,447	3,918	2,286	32,651	4,406
Accounting	25,282	3,745	2,185	31,212	30,124
Litigation and advocacy	23,805	3,527	2,057	29,389	4,233
Printing and publications	12,751	1,889	1,102	15,742	16,781
Conferences and meetings	10,891	1,614	941	13,446	8,957
Postage and shipping	<u>3,186</u>	<u>472</u>	<u>275</u>	<u>3,933</u>	<u>1,513</u>
TOTAL 2022 FUNCTIONAL EXPENSES	<u>\$ 4,025,709</u>	<u>\$ 596,403</u>	<u>\$ 347,901</u>	<u>\$ 4,970,013</u>	
TOTAL 2021 FUNCTIONAL EXPENSES	<u>\$ 3,880,936</u>	<u>\$ 540,385</u>	<u>\$ 491,259</u>		<u>\$ 4,912,580</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, 2022

With comparative totals for the year ended December 31, 2021

	2022	2021
CASH FLOWS FROM (TO) OPERATING ACTIVITIES:		
Change in net assets	\$ (579,614)	\$ 1,379,422
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Loss (gain) on investments, net	944,575	(561,491)
Reinvested interest and dividends	(102,164)	(90,028)
Forgiveness of paycheck protection program loan	-	(668,750)
Amortization of right-of-use assets - operating	191,727	-
Payments on lease liability - operating leases	(179,156)	-
Donated securities	-	(10,146)
(Increase) decrease in operating assets:		
Grants and accounts receivable	150,389	(557,502)
Pledges receivable	367	(3,600)
Prepaid expenses and other assets	(5,464)	(2,275)
Increase (decrease) in operating liabilities:		
Accounts payable	(41,996)	(261)
Accrued liabilities	(10,207)	52,158
	368,457	(462,473)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	180,000	190,145
	180,000	190,145
NET INCREASE (DECREASE) IN CASH	548,457	(272,328)
CASH, BEGINNING OF YEAR	1,015,670	1,287,998
CASH, END OF YEAR	\$ 1,564,127	\$ 1,015,670
NON-CASH OPERATING ACTIVITIES:		
Right-of-use assets - operating/lease liability upon adoption of ASC 842	\$ 1,163,230	\$ -

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 (“the 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 statewide 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 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 client communities include immigrants, persons with disabilities, 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 their economic security and dignity. In all of its work, WCLP actively seeks to eliminate racial disparities and achieve racial justice 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.

Public Benefits & Economic Dignity: 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; (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. AND THE WCLP ENDOWMENT FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Organization**, continued

Health Care: WCLP believes health care is a human right. 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) expanding Medi-Cal to cover all Californians who need it; (3) ensuring that Medi-Cal plans and providers deliver equitable, quality care; and (4) fighting medical debt by demanding the hospitals and medical providers abide by charity care laws and other consumer protections.

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.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

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.

**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 – 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, 2022. The Center has Board designated net assets of \$3,875,808 at December 31, 2022.

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 \$3,501,937 at December 31, 2022.

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), 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 specific technique used to measure fair value for the consolidated financial statement element is described in the notes 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

Revenue and Revenue Recognition

The Center recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received or pledged. Certain contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Those contracts and grants, or 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 substantially met or qualifying expenses have been incurred. 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 awards are recognized as revenue upon the court's final approval of the settlement.

Grants and Accounts Receivable, and Pledges Receivable

At December 31, 2022, 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 or pledges 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 Finance Committee for WCLP and the Endowment Board for the Foundation.

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Income Taxes

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

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.

Recently Adopted Accounting Pronouncement

The Center adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, as amended. This guidance is intended to improve financial reporting of lease transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than 12 months. Key provisions in this guidance include additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. The Center elected the effective date transition method and the package of practical expedients that permits no reassessment of whether any expired or existing contracts are or contain a lease, the lease classification for any expired or existing leases, and any initial direct costs for any existing leases as of the effective date.

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.

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, 2021, from which the summarized information was derived.

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

Subsequent Events

Management has evaluated subsequent events through May 1, 2023, 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 24-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 restricted revenue.

A board-designated endowment fund, which has no restrictions and is managed by the Foundation Board, consists of invested accounts and cash. The board-designated endowment of \$3,875,808, as of December 31, 2022, is subject to an annual spending rate of 4.5 percent. Additionally, the Board may distribute funds as cash flows needs or opportunities are presented for general use. Although the Center does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of WCLP's annual budget approval and appropriation), these amounts could be made available if necessary, in the event of delayed attorneys' fee awards or other contingencies.

As of December 31, 2022, the following table shows the total liquid financial assets, as reflected in this audit, held by WCLP and the amounts of those financial assets that could readily be made available within one year of the consolidated statement of financial position date to meet general expenditures. These amounts below are in addition to the invested funds (noted above) held by the Foundation:

Cash**	\$1,563,421
Grants and accounts receivable**	2,119,965
Pledges receivable	34,827
Investments	<u>377,671</u>
	<u>\$4,095,884</u>

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

continued

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 of \$34,827 at December 31, 2022 is expected to be collected within one year.

5. Investments

Composition of investments at December 31, 2022 is as follows:

Stock funds	\$2,776,522
Bond funds	1,476,196
Money market funds	<u>55</u>
Total	<u>\$4,252,773</u>

Significant information about investments at December 31, 2022 is summarized as follows:

Beginning balance, January 1, 2022	\$5,275,184
Sales	(180,000)
Loss on investments	(944,575)
Interest and dividends reinvested	<u>102,164</u>
Ending balance, December 31, 2022	<u>\$4,252,773</u>

6. Property and Equipment

Property and equipment at December 31, 2022 consists of the following:

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

7. Accrued Liabilities

Accrued liabilities at December 31, 2022 consist of the following:

Vacation accrual	\$283,688
Other payroll liabilities	<u>11,069</u>
	<u>\$294,757</u>

continued

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Operating Leases

WCLP evaluated current office and equipment contracts to determine which met the criteria of a lease. The right-of-use (“ROU”) assets represents WCLP’s right to use underlying assets for the lease term and the lease liabilities represent WCLP’s obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms. WCLP made an election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The discount rate applied to calculate lease liabilities as of January 1, 2022 was 5%. The initial ROU assets and liabilities recorded at January 1, 2022 were both \$1,163,230. The lease expense will be recognized on a straight-line basis over the lease terms.

Future maturities of the lease liabilities are as follows:

<u>Year ending December 31,</u>	
2023	\$ 259,483
2024	206,766
2025	207,343
2026	210,681
2027	205,189
Thereafter	<u>17,054</u>
Total lease payments	1,106,516
Less: present value discount	<u>(122,442)</u>
	<u>\$ 984,074</u>

The underlying ROU asset related to the above liability is as follows:

ROU asset balance at January 1, 2022	\$1,163,320
Less: amortization of lease	<u>(191,817)</u>
ROU asset balance at December 31, 2022	<u>\$ 971,503</u>

Rental expense under operating leases was \$329,204 for the year ended December 31, 2022, and is included in occupancy expense in the Consolidated Statement of Functional Expenses.

9. Commitments and Contingencies

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2022 consist of assets restricted for the following:

<u>Time restrictions</u>	<u>\$1,536,995</u>
<u>Purpose restrictions</u>	
Health	\$1,444,093
Housing	<u>520,849</u>
	<u>1,964,942</u>
Total net assets with donor restrictions	<u>\$3,501,937</u>

11. Board-Designated Endowment

The board-designated endowment, in the amount of \$3,875,808 as of December 31, 2022, 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, 2022 is as follows:

Board designated endowment net asset composition by type of fund:

Board designated	<u>\$3,875,808</u>
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Changes in board designated endowment net assets:

Beginning of year, January 1, 2022	\$4,848,777
Purchases	
Sales	(180,000)
Fees	(104)
Investment (loss), net	<u>(792,865)</u>
End of year, December 31, 2022	<u>\$3,875,808</u>

<u>Investment (loss), net</u>	
Interest and dividends	\$ 90,260
(Loss) on investments	<u>(883,125)</u>
	<u>\$(792,865)</u>

continued

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Fair Market Value

The table below presents the balances of assets or liabilities measured at fair value at December 31, 2022 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Government money market funds	\$ 55	\$ -	\$ -	\$ 55
Bond funds				
Intermediate core bond	941,704			941,704
Intermediate term bond	132,262			132,262
Inflation protected bond	170,545			170,545
High yield bond	168,613			168,613
Multisector bond	34,268			34,268
Tactical allocation bond	28,804			28,804
	<u>1,476,196</u>	<u>-</u>	<u>-</u>	<u>1,476,196</u>
Stock funds				
Large blend	2,353,331			2,353,331
Foreign large blend	269,638			269,638
Emerging markets	95,029			95,029
Large growth	58,524			58,524
	<u>2,776,522</u>	<u>-</u>	<u>-</u>	<u>2,776,522</u>
Fair value at December 31, 2022	<u>\$4,252,773</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,252,773</u>

The fair value of government money market funds, bond funds, and stock funds within the Level 1 inputs are based on quoted market prices as of the closing of the last business day of the fiscal year.

13. 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, 2022, the Center’s contributions to the plan were \$129,301.

SUPPLEMENTARY INFORMATION

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

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2022

With comparative totals at December 31, 2021

	<u>WCLP</u>	<u>The WCLP Endowment Foundation</u>	<u>Eliminations</u>	<u>2022</u>	<u>2021</u>
ASSETS					
Cash	\$ 1,563,421	\$ 706	\$ -	\$ 1,564,127	\$ 1,015,670
Grants and accounts receivable	2,119,965			2,119,965	2,270,354
Pledges receivable (Note 4)	34,827			34,827	35,194
Prepaid expenses and other assets	138,558			138,558	133,094
Investments (Note 5)	377,671	3,875,102		4,252,773	5,275,184
Property and equipment (Note 6)				-	-
Right of use assets (Note 8)	971,503			971,503	-
TOTAL ASSETS	<u>\$ 5,205,945</u>	<u>\$ 3,875,808</u>	<u>\$ -</u>	<u>\$ 9,081,753</u>	<u>\$ 8,729,496</u>
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	\$ 21,121	\$ -	\$ -	\$ 21,121	\$ 63,117
Accrued liabilities (Note 7)	294,757			294,757	304,964
Lease liability - operating leases (Note 8)	984,074			984,074	-
TOTAL LIABILITIES	<u>1,299,952</u>	<u>-</u>	<u>-</u>	<u>1,299,952</u>	<u>368,081</u>
NET ASSETS					
Without donor restrictions	404,056			404,056	628,703
Without donor restrictions - Board designated (Notes 2 and 11)		3,875,808		3,875,808	4,848,777
With donor restrictions (Notes 2 and 10)	3,501,937			3,501,937	2,883,935
TOTAL NET ASSETS	<u>3,905,993</u>	<u>3,875,808</u>	<u>-</u>	<u>7,781,801</u>	<u>8,361,415</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,205,945</u>	<u>\$ 3,875,808</u>	<u>\$ -</u>	<u>\$ 9,081,753</u>	<u>\$ 8,729,496</u>

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, 2022
With comparative totals for the year ended December 31, 2021

	<u>WCLP</u>	<u>The WCLP Endowment Foundation</u>	<u>Eliminations</u>	<u>2022</u>	<u>2021</u>
REVENUE AND SUPPORT					
Grants	\$ 3,807,194	\$ -	\$ -	\$ 3,807,194	\$ 3,033,882
Special events, net of direct benefits of \$119,462	453,651			453,651	490,728
Court awarded fees and costs	453,339			453,339	810,715
Contributions	529,117		(180,000)	349,117	429,842
Contract revenue	160,955			160,955	161,472
Publications, net	3,812			3,812	-
Investment (loss) income, net	(44,804)	(792,865)		(837,669)	651,613
Cy-près awards				-	45,000
TOTAL REVENUE AND SUPPORT	<u>5,363,264</u>	<u>(792,865)</u>	<u>(180,000)</u>	<u>4,390,399</u>	<u>5,623,252</u>
EXPENSES					
Program services	4,025,709	180,000	(180,000)	4,025,709	3,880,936
Management and general	596,299	104		596,403	540,385
Fundraising	347,901			347,901	491,259
TOTAL EXPENSES	<u>4,969,909</u>	<u>180,104</u>	<u>(180,000)</u>	<u>4,970,013</u>	<u>4,912,580</u>
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	393,355	(972,969)	-	(579,614)	710,672
OTHER CHANGES					
Forgiveness of paycheck protection program loan				-	668,750
CHANGE IN NET ASSETS	393,355	(972,969)	-	(579,614)	1,379,422
NET ASSETS, BEGINNING OF YEAR	<u>3,512,638</u>	<u>4,848,777</u>		<u>8,361,415</u>	<u>6,981,993</u>
NET ASSETS, END OF YEAR	<u>\$ 3,905,993</u>	<u>\$ 3,875,808</u>	<u>\$ -</u>	<u>\$ 7,781,801</u>	<u>\$ 8,361,415</u>

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 (a nonprofit organization), which comprise the Consolidated Statement of Financial Position as of December 31, 2022, 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 1, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Western Center on Law and Poverty, Inc. and The WCLP Endowment Foundation's internal control over financial reporting (internal control) as a basis for designing 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 Western Center on Law and Poverty, Inc. and The WCLP Endowment Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of Western Center on Law and Poverty, Inc. and The WCLP Endowment Foundation'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Western Center on Law and Poverty, Inc. and The WCLP Endowment Foundation'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 consolidated financial statements. 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 1, 2023