

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

**CONSOLIDATED FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULES,
and
ADDITIONAL INFORMATION**

DECEMBER 31, 2015

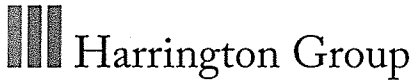
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Certified Public Accountants, LLP

INDEPENDENT AUDITORS' REPORT

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

Report on the 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, 2015, 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 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 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, 2015, 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.

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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 Schedules 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.

Summarized Comparative Information

We have previously audited Western Center on Law and Poverty, Inc. and The WCLP Endowment Foundation's December 31, 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 5, 2014. In our opinion the summarized comparative information presented herein as of and for the year ended December 31, 2014, 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 19, 2016 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 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 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 19, 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2015

With comparative totals at December 31, 2014

	Unrestricted	Unrestricted Board Designated	Unrestricted Total	Temporarily Restricted	2015	2014
ASSETS						
Cash and cash equivalents	\$ 1,016,779	\$ 11,908	\$ 1,028,687	\$ 301,514	\$ 1,330,201	\$ 695,693
Grants and accounts receivable	216,935		216,935	562,513	779,448	561,439
Pledges receivable (Note 3)	42,721		42,721		42,721	112,679
Prepaid expenses and other assets	85,386		85,386		85,386	79,497
Investments (Note 4)	97,702	2,905,580	3,003,282	197,168	3,200,450	3,545,933
Property and equipment (Note 5)	24,033		24,033		24,033	48,066
TOTAL ASSETS	<u>\$ 1,483,556</u>	<u>\$ 2,917,488</u>	<u>\$ 4,401,044</u>	<u>\$ 1,061,195</u>	<u>\$ 5,462,239</u>	<u>\$ 5,043,307</u>
LIABILITIES AND NET ASSETS						
LIABILITIES						
Accounts payable	\$ 19,592	\$ -	\$ 19,592	\$ -	\$ 19,592	\$ 87,176
Accrued liabilities (Note 6)	308,332		308,332		308,332	413,824
TOTAL LIABILITIES	<u>327,924</u>	<u>-</u>	<u>327,924</u>	<u>-</u>	<u>327,924</u>	<u>501,000</u>
NET ASSETS						
Unrestricted	1,155,632		1,155,632		1,155,632	252,882
Unrestricted - board designated (Notes 2 and 9)		2,917,488	2,917,488		2,917,488	3,288,908
Temporarily restricted (Note 8)				1,061,195	1,061,195	1,000,517
TOTAL NET ASSETS	<u>1,155,632</u>	<u>2,917,488</u>	<u>4,073,120</u>	<u>1,061,195</u>	<u>5,134,315</u>	<u>4,542,307</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,483,556</u>	<u>\$ 2,917,488</u>	<u>\$ 4,401,044</u>	<u>\$ 1,061,195</u>	<u>\$ 5,462,239</u>	<u>\$ 5,043,307</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 ACTIVITIES

For the year ended December 31, 2015

With comparative totals for the year ended December 31, 2014

	Unrestricted	Unrestricted Board Designated	Unrestricted Total	Temporarily Restricted	2015	2014
REVENUE AND SUPPORT						
Court awarded fees and costs	\$ 1,899,307	\$ -	\$ 1,899,307	\$ -	\$ 1,899,307	\$ 126,757
Grants	106,024		106,024	1,147,351	1,253,375	889,055
Contributions	648,151		648,151		648,151	688,711
Contract revenue	391,742		391,742		391,742	430,796
Cy-près	100,661		100,661		100,661	32,994
Special events, net of direct benefits of \$59,117	98,852		98,852		98,852	70,992
Other income	14,593		14,593		14,593	18,057
Publications, net	14,306		14,306		14,306	40,336
Investment (loss) income, net (Note 4)	(8,522)	(121,420)	(129,942)		(129,942)	184,324
Net assets released from program restrictions	841,252		841,252	(841,252)	-	-
Net assets released from time restrictions	245,421		245,421	(245,421)	-	-
Net assets released from designation	250,000	(250,000)			-	-
TOTAL REVENUE AND SUPPORT	4,601,787	(371,420)	4,230,367	60,678	4,291,045	2,482,022
EXPENSES						
Program services	2,807,454		2,807,454		2,807,454	2,818,372
Management and general	465,394		465,394		465,394	511,916
Fundraising	426,189		426,189		426,189	424,577
TOTAL EXPENSES	3,699,037	-	3,699,037	-	3,699,037	3,754,865
CHANGE IN NET ASSETS	902,750	(371,420)	531,330	60,678	592,008	(1,272,843)
NET ASSETS, BEGINNING OF YEAR	252,882	3,288,908	3,541,790	1,000,517	4,542,307	5,815,150
NET ASSETS, END OF YEAR	\$ 1,155,632	\$ 2,917,488	\$ 4,073,120	\$ 1,061,195	\$ 5,134,315	\$ 4,542,307

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, 2015

With comparative totals for the year ended December 31, 2014

	Program Services	Management and General	Fundraising	Total Expenses	
				2015	2014
Salaries	\$ 1,854,687	\$ 276,382	\$ 287,025	\$ 2,418,094	\$ 2,323,698
Payroll taxes	138,233	19,748	21,543	179,524	173,328
Employee benefits	223,097	31,871	34,768	289,736	336,843
Total personnel costs	<u>2,216,017</u>	<u>328,001</u>	<u>343,336</u>	<u>2,887,354</u>	<u>2,833,869</u>
Occupancy	226,223	32,318	35,256	293,797	287,588
Contract expenses	49,453	7,065	7,707	64,225	36,520
Telephone	48,914	6,988	7,623	63,525	55,783
Accounting		61,446		61,446	112,213
Travel	41,736	5,962	6,504	54,202	63,960
Office expenses	34,877	4,982	5,435	45,294	49,147
Technology	30,600	4,371	4,769	39,740	24,697
Library	33,525			33,525	38,218
Insurance	20,448	2,921	3,187	26,556	15,851
Litigation and advocacy	26,278			26,278	98,083
Printing and publications	18,719	2,674	2,917	24,310	31,458
Depreciation	18,505	2,644	2,884	24,033	24,033
Professional fees	18,216	2,602	2,839	23,657	23,186
Staff development	11,354	1,622	1,770	14,746	8,677
Postage and shipping	7,464	1,066	1,163	9,693	16,888
Conferences and meetings	5,125	732	799	6,656	7,261
Annual events				-	27,433
TOTAL 2015 FUNCTIONAL EXPENSES	<u>\$ 2,807,454</u>	<u>\$ 465,394</u>	<u>\$ 426,189</u>	<u>\$ 3,699,037</u>	
TOTAL 2014 FUNCTIONAL EXPENSES	<u>\$ 2,818,372</u>	<u>\$ 511,916</u>	<u>\$ 424,577</u>		<u>\$ 3,754,865</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, 2015

With comparative totals for the year ended December 31, 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 592,008	\$ (1,272,843)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	24,033	24,033
Loss (gain) on investments, net	248,232	(104,155)
Reinvested interest and dividends	(138,897)	(80,169)
(Increase) decrease in operating assets:		
Grants and accounts receivable	(218,009)	312,285
Pledges receivable	69,958	(52,457)
Prepaid expenses and other assets	(5,889)	(2,114)
Increase (decrease) in operating liabilities:		
Accounts payable	(67,584)	29,904
Accrued liabilities	(105,492)	(223,327)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	398,360	(1,368,843)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	374,405	2,246,502
Purchases of investments	(138,257)	(466,600)
NET CASH PROVIDED BY INVESTING ACTIVITIES	236,148	1,779,902
NET INCREASE IN CASH AND CASH INVESTMENTS	634,508	411,059
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	695,693	284,634
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,330,201	\$ 695,693

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

History:

The Center was created in 1967, when a passionate group of attorneys and legal scholars from the law schools at Loyola, UCLA and USC acted on their shared vision that low-income Californians deserved the finest possible legal representation before every institution that shaped their lives. The Center has been true to that vision for over four decades, bringing and winning major impact litigation, supporting legal aid organizations throughout the state and aggressively advocating nationally, in Sacramento and locally for laws, policies, and programs that guarantee system-wide change for its clients.

Programs:

Working collaboratively with nearly 100 legal services organizations serving every county in California, the Center takes the lead on advocacy designed to make large scale improvements in the lives of 8.3 million poor Californians. The Center employs forceful, creative strategies integrating pivotal impact litigation; legislative and administrative advocacy; technical support; community education and coalition-building to fulfill its mission. The Center's advocates have secured billions of dollars in benefits for its clients; protected and expanded affordable housing throughout the state; prevented homelessness for countless families; expanded food and nutrition programs for hundreds of thousands of households; guaranteed healthcare services for millions; and defended safety-net public benefits programs supporting children, women and men throughout California.

Health Advocacy: The Center works on behalf of low-income Californians to: (1) expand and preserve eligibility for health coverage; (2) expand and preserve the types and amounts of health care services available; (3) improve the quality of health care services available; (4) improve access to health care services while maintaining choice in accessing care; (5) promote structural reform of the health care system; (6) diminish the burden of medical debt; (7) mitigate efforts to implement laws which harm consumers; (8) inform, shape and create context for the health care advocacy landscape; (9) protect the rights of health care consumers in the public and private spheres; and (10) diversify and expand funding available for health care work.

Housing Advocacy: The Center advances and enforces the rights to safe, decent, and affordable housing for low-income Californians. The Center works to: (1) increase the production of affordable housing; (2) preserve the existence, affordability and condition of the current affordable housing stock; and (3) protect the housing rights of low-income people.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization, continued

Public Assistance Advocacy: The Center works on behalf of low-income Californians to: (1) preserve and expand the public assistance programs and services that provide a safety net to low-income families, individuals, children, persons with disabilities, and senior citizens; (2) educate the legal service community and the public at large about issues related to public assistance; and (3) ensure that the voice of poor people is heard in the policy debates that affect their lives.

Access to Justice: The Center works to expand access to justice by low-income Californians by: (1) enforcing court rules and fee waivers designed to ensure that low-income litigants have meaningful access to our courts; (2) serving as a clearinghouse for California's legal advocates on access to justice issues; and (3) actively participating in coordinated efforts to enhance, improve, and streamline California's legal services delivery system.

Racial Equality and Economic Justice: The Center works to eliminate public and private policies that have a racially disparate impact on low-income Californians; criminalize poverty; and create unjust economic barriers for poor families and individuals

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, Inc. and the Foundation, collectively referred to as "the Center". 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:

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**

Unrestricted. 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.

Unrestricted – Board Designated. These are comprised of resources that the Board of Directors has established as being designated for future program operations. The amount reflects the net assets of the Center, which include Board designated endowed funds. For purposes of complying with net assets accounting, these assets are included in unrestricted net assets at December 31, 2015. The Center has Board designated net assets of \$2,917,488 at December 31, 2015.

Temporarily Restricted. The Center reports gifts of cash and other assets as temporarily 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statement of Activities as net assets released from program or time restrictions. The Center has temporarily restricted net assets of \$1,061,195 at December 31, 2015.

Cash and Cash Equivalents

The Center has defined cash and cash equivalents as cash in banks and money market accounts at securities institutions. The carrying value at December 31, 2015 approximates fair value.

The Center maintains a separate cash account for its clients. These are funds awarded by the court for WCLP, Inc. 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 its investments at fair value. The specified technique used to measure fair value for the element is described in the note below that relate 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-pres are recognized as revenue upon the court's final approval of the settlement.

At December 31, 2015, 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 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 equities, bond funds, equity funds, mutual funds, and a private placement limited partnership. Market values of such investments and credit ratings of bond issuers 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.

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

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.

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, 2014, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through May 19, 2016, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. 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, 2015 consists of \$42,721. The balance of pledges receivable at December 31, 2015 is expected to be collected within one year.

4. Investments

Composition of investments at December 31, 2015 is as follows:

Equity funds	\$2,206,370
Bond funds	596,033
Investment in private placement limited partnership	310,345
Cash and money market funds	<u>87,702</u>
Total	<u>\$3,200,450</u>

Significant information about investments at December 31, 2015 is summarized as follows:

Beginning balance, January 1, 2015	\$3,545,933
Purchases	157,919
Sales	(373,460)
Loss on investment	(248,232)
Less: fees	(20,607)
Interest and dividends reinvested	<u>138,897</u>
Ending balance, December 31, 2015	<u>\$3,200,450</u>

5. Property and Equipment

Property and equipment at December 31, 2015 consists of the following:

Law library	\$ 240,330
Computer equipment	19,310
Less: accumulated depreciation	<u>(235,607)</u>
	<u>\$ 24,033</u>

Depreciation expense for the year ended December 31, 2015 was \$24,033.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Accrued Liabilities

Accrued liabilities at December 31, 2015 consist of the following:

Accrued vacation and compensatory time	\$190,931
Court awarded fees payable to co-counsel	<u>117,401</u>
	<u>\$308,332</u>

7. Commitments and Contingencies

Obligations Under Operating Leases

The Center leases offices under operating leases expiring in 2016 and 2021. Future minimum payments under these leases, with an initial or remaining term of one year or more, are as follows:

<u>Year Ended December 31,</u>	
2016	\$204,823
2017	160,268
2018	164,858
2019	169,448
2020	174,038
Thereafter	<u>14,535</u>
	<u>\$887,970</u>

Rental expense under operating leases was \$231,041 for the year ended December 31, 2015, 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, 2015 was \$11,468.

Contracts and Grants

The Center's grants and contracts 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

8. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2015 consist of the following:

Health	\$ 467,855
Housing	209,500
Max Gillam Fellowship	197,168
Time restricted	87,089
Welfare	41,250
Public benefits	33,333
Policy advocacy	<u>25,000</u>
	<u>\$1,061,195</u>

Temporarily restricted net assets released for the year ended December 31, 2015 were \$1,086,673, consisting of \$841,252 released from program restrictions and \$245,421 released from time restrictions.

9. Board Designated Endowment

The Center's endowment consists of funds established for a variety of purposes. As a Board-Designated Endowment, these assets are included as a component of unrestricted net assets. Significant information about the Board-designated endowment as of December 31, 2015 is as follows:

Board Designated Endowment Net Asset Composition by Type of Fund:

Board Designated	<u>\$2,917,488</u>
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Changes in Board Designated Endowment Net Assets:

	<u>Unrestricted</u>
Beginning of year, January 1, 2015	\$3,288,908
Purchases	106,393
Sales	(377,261)
Investment loss, net	<u>(100,552)</u>
End of year, December 31, 2015	<u>\$2,917,488</u>

Investment Loss

Interest and dividends	\$ 127,860
Loss on investments	(229,618)
Less: investment fees	<u>(19,662)</u>
	<u>\$ (121,420)</u>

continued

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Fair Market Value

The table below presents the balances of assets or liabilities measured at fair value at December 31, 2015 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity funds				
Large cap	\$ 693,540	\$ -	\$ -	\$ 693,540
Balanced	501,523			501,523
Managed futures	179,318			179,318
Emerging markets	177,677			177,677
Real estate	155,726			155,726
Long/short equity	144,678			144,678
Small/mid cap	110,416			110,416
Small cap	92,378			92,378
Foreign stock	66,253			66,253
Mid cap	47,448			47,448
Energy	<u>37,413</u>			<u>37,413</u>
	2,206,370			2,206,370
Bond funds				
Nontraditional	371,361			371,361
Bank loan	104,283			104,283
Market neutral	89,687			89,687
Multisector	<u>30,702</u>			<u>30,702</u>
	596,033			596,033
Investment in private placement limited partnership			<u>310,345</u>	<u>310,345</u>
Fair value at December 31, 2015	<u>\$2,802,403</u>	<u>\$ -</u>	<u>\$310,345</u>	<u>\$3,112,748</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 investment in private placement limited partnership within the Level 3 inputs is based on quoted prices per unit of investment as provided by the Center's investment institution as of the closing of the last business day of the fiscal year.

Significant information about investments within the Level 3 inputs is summarized below:

Beginning balance, January 1, 2015	\$354,608
Net loss on investments	<u>(44,263)</u>
Ending balance, December 31, 2015	<u>\$310,345</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. 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, 2015, the Center’s contributions to the plan were \$112,088.

SUPPLEMENTAL SCHEDULES

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

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2015

With comparative totals at December 31, 2014

	WCLP	The WCLP Endowment Foundation	2015	2014
ASSETS				
Cash and cash equivalents	\$ 1,318,293	\$ 11,908	\$ 1,330,201	\$ 695,693
Grants and accounts receivable	779,448		779,448	561,439
Pledges receivable (Note 3)	42,721		42,721	112,679
Prepaid expenses and other assets	85,386		85,386	79,497
Investments (Note 4)	294,870	2,905,580	3,200,450	3,545,933
Property and equipment (Note 5)	24,033		24,033	48,066
	TOTAL ASSETS	\$ 2,917,488	\$ 5,462,239	\$ 5,043,307
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 19,592	\$ -	\$ 19,592	\$ 87,176
Accrued liabilities (Note 6)	308,332		308,332	413,824
	TOTAL LIABILITIES	-	327,924	501,000
NET ASSETS				
Unrestricted	1,155,632		1,155,632	252,882
Unrestricted - Board designated (Notes 2 and 9)		2,917,488	2,917,488	3,288,908
Temporarily restricted (Note 8)	1,061,195		1,061,195	1,000,517
	TOTAL NET ASSETS	2,917,488	5,134,315	4,542,307
	TOTAL LIABILITIES AND NET ASSETS	\$ 2,917,488	\$ 5,462,239	\$ 5,043,307

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

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

CONSOLIDATING STATEMENT OF ACTIVITIES

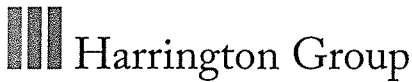
For the year ended December 31, 2015

With comparative totals for the year ended December 31, 2014

	WCLP	The WCLP Endowment Foundation	Eliminating Entries	2015	2014
REVENUE AND SUPPORT					
Court awarded fees and costs	\$ 1,899,307	\$ -	\$ -	\$ 1,899,307	\$ 126,757
Grants	1,253,375			1,253,375	889,055
Contributions	898,151		(250,000)	648,151	688,711
Contract revenue	391,742			391,742	430,796
Cy-près	100,661			100,661	32,994
Special events, net of direct benefits of \$59,117	98,852			98,852	70,992
Other income	14,593			14,593	18,057
Publications, net	14,306			14,306	40,336
Investment (loss) income, net (Note 4)	(8,522)	(121,420)		(129,942)	184,324
TOTAL REVENUE AND SUPPORT	<u>4,662,465</u>	<u>(121,420)</u>	<u>(250,000)</u>	<u>4,291,045</u>	<u>2,482,022</u>
EXPENSES					
Program services	2,807,454	250,000	(250,000)	2,807,454	2,818,372
Management and general	465,394			465,394	511,916
Fundraising	426,189			426,189	424,577
TOTAL EXPENSES	<u>3,699,037</u>	<u>250,000</u>	<u>(250,000)</u>	<u>3,699,037</u>	<u>3,754,865</u>
CHANGE IN NET ASSETS	963,428	(371,420)		592,008	(1,272,843)
NET ASSETS, BEGINNING OF YEAR	<u>1,253,399</u>	<u>3,288,908</u>		<u>4,542,307</u>	<u>5,815,150</u>
NET ASSETS, END OF YEAR	<u>\$ 2,216,827</u>	<u>\$ 2,917,488</u>	<u>\$ -</u>	<u>\$ 5,134,315</u>	<u>\$ 4,542,307</u>

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

ADDITIONAL INFORMATION



Certified Public Accountants, LLP

**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 ("the Center") which comprise the Consolidated Statement of Financial Position as of December 31, 2015, 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 19, 2016.

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 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*.

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**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 19, 2016