

**WESTERN JUSTICE CENTER
FOUNDATION**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

WESTERN JUSTICE CENTER FOUNDATION

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

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GREEN HASSON & JANKS LLP
BUSINESS ADVISORS AND CPAs

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Western Justice Center Foundation

We have audited the accompanying statement of financial position of Western Justice Center Foundation (a California nonprofit public benefit corporation) as of December 31, 2005 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the management of Western Justice Center Foundation. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized information has been derived from the December 31, 2004 financial statements of Western Justice Center Foundation and, in our report dated April 14, 2005, we expressed an unqualified opinion on those financial statements.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Justice Center Foundation as of December 31, 2005, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2006 on our consideration of Western Justice Center 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Green Hasson & Janks LLP

March 9, 2006
Los Angeles, California

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WESTERN JUSTICE CENTER FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2005

With Summarized Totals at December 31, 2004

ASSETS	Unrestricted	Temporarily Restricted	2005	2004
Cash and Cash Equivalents	\$ 31,247	\$ 156,366	\$ 187,613	\$ 165,568
Accounts Receivable	22,406	-	22,406	88
Pledges Receivable (Net)	20,856	32,096	52,952	97,159
Prepaid Expenses	7,851	-	7,851	3,088
Property and Equipment	3,023,279	-	3,023,279	3,072,589
TOTAL ASSETS	\$ 3,105,639	\$ 188,462	\$ 3,294,101	\$ 3,338,492
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts Payable	\$ 27,274	\$ -	\$ 27,274	\$ 13,612
Accrued Liabilities	28,482	-	28,482	61,505
Line of Credit	98,513	-	98,513	97,419
Loans Payable	3,000	-	3,000	35,577
Capital Lease Payable	415,782	-	415,782	454,355
TOTAL LIABILITIES	573,051	-	573,051	662,468
NET ASSETS:				
Unrestricted	2,532,588	-	2,532,588	2,461,551
Temporarily Restricted	-	188,462	188,462	214,473
TOTAL NET ASSETS	2,532,588	188,462	2,721,050	2,676,024
TOTAL LIABILITIES AND NET ASSETS	\$ 3,105,639	\$ 188,462	\$ 3,294,101	\$ 3,338,492

The Accompanying Notes are an Integral Part of These Financial Statements

WESTERN JUSTICE CENTER FOUNDATION

STATEMENT OF ACTIVITIES

Year Ended December 31, 2005

With Summarized Totals for the Year Ended December 31, 2004

	Unrestricted	Temporarily Restricted	2005	2004
REVENUE AND SUPPORT:				
Contributions and Grants	\$ 264,449	\$ 73,954	\$ 338,403	\$ 264,126
Rental Income	301,092	-	301,092	320,064
Training Income	62,125	-	62,125	-
Dividend Income	1,182	-	1,182	525
Other Income	385	-	385	-
Net Assets Released from Program Restrictions	99,965	(99,965)	-	-
<i>TOTAL REVENUE AND SUPPORT</i>	729,198	(26,011)	\$ 703,187	584,715
EXPENSES:				
Program Services	527,223	-	527,223	438,534
Management and General	78,216	-	78,216	69,500
Fundraising	52,722	-	52,722	66,457
<i>TOTAL EXPENSES</i>	658,161	-	658,161	574,491
<i>CHANGE IN NET ASSETS</i>	71,037	(26,011)	45,026	10,224
Net Assets - Beginning of Year	2,461,551	214,473	2,676,024	2,665,800
<i>NET ASSETS - END OF YEAR</i>	\$ 2,532,588	\$ 188,462	\$ 2,721,050	\$ 2,676,024

The Accompanying Notes are an Integral Part of These Financial Statements

WESTERN JUSTICE CENTER FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2005

With Summarized Totals for the Year Ended December 31, 2004

	Program Services	Management and General	Fundraising	Total Expenses	
				2005	2004
Salaries	\$ 178,660	\$ 27,138	\$ 20,354	\$ 226,152	\$ 134,402
Employee Benefits	23,751	3,608	2,706	30,065	21,872
Payroll Taxes	15,112	2,295	1,722	19,129	14,127
TOTAL PERSONNEL COSTS	217,523	33,041	24,782	275,346	170,401
Facilities Expenses	65,046	9,881	7,410	82,337	92,459
Consultants	76,924	3,698	1,677	82,299	114,587
Depreciation	64,566	9,807	7,356	81,729	66,558
Interest and Bank Charges	31,558	4,794	3,595	39,947	40,810
Office Expenses	18,286	2,778	2,083	23,147	15,318
Conferences and Meetings	15,039	2,284	1,714	19,037	12,878
Insurance	13,579	2,063	1,546	17,188	15,268
Telephone	7,859	1,194	895	9,948	10,273
Equipment	6,315	960	719	7,994	11,027
Bad Debts	-	5,861	-	5,861	8,089
Computer	3,949	600	450	4,999	5,025
Postage and Delivery	3,182	483	363	4,028	3,760
Miscellaneous	2,887	694	74	3,655	6,080
Repairs and Maintenance	-	-	-	-	1,667
Travel	510	78	58	646	291
TOTAL 2005 FUNCTIONAL EXPENSES	\$ 527,223	\$ 78,216	\$ 52,722	\$ 658,161	
TOTAL 2004 FUNCTIONAL EXPENSES	\$ 438,534	\$ 69,500	\$ 66,457		\$ 574,491

The Accompanying Notes are an Integral Part of These Financial Statements

WESTERN JUSTICE CENTER FOUNDATION

STATEMENT OF CASH FLOWS

Year Ended December 31, 2005

With Summarized Totals for the Year Ended December 31, 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 45,026	\$ 10,224
Adjustments to Reconcile Change in Net Assets		
Provided by (Used in) Operating Activities:		
Depreciation	81,729	66,558
Provision for Bad Debts	5,861	8,089
(Increase) Decrease in:		
Accounts Receivable	(22,318)	3,026
Pledges Receivable	38,346	(22,526)
Prepaid Expenses	(4,763)	-
Increase (Decrease) in:		
Accounts Payable	13,662	858
Accrued Liabilities	(33,023)	(79,246)
	124,520	(13,017)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
	124,520	(13,017)
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(32,419)	(7,621)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Borrowing under Line of Credit	1,094	-
Repayment of Loans Payable	(32,577)	(26,501)
Repayment of Capital Lease Payable	(38,573)	(36,567)
	(70,056)	(63,068)
NET CASH USED IN FINANCING ACTIVITIES		
	(70,056)	(63,068)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	22,045	(83,706)
Cash and Cash Equivalents - Beginning of Year	165,568	249,274
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 187,613	\$ 165,568
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Cash Paid During the Year for Interest	\$ 36,790	\$ 37,662

The Accompanying Notes are an Integral Part of These Financial Statements

WESTERN JUSTICE CENTER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - ORGANIZATION

For Western Justice Center Foundation (WJCF), a nonprofit California corporation, the development of a peaceful society is a goal translated into three priority programs that teach children the skills of peaceful conflict resolution, help communities resolve disputes without violence, and assists our nation's courts and administrative agencies in improving access to justice. WJCF's work in these areas takes the form of pilot projects to develop, test new ideas and approaches, and research the communication and development of public policy issues.

The WJCF Board is composed of judicial, legal, business and community leadership sharing a deep interest in improving ways to resolve conflict. WJCF became fully operational in 1996 under a grant from the James Irvine Foundation, supplemented by a grant of general support in 1997 from the William and Flora Hewlett Foundation

WJCF is non-partisan and non-ideological. It nurtures collaboration among diverse groups and creates cost effective partnerships among organizations to accomplish more than each organization could achieve alone. WJCF is both a local and national resource, providing services and testing new ideas in the greater Pasadena and Los Angeles areas, then communicating results on these and other model practices to a growing national/international constituency.

WJCF also undertakes a number of special initiatives such as the WJCF Senior Fellows Program which brings experts together to undertake research and innovative program development on a visiting basis. An important example of WJCF's convening role is its organization of a Blue Ribbon Commission including judicial, social services, educational, and community based organizations to address the problem of at-risk-youth, especially children of incarcerated parents and youth whose siblings are already in correctional facilities or prison.

WJCF current program initiatives include the following:

- **Conflict Resolution Education**
 - **Children's Workshop**, an interactive learning environment where elementary school children can safely investigate and master their responses to conflict. Features the animated character, Ouch the Eggs. Students can experience the workshop while on a field trip to the WJCF headquarters.
 - **Court Workshops**, involves federal judges leading children through litigation and mediation scenarios, with children playing all the roles.
 - **Peer Mediation Invitational**, an annual event involving teams of children and youth from schools throughout LA County. This program pairs experienced mediators, corporate and civic leaders with students for a one day mentorship and role playing experience in mock mediation settings.

WESTERN JUSTICE CENTER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - ORGANIZATION (continued)

- **Conflict Resolution Education** (continued)
 - **Creative Classroom Management**, a training program for K-6 teachers to infuse conflict resolution education throughout the curriculum and to maximize child-centered problem solving. WJCF has trained its first class of teachers and is now piloting this program for a whole school approach in 2004 in a Pasadena based elementary school. WJCF will train all the teachers of this school and also implement innovative parenting classes on creative conflict management for the family.
 - **Healthy Families Cooperative** is a three-year program aimed to develop an interactive, culturally competent, peaceful conflict resolution teaching tool focused on the needs of children 0-5 years. The tool will use an elicitive training approach to train parents, childcare providers, and staff at social service agencies (i.e. facilitators of children's interaction). The overall objective of the project is to promote strength-based, effective, and culturally appropriate methods of parenting. Another key outcome of the program is the process. WJCF is seeking to expand the knowledge base from traditional academic settings into communities that have not had access to these resources. WJCF plans to model community engagement as a key component of the development of the teaching tools. Therefore, cooperative members will be actively engaged in the development of the teaching tool.
- **Dialogue and Community Engagement**
 - **EcoLogue** employs mediation services, capacity building, education, and community building to mediate environmental disputes and facilitate collaborative problem-solving for emerging environmental conflicts and issues. WJCF is developing the Center in collaboration with the UCLA Institute of the Environment.
 - **Community Police Mediation and Dialogue** is a unique model to improve community/police relations that comprises two components: a mediation component for the mediation of citizen complaints against officers and a dialogue component for engaging the police and members of the community in a collaborative problem-solving approach to issues which affect the community.
- **New Models of Justice** focuses on working with the judicial system to develop a resource guide that will be distributed throughout the Ninth Judicial Circuit.
- **Training and Technical Assistance** regularly offers institutions, schools, organizations and other entities who are interested in conflict resolution systems design. The scope of its consultations can range from local to international endeavors. In particular, WJCF staff can facilitate processes that include diverse populations with schools, communities, courts or governments.

WESTERN JUSTICE CENTER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - ORGANIZATION (continued)

Another WJCF effort has been its creation of a unique conflict resolution campus housed in four registered historic bungalows adjacent to the U.S. Court of Appeals for the Ninth Judicial Circuit. WJCF has restored three of these historic buildings and has almost completed the fourth, its Headquarters building, whose first floor will provide a state-of-art meeting and video conferencing facility for area nonprofits, as well as a Children's Workshop on conflict resolution and a clearinghouse of research based conflict resolution models. WJCF shares its campus with several other nonprofit organizations dedicated to some aspect of one another's mission, thus facilitating partnerships and the sharing of resources and research

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the accounting period in which the revenues are earned regardless of when cash is received, and recognizes expenses in the accounting period in which expenses are incurred regardless of when cash is disbursed.

(b) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of WJCF are maintained in accordance with the principles of net assets 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:

- **Unrestricted Net Assets.** 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.
- **Temporarily Restricted Net Assets.** WJCF 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 Statement of Activities as net assets released from program or capital restrictions. WJCF has \$188,462 of temporarily restricted net assets at December 31, 2005.

WESTERN JUSTICE CENTER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) **ACCOUNTING** (continued)

- **Permanently Restricted Net Assets.** These net assets are received by donors who stipulate that resources are to be maintained permanently, but permit WJCF to expend all of the income (or other economic benefits) derived from the donated assets. WJCF has no permanently restricted net assets at December 31, 2005.

(c) **CASH AND CASH EQUIVALENTS**

WJCF considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(d) **ACCOUNTS RECEIVABLE**

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The allowance for doubtful accounts is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectibility of those balances and the allowance is adjusted accordingly. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due. All accounts receivable are deemed to be fully collectible at December 31, 2005; therefore, no allowance for doubtful accounts has been recorded.

(e) **PLEDGES RECEIVABLE**

Unconditional contributions, including pledges recorded at estimated net realizable value, are recognized as revenues in the period received. WJCF reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Allowance for uncollectible pledges as of December 31, 2005 is \$5,861.

(f) **PROPERTY AND EQUIPMENT**

Property and equipment are recorded at cost if purchased 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. Maintenance and repair costs are charged to expense as incurred. Estimated useful lives are as follows:

Building Improvements	40 Years
Furniture and Fixtures	7 Years
Equipment	5 Years

WESTERN JUSTICE CENTER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) PROPERTY AND EQUIPMENT (continued)

Property and equipment are capitalized if the cost is greater than or equal to \$500 and the useful life is greater than one year. Antique furniture and fixtures are not being depreciated.

(g) CONCENTRATION OF CREDIT RISKS

WJCF 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. WJCF has not incurred losses related to these investments.

(h) CONTRIBUTED SERVICES

WJCF receives substantial services donated by citizens interested in its programs. The services provided generally involve the contribution of time from its officers and directors carrying out their duties. Because of the difficulty in assigning values for such services, these financial statements do not reflect the value of these contributed services.

(i) INCOME TAXES

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

(j) FUNCTIONAL ALLOCATION OF EXPENSES

Expenses are charged to program and supporting services on the basis of periodic time and expense studies. Administrative expenses include those expenses that are not directly identifiable with any other specific function but provided for the overall support and direction of WJCF.

(k) USE OF ESTIMATES

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

(l) COMPARATIVE TOTALS

The 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 WJCF's financial statements for the year ended December 31, 2004, from which the summarized information was derived.

WESTERN JUSTICE CENTER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) RECLASSIFICATION

Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 presentation.

NOTE 3 - PLEDGES RECEIVABLE

At December 31, 2005, all unconditional promises to give are expected to be received in less than one year.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2005 consist of the following:

Building Improvements	\$ 2,767,706
Land	467,736
Antique Furniture and Fixtures	119,054
Furniture and Fixtures	98,505
Equipment	71,484
Construction in Progress	<u>12,765</u>
TOTAL	3,537,250
Less: Accumulated Depreciation	<u>(513,971)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 3,023,279</u>

Depreciation expense was \$ 81,729 for the year ended December 31, 2005.

NOTE 5 - ACCRUED LIABILITIES

Accrued liabilities at December 31, 2005 consist of the following:

Security Deposits (Tenants)	\$ 15,845
Accrued Vacation	10,511
Other Accrued Liabilities	<u>2,126</u>
TOTAL ACCRUED LIABILITIES	<u>\$ 28,482</u>

NOTE 6 - LINE OF CREDIT

WJCF has an unsecured \$100,000 line of credit from a bank. The line of credit bears interest at the lender's prime rate (5.25% at December 31, 2005) plus 3.25% per annum with interest payable monthly. Advances outstanding against this line of credit were \$98,513 as of December 31, 2005.

WESTERN JUSTICE CENTER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 7 - LOANS PAYABLE

WJCF has a note payable to an individual with an outstanding balance of \$3,000 as of December 31, 2005. The unsecured loan bears interest at 7%, with monthly principal payments of \$500, due July 15, 2006.

NOTE 8 - CAPITAL LEASE PAYABLE

WJCF leases its facilities from the City of Pasadena under the terms of a non-cancelable capital lease of which payments are made in the form of "monthly base rent and monthly tenant improvement rent."

Pursuant to the Third Amendment to the Lease Agreement dated April 4, 1989, WJCF pays capital lease payments in the form of base rent of \$1,533 per month and tenant improvement payments of \$3,610 per month including interest at the rate of 5.40% and 5.33% per annum over 16 years, respectively. Thereafter, until the end of the lease term, the rent will be \$1 per month. The original lease term ends April 1, 2044, at which time WJCF has renewal options extending through April 1, 2088.

The following is a schedule of future minimum lease payments, including principal and interest:

Years Ending December 31

2006	\$	61,953
2007		61,953
2008		61,953
2009		61,953
2010		61,953
Thereafter		<u>206,509</u>
TOTAL		516,274
Less: Amount Representing Interest		<u>(100,492)</u>
CAPITAL LEASE PAYABLE	\$	<u><u>415,782</u></u>

As of December 31, 2005, the gross amount of assets and accumulated depreciation recorded under this capital lease totaled \$3,248,207 and \$317,977, respectively. Depreciation expense related to these assets for 2005 was \$45,174. Interest paid during 2005 in connection with the above lease was \$23,380.

WJCF subleases portions of its facilities to other nonprofit organizations. Lease rates are adjusted annually based upon changes in the Consumer Price Index. Rents received during 2005 totaled \$301,092.

WESTERN JUSTICE CENTER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 8 - CAPITAL LEASE PAYABLE (continued)

The expected future minimum lease receipts for each of the years succeeding December 31, 2005 based solely upon existing leases and the expiration dates of those leases, not including revenue associated with any new leases, are as follows:

Years Ending December 31

2006	\$	41,366
2007		<u>14,772</u>
TOTAL	\$	<u>56,138</u>

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2005 consist of the following:

Renovation of Maxwell House	\$	101,050
Conference Center		64,912
ADR Program		12,500
Creative Classroom Management		<u>10,000</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$	<u>188,462</u>

NOTE 10 - PENSION PLAN

WJCF has a deferred compensation plan whereby WJCF contributes 3% of the annual gross earnings of eligible employees. Pension expenses charged to operations for the year ended December 31, 2005 was \$8,208.