

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

**FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION**

JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Asian Americans Advancing Justice - Asian Law Caucus

Report on the Financial Statements

We have audited the accompanying financial statements of Asian Americans Advancing Justice - Asian Law Caucus (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2016, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Asian Americans Advancing Justice - Asian Law Caucus as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

continued

Other Matter

Summarized Comparative Information

We have previously audited Asian Americans Advancing Justice - Asian Law Caucus' 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited 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 November 28, 2016, on our consideration of Asian Americans Advancing Justice - Asian Law Caucus' 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 Asian Americans Advancing Justice - Asian Law Caucus' internal control over financial reporting and compliance.

Harrington Group

San Francisco, California
November 28, 2016

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

STATEMENT OF FINANCIAL POSITION

June 30, 2016

With comparative totals at June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016</u>	<u>2015</u>
ASSETS				
Cash and cash equivalents (Note 2)	\$ 307,592	\$ 1,232,568	\$ 1,540,160	\$ 1,306,060
Grants and contracts receivable	216,347		216,347	154,945
Pledges receivable (Note 3)	14,201	245,776	259,977	245,193
Investments (Note 4)	169,598	709,127	878,725	643,781
Prepaid expenses	53,060		53,060	42,219
Property and equipment (Note 5)	1,336,844		1,336,844	1,373,594
TOTAL ASSETS	<u>\$ 2,097,642</u>	<u>\$ 2,187,471</u>	<u>\$ 4,285,113</u>	<u>\$ 3,765,792</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 87,930	\$ -	\$ 87,930	\$ 21,076
Accrued liabilities (Note 6)	153,797		153,797	168,506
Line of credit (Note 7)			-	-
Capital lease obligations (Note 8)	1,118,309		1,118,309	1,122,050
TOTAL LIABILITIES	<u>1,360,036</u>	<u>-</u>	<u>1,360,036</u>	<u>1,311,632</u>
NET ASSETS				
Unrestricted	737,606		737,606	736,195
Temporarily restricted (Note 10)		2,187,471	2,187,471	1,717,965
TOTAL NET ASSETS	<u>737,606</u>	<u>2,187,471</u>	<u>2,925,077</u>	<u>2,454,160</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,097,642</u>	<u>\$ 2,187,471</u>	<u>\$ 4,285,113</u>	<u>\$ 3,765,792</u>

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

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

STATEMENT OF ACTIVITIES

For the year ended June 30, 2016

With comparative totals for the year ended June 30, 2015

	Unrestricted	Temporarily Restricted	2016	2015
REVENUE				
In-kind donations (Note 2)	\$ 2,132,531	\$ -	\$ 2,132,531	\$ 4,084,707
Grants	20,284	1,876,933	1,897,217	1,540,750
Government contract revenue (Note 12)	935,884		935,884	706,710
Contributions	292,002		292,002	358,046
Special events - net of expenses of \$154,409	180,266		180,266	230,743
Gain on investments	16,578		16,578	4,064
Program fees	14,991		14,991	152,515
Dividend and interest income	13,788		13,788	4,895
Miscellaneous income	9,080		9,080	23,786
Net assets released from purpose restrictions	1,407,427	(1,407,427)	-	-
	5,022,831	469,506	5,492,337	7,106,216
EXPENSES				
Program services	4,587,457		4,587,457	6,331,731
General and administration	300,138		300,138	251,342
Fundraising	133,825		133,825	137,023
	5,021,420	-	5,021,420	6,720,096
CHANGE IN NET ASSETS	1,411	469,506	470,917	386,120
NET ASSETS, BEGINNING OF YEAR	736,195	1,717,965	2,454,160	2,068,040
NET ASSETS, END OF YEAR	\$ 737,606	\$ 2,187,471	\$ 2,925,077	\$ 2,454,160

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

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2016

With comparative totals for the year ended June 30, 2015

	Program	General and		Total Expenses	
	Services	Administration		Fundraising	2016
Salaries	\$ 1,422,351	\$ 68,159	\$ 101,990	\$ 1,592,500	\$ 1,496,792
Payroll taxes	109,436	5,118	7,655	122,209	111,689
Employee benefits	126,887	9,154	9,090	145,131	159,221
Total personnel costs	1,658,674	82,431	118,735	1,859,840	1,767,702
In-kind expenses (Note 2)	2,132,531			2,132,531	4,084,707
Subcontractors	244,937			244,937	120,766
Interest	1,948	192,864		194,812	199,275
Contract services	109,227		600	109,827	92,033
Affiliate expenses	106,928		17	106,945	49,403
Telecommunications	80,328	1,729	3,499	85,556	77,008
Professional fees	59,041	1,271	2,572	62,884	54,233
Occupancy	58,074	1,250	2,530	61,854	52,694
Depreciation	41,243	888	1,797	43,928	43,797
Office expenses	16,396	15,865	2,828	35,089	42,012
Community outreach	23,477			23,477	22,759
Equipment rental and maintenance	21,432	461	934	22,827	20,563
Travel	18,086			18,086	21,900
Conference, catering, and meals	9,511		152	9,663	12,698
Other	5,624	3,379	161	9,164	58,546
TOTAL 2016 FUNCTIONAL EXPENSES	\$ 4,587,457	\$ 300,138	\$ 133,825	\$ 5,021,420	
TOTAL 2015 FUNCTIONAL EXPENSES	\$ 6,331,731	\$ 251,342	\$ 137,023		\$ 6,720,096

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

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

STATEMENT OF CASH FLOWS

For the year ended June 30, 2016

With comparative totals for the year ended June 30, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 470,917	\$ 386,120
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	43,928	43,797
(Gain) on investments	(16,578)	(4,064)
(Increase) decrease in operating assets:		
Grants and contracts receivable	(61,402)	25,044
Pledge receivable	(14,784)	205,001
Prepaid expenses	(10,841)	(5,489)
Increase (decrease) in operating liabilities:		
Accounts payable	66,854	(215,456)
Accrued liabilities	(14,709)	29,422
NET CASH PROVIDED BY OPERATING ACTIVITIES	463,385	464,375
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(7,178)	(7,206)
Purchase of investments	(492,329)	(417,227)
Proceeds from sale of investments	273,963	144,407
NET CASH (USED) BY INVESTING ACTIVITIES	(225,544)	(280,026)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligation	(3,741)	(1,039)
NET CASH (USED) BY FINANCING ACTIVITIES	(3,741)	(1,039)
NET INCREASE IN CASH AND CASH EQUIVALENTS	234,100	183,310
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,306,060	1,122,750
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,540,160	\$ 1,306,060
SUPPLEMENTAL DISCLOSURE:		
Operating activities reflect interest paid related to the capital lease	\$ 192,273	\$ 192,752

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

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

1. **Organization**

Founded in 1972, Asian Law Caucus, Inc. started as a storefront office operated by volunteer attorneys and law students who created the nation's first nonprofit law office serving the needs of the Asian and Pacific Islander ("API") community. Effective May 1, 2013, the Asian Law Caucus, Inc. changed its name to the Asian Americans Advancing Justice – Asian Law Caucus ("AAAJ - ALC") to more closely align with four affiliates to build a more powerful platform for Asian American civil rights advocacy. The four other Advancing Justice affiliates are located in Los Angeles, Chicago, Atlanta, and Washington, D.C.

The mission of AAAJ - ALC is to promote, advance, and represent the legal and civil rights of API communities. Recognizing that social, economic, political, and racial inequalities continue to exist in the United States, AAAJ - ALC is committed to the pursuit of equality and justice for all sectors of our society, with a specific focus directed toward addressing the needs of low-income, immigrant, and underserved API's.

Since the vast majority of API's in America are immigrants and refugees, AAAJ - ALC strives to create informed and educated communities empowered to assert their rights and to participate actively in American society. This perspective is reflected in its broad strategy which incorporates a three-pronged approach of (1) impact work including litigation, policy advocacy, and communications, (2) direct legal services, and (3) community empowerment. The current programs are: immigrant rights, workers' rights, housing rights, criminal justice reform, national security and civil rights, ASPIRE, and voting rights. Linguistically and culturally competent services are provided to over 1,000 members of the API community annually.

Since its founding, AAAJ - ALC has helped improve the lives of tens of thousands of Asian and Pacific Islander residents of the Bay Area. AAAJ - ALC has been involved in litigating several landmark cases – most notably, Fred Korematsu's coram nobis case that overturned his World War II-era conviction for violating the relocation order against Japanese Americans. This laid the groundwork for the redress law enacted in 1988. Other notable cases include: Chann v. Scott (discriminatory arrests of Chinatown youth), Chen v. Ocean Garment (the nation's first case against a garment manufacturer for subcontractor wage violations), Chow v. Meissner (naturalization for immigrants with disabilities), Kao v. Rohnert Park (police killing of Asian based on martial arts stereotype), Ni Hao Tu v. Chinese Mutual Assistance Association (financial elder abuse class action), Truong v. S.F. Housing Authority (challenging failure to protect Southeast Asian families from racial violence), and Yang v. Glickman (denial of veterans' classification to Hmong veterans of the Vietnam War).

AAAJ - ALC is also an incubator for future leaders of our community; over 1,000 individuals have served as staff, law clerks, board members, and volunteers, gaining valuable community and legal experience. They have carried the lessons of their experience into virtually every field of endeavor and all across the country.

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies

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

Basis of Presentation

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

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of AAAJ - ALC 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:

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.

Temporarily Restricted. AAAJ - ALC 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. AAAJ - ALC has temporarily restricted net assets of \$2,187,471 at June 30, 2016 (see Note 10).

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit AAAJ - ALC to expend all of the income (or other economic benefits) derived from the donated assets. AAAJ - ALC had no permanently restricted net assets at June 30, 2016.

Cash and Cash Equivalents

AAAJ - ALC has defined cash and cash equivalents as cash in banks and certificates of deposits with an original maturity of six months or less.

Grants and Contracts Receivable

Grants and contracts receivable are receivables from governmental agencies. Therefore, no allowance for doubtful accounts has been provided.

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Contributions and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Investments

AAAJ - ALC values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain or loss on investments. Short-term highly liquid money market deposits that are not used for operations are treated as investments.

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

AAAJ - ALC is required to measure certain investments, pledged contributions, and non-cash contributions at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

Concentrations of Credit Risk

AAAJ - ALC 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. AAAJ - ALC has not incurred losses related to these investments.

AAAJ - ALC holds investments in the form of equities and U.S. Governmental debt securities. The Board of Directors routinely reviews market values of such investments and credit ratings of bond issuers.

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. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$1,500 and the useful life is greater than one year.

continued

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. For the year ended June 30, 2016, AAAJ - ALC received in-kind contributions of \$2,132,531 that consists of \$19,663 in donated materials and \$2,112,868 in donated services.

In-kind donations of \$2,132,531 includes the fair value of legal services of \$2,112,868 received for the year ended June 30, 2016. The fair value of the legal services was based upon the number of hours contributed at the appropriate billing rates and has been recorded as an in-kind donation and expense (see Note 15).

Income Taxes

AAAJ - ALC 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 AAAJ - ALC in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. AAAJ - ALC's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing AAAJ - ALC's programs and other activities have been presented in the 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. AAAJ - ALC uses full-time equivalents and usage of resources to allocate indirect costs.

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. Actual results could differ from those estimates.

continued

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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 AAAJ - ALC's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through November 28, 2016, the date which the financial statements were available for issue. No events or transactions have occurred during this period that would appear to require recognition or disclosure in the financial statements.

3. Pledges Receivable

Pledges receivable are from foundations and are recorded as support when pledged unless designated otherwise. All pledges are valued at the estimated fair present value at June 30, 2016 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of June 30, 2016. Total amount of pledges receivable is \$259,977 as of June 30, 2016 and are expected to be collected within one year.

4. Investments

Investments at June 30, 2016 consist of the following:

Fixed income funds	\$529,055
Equity funds	<u>349,670</u>
	<u>\$878,725</u>

5. Property and Equipment

Property and equipment at June 30, 2016 consist of the following:

Building	\$1,240,000
Leasehold improvements	361,253
Furniture and equipment	225,867
Computers	85,971
Construction in progress	<u>27,763</u>
	1,940,854
Less: accumulated depreciation	<u>(604,010)</u>
	<u>\$1,336,844</u>

Depreciation expense for the year ended June 30, 2016 was \$43,928.

continued

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

6. Accrued Liabilities

Accrued liabilities at June 30, 2016 consist of the following:

Accrued vacation	\$ 88,928
Clients' trust accounts	44,669
Other liabilities	<u>20,200</u>
	<u>\$153,797</u>

7. Line of Credit

AAAJ - ALC has a revolving line of credit with a bank in the amount of \$75,000, at an interest rate equal to the bank's prime rate plus 1.25%, currently at 4.5%, due June 2017, secured by broad form-UCC. No amount was outstanding at June 30, 2016.

8. Capital Lease Obligations

AAAJ - ALC leases property under capital leases. Future minimum payments, by year, and in the aggregate, under these leases consist of the following:

<u>Year ended June 30,</u>	
2017	\$ 196,014
2018	196,014
2019	196,014
2020	196,014
2021	196,014
Thereafter	<u>3,694,440</u>
Total minimum lease payments	4,674,510
Less: portion representing interest	<u>(3,556,201)</u>
Present value of net minimum lease payments	<u>\$ 1,118,309</u>

The cost of property under capital leases at June 30, 2016 consists of the following:

Building	\$1,240,000
Less: accumulated depreciation	<u>(174,348)</u>
	<u>\$1,065,652</u>

9. Commitments and Contingencies

Obligations Under Operating Leases

AAAJ - ALC leases various equipment under operating leases with remaining terms of less than a year. Rent expense under these operating leases for the year ended June 30, 2016 was \$22,827.

continued

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

9. Commitments and Contingencies, continued

Contracts

AAAJ - ALC's government grants and contracts are subject to inspection and audit by the appropriate governmental 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 governmental audits cannot be reasonably estimated and, accordingly, AAAJ - ALC has no provisions for the possible disallowance of program costs on its financial statements.

10. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 consist of the following:

General operations	\$ 801,292
Operating reserve	500,000
Employment, voting rights, and general fund	382,163
National security and civil rights	221,794
Immigration and criminal justice reform	207,222
Communications	<u>75,000</u>
	<u>\$2,187,471</u>

For the year ended June 30, 2016, net assets released from purpose restrictions were \$1,407,427.

The operating reserve relates to a grant received from the Ford Foundation, which is to be used to guard the organization against financial insecurity during unanticipated, destabilizing events. If the reserve is utilized during the term of the grant, AAAJ - ALC is expected to set-up a repayment plan on replenishing the funds expended. The operating reserve funds will be wholly released to unrestricted net assets June 30, 2017 which is the end of the term of the grant.

The temporarily restricted net assets noted above also consists of multi-year pledges for which, the full pledge amount has been recognized as revenue for the year ended June 30, 2016, as per generally accepted accounting principles requirements, whilst the related program expenses will be recognized as expenses in the subsequent fiscal years, and over the remaining grant period.

11. Employee Benefit Plan

AAAJ - ALC has an Internal Revenue Code Section 401(k) qualified defined contribution retirement plan covering all of its employees, subject to certain eligibility requirements. Pension plan expense for the year ended June 30, 2016 was \$12,490.

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

12. Government Contract Revenue

Government contract revenue for the year ended June 30, 2016 consists of the following:

City and County of San Francisco:	
Mayor's Office of Housing	\$204,952
Office on the Aging	186,994
San Francisco Arts Commission	20,000
Rent Board	20,000
City and County of San Francisco passed through other agencies:	
San Francisco Immigrant Legal and Education Network (SFILEN)	112,250
Asian Pacific Islander Legal Outreach (APILO)	77,607
Self Help for the Elderly	50,000
Chinese Progressive Association	43,784
Tenderloin Housing Clinic	20,000
State Bar of California:	
Bank Community Stabilization and Reinvestment Grant	90,000
Equal Access Fund Grant	46,438
IOLTA	38,237
Others	<u>25,622</u>
	<u>\$935,884</u>

13. Revenue Sharing Agreement

As of October 30, 2013, AAAJ - ALC entered into a Revenue Sharing Agreement with three other nonprofit organizations with missions similar to AAAJ - ALC. Each member is to contribute annually the lesser of \$30,000 or 1% of the organizational annual budget. The Common Fund that will be created will be used to support the new affiliates or other agreed upon purposes.

14. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2016 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds				
Fixed income				
Intermediate-term bond	\$390,308	\$ -	\$ -	\$390,308
Multisector bonds	55,545			55,545
Short-term bond	43,885			43,885
Inflation-protected bond	<u>39,317</u>			<u>39,317</u>
Total Fixed Income	<u>529,055</u>	<u>-</u>	<u>-</u>	<u>529,055</u>

continued

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

14. Fair Value Measurements, continued

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity Funds				
Large value	194,854			194,854
Large growth	129,501			129,501
Large blend	<u>25,315</u>			<u>25,315</u>
Total Equity Funds	<u>349,670</u>	<u>-</u>	<u>-</u>	<u>349,670</u>
 Total Mutual Funds	<u>\$878,725</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$878,725</u>

The fair value of fixed income and equity funds have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

The table below present transactions measured at fair value on a non-recurring basis during the year ended June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledges – New	\$ -	\$ -	\$509,117	\$ 509,117
Contributed legal services		2,112,868		2,112,868
Contributions goods		<u>19,663</u>		<u>19,663</u>
	<u>\$ -</u>	<u>\$2,132,531</u>	<u>\$509,117</u>	<u>\$2,641,648</u>

The fair value of contributed services and materials has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

The fair values of pledged contributions are measured on a non-recurring basis, based on the value provided by the donor at the date of pledge and with consideration of their credit worthiness (Level 3 inputs).

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
Asian Americans Advancing Justice - Asian Law Caucus

We have audited in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Asian Americans Advancing Justice - Asian Law Caucus ("AAAJ - ALC"), which comprise the Statement of Financial Position as of June 30, 2016, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered AAAJ - ALC'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of AAAJ - ALC's internal control. Accordingly, we do not express an opinion on the effectiveness of AAAJ - ALC'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 AAAJ - ALC'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 AAAJ - ALC's financial statements are free of 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

continued

Purpose of this Report

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

Harrington Group

San Francisco, California
November 28, 2016