

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

**FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION****JUNE 30, 2013**

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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, 2013, 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 auditors consider 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, 2013, 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 Matters

Summarized Comparative Information

We have previously audited Asian Americans Advancing Justice - Asian Law Caucus' 2012 financial statements, and our report dated January 30, 2013 expressed an unmodified opinion on those financial statements. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2012, 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 19, 2013 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 19, 2013

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

STATEMENT OF FINANCIAL POSITION

June 30, 2013

With comparative totals at June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2013</u>	<u>2012</u>
Assets				
Cash and cash equivalents (Note 2)	\$ 337,453	\$ 675,039	\$ 1,012,492	\$ 970,032
Grants receivable	79,514		79,514	49,182
Pledges receivable (Note 3)		971,284	971,284	1,307,768
Investments (Note 4)	271,623		271,623	274,293
Prepaid expenses	53,552		53,552	42,703
Property and equipment (Note 6)	1,419,703		1,419,703	1,470,349
Total assets	<u>\$ 2,161,845</u>	<u>\$ 1,646,323</u>	<u>\$ 3,808,168</u>	<u>\$ 4,114,327</u>
Liabilities and net assets				
Liabilities				
Accounts payable	\$ 77,198	\$ -	\$ 77,198	\$ 86,887
Accrued liabilities (Note 7)	159,435		159,435	125,434
Line of credit (Note 8)			-	-
Capital lease obligations (Note 9)	1,124,893		1,124,893	1,166,556
Total liabilities	<u>1,361,526</u>	<u>-</u>	<u>1,361,526</u>	<u>1,378,877</u>
Net assets				
Unrestricted	800,319		800,319	537,987
Temporarily restricted (Note 11)		1,646,323	1,646,323	2,197,463
Total net assets	<u>800,319</u>	<u>1,646,323</u>	<u>2,446,642</u>	<u>2,735,450</u>
Total liabilities and net assets	<u>\$ 2,161,845</u>	<u>\$ 1,646,323</u>	<u>\$ 3,808,168</u>	<u>\$ 4,114,327</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, 2013

With comparative totals for the year ended June 30, 2012

	Unrestricted	Temporarily Restricted	2013	2012
Revenue				
Grants	\$ 27,264	\$ 1,540,251	\$ 1,567,515	\$ 967,114
Government contract revenue (Note 13)	561,350		561,350	409,760
Contributions	280,023		280,023	373,362
Special events - net of expenses of \$122,836	148,026		148,026	117,027
In-kind donations (Note 2)	30,025		30,025	204,198
Dividend and interest income	12,827		12,827	16,769
Program fees	3,300		3,300	20,418
Miscellaneous income	2,265		2,265	28,908
Gain (loss) on investments	(17,444)		(17,444)	5,597
Net assets released from program restrictions	1,620,860	(1,620,860)	-	-
Total revenue	2,668,496	(80,609)	2,587,887	2,143,153
Expenses				
Program services	2,459,764		2,459,764	2,286,572
General and administration	273,737		273,737	293,724
Fundraising	143,194		143,194	66,498
Total expenses	2,876,695	-	2,876,695	2,646,794
Change in net assets (Note 15)	(208,199)	(80,609)	(288,808)	(503,641)
Net assets, beginning of year	1,008,518	1,726,932	2,735,450	3,239,091
Net assets, end of year	\$ 800,319	\$ 1,646,323	\$ 2,446,642	\$ 2,735,450

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, 2013

With comparative totals for the year ended June 30, 2012

	<u>Program</u>	<u>General and</u>		<u>Total Expenses</u>	
	<u>Services</u>	<u>Administration</u>		<u>Fundraising</u>	<u>2013</u>
Salaries	\$ 1,414,603	\$ 46,459	\$ 106,529	\$ 1,567,591	\$ 1,261,697
Employee benefits and payroll taxes	282,844	10,559	21,392	314,795	229,678
Total personnel costs	<u>1,697,447</u>	<u>57,018</u>	<u>127,921</u>	<u>1,882,386</u>	<u>1,491,375</u>
Subcontractors	275,006	37,970		312,976	246,279
Interest		150,588		150,588	147,714
Telecommunications	74,612	9,515		84,127	56,672
Travel	58,294	4,773	477	63,544	48,852
Depreciation	42,039	10,510		52,549	51,671
Professional fees	50,907			50,907	39,571
Printing and publications	41,345	944		42,289	23,781
Community outreach	39,763			39,763	7,496
Occupancy	32,141			32,141	32,274
Office supplies	29,664	1,959		31,623	14,706
In-kind (Note 2)	30,025			30,025	204,198
Equipment rental and maintenance	21,539			21,539	16,879
Insurance	19,394			19,394	13,352
Postage	13,988		3,326	17,314	17,824
Conference, catering and meals	12,854	460	2,562	15,876	21,756
Other	1,945		8,908	10,853	39,758
Dues and subscriptions	9,429			9,429	7,936
Professional development	9,372			9,372	3,244
Advancing justice conference				-	161,456
Total 2013 functional expenses	<u>\$ 2,459,764</u>	<u>\$ 273,737</u>	<u>\$ 143,194</u>	<u>\$ 2,876,695</u>	
Total 2012 functional expenses	<u>\$ 2,286,572</u>	<u>\$ 293,724</u>	<u>\$ 66,498</u>		<u>\$ 2,646,794</u>

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, 2013

With comparative totals for the year ended June 30, 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ (288,808)	\$ (503,641)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	52,549	51,671
Loss (gain) on investments	17,444	(5,597)
Changes in operating assets and liabilities:		
(Increase) decrease in grants receivable	(30,332)	57,607
Decrease in pledge receivable	336,484	340,506
(Increase) in prepaid expenses	(10,849)	(4,828)
(Decrease) increase in accounts payable	(9,689)	79,693
Increase (decrease) in accrued liabilities	34,001	(33,851)
	100,800	(18,440)
Cash flows from investing activities:		
Purchase of property and equipment	(1,903)	(10,253)
Purchase of investments	(141,637)	(197,890)
Proceeds from sale of investments	126,863	175,060
	(16,677)	(33,083)
Cash flows from financing activities:		
Principal payments on capital lease obligation	(41,663)	(41,663)
	(41,663)	(41,663)
Net increase (decrease) in cash and cash equivalents	42,460	(93,186)
Cash and cash equivalents, beginning of year	970,032	1,063,218
Cash and cash equivalents, end of year	\$ 1,012,492	\$ 970,032
Supplemental disclosure:		
Operating activities reflect interest paid related to the capital lease	\$ 150,588	\$ 147,714

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"). 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 APIs.

Since the vast majority of APIs 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) community education and organizing, (2) provision of direct legal services, and (3) strategic impact litigation.

AAAJ - ALC's programs cover the following focus areas: immigrant rights; workers' rights; housing rights; criminal justice reform; voting rights; national security and civil rights; and civil rights education (through the Korematsu Institute for Civil Rights and Education). Language and culturally accessible services are provided to over 1,400 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, the Coram Nobis case, which overturned the World War II conviction of Fred Korematsu 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. AAAJ - ALC continues to inspire others through its work.

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 \$1,646,323 at June 30, 2013 (see Note 11).

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, 2013.

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.

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Grants Receivable

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

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 investments, pledged contributions and non-cash contributions at fair value. The specific techniques used to measure fair value for each element is described in the notes below that relate to each element.

Concentration of Credit Risks

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 short-term money market investments as well as U.S. Governmental debt securities. The Board of Directors routinely reviews market values of such investments and credit ratings of bond issuers.

continued

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

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, 2013, AAAJ - ALC received \$30,025 contributions of donated materials.

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.

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, 2012 from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through November 19, 2013, the date which the financial statements were available.

3. Pledges Receivable

Pledges receivable are recorded as support when pledged unless designated otherwise. All pledges are valued at the estimated fair present value at June 30, 2013 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of June 30, 2013. A discount rate of 3.25% has been used to calculate the present value of pledges receivable. Total amount of pledges receivable of \$971,284 at June 30, 2013, is expected to be collected as follows:

<u>Year ended June 30,</u>	
2014	\$854,602
2015	<u>125,000</u>
	979,602
Less: unamortized discount on pledges receivable	<u>(8,318)</u>
	<u>\$971,284</u>

4. Investments

Investments at June 30, 2013 consist of government securities in the amount of \$271,623.

5. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2013 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Government securities	<u>\$271,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$271,623</u>

The fair value of government securities has been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

continued

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

5. Fair Value Measurements, continued

The table below present transactions measured at fair value on a non-recurring basis during the year:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed materials	\$ -	\$30,025	\$ -	\$ 30,025
Pledged contributions - new			<u>1,540,251</u>	<u>1,540,251</u>
	<u>\$ -</u>	<u>\$30,025</u>	<u>\$1,540,251</u>	<u>\$1,570,276</u>

The fair value of contributed materials has been measured on a non-recurring basis using quoted prices for similar assets in active 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 (Level 3 inputs).

6. Property and Equipment

Property and equipment at June 30, 2013 consist of the following:

Building	\$1,240,000
Leasehold improvements	337,914
Furniture and equipment	220,241
Computers	63,943
Construction in progress	<u>27,763</u>
	1,889,861
Less: accumulated depreciation	<u>(470,158)</u>
	<u>\$1,419,703</u>

7. Accrued Liabilities

Accrued liabilities at June 30, 2013 consist of the following:

Accrued vacation	\$ 85,448
Clients' trust accounts	57,562
Other liabilities	<u>16,425</u>
	<u>\$159,435</u>

8. 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 July 25, 2013, secured by broad form-UCC. No amount was outstanding at June 30, 2013.

continued

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

9. 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>	
2014	\$ 189,376
2015	189,376
2016	189,376
2017	189,376
2018	189,376
Thereafter	<u>4,166,272</u>
Total minimum lease payments	5,113,152
Less: portion representing interest	<u>(3,988,259)</u>
Present value of net minimum lease payments	<u>\$ 1,124,893</u>

The cost of property under capital leases at June 30, 2013 consists of the following:

Building	\$1,240,000
Less: accumulated depreciation	<u>(106,713)</u>
	<u>\$1,133,287</u>

10. Commitments and Contingencies

Obligations Under Operating Leases

AAAJ - ALC leases various equipment under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ended June 30,</u>	
2014	\$16,108
2015	3,393
2016	<u>1,696</u>
	<u>\$21,197</u>

Rent expense under operating leases for the year ended June 30, 2013 was \$20,845.

continued

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

10. Commitments and Contingencies, continued

Contracts

AAAJ - ALC's 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.

11. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2013 consist of the following:

Employment, voting rights and general fund	\$ 790,625
National security and civil rights	473,071
Immigration and criminal justice reform	189,167
Korematsu	100,000
Fundraising	88,460
Fellowship	5,000
	<u>\$1,646,323</u>

For the year ended June 30, 2012, net assets released from program restrictions amounted to \$1,620,860.

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, 2013, as per generally accepted accounting principles requirements, whilst the related program expenses will be recognized as expenses in the subsequent fiscal years, over the remaining grant period.

12. 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, 2013 was \$2,802.

continued

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

13. Government Contract Revenue

Government contract revenue for the year ended June 30, 2013 consists of the following:

City and County of San Francisco:	
Mayor's Office of Housing	\$160,176
Office of Civic Engagement & Immigrant Affairs	146,701
Office on the Aging	143,917
OAN	33,007
Rent Board	20,000
State Bar of California:	
Equal Access Fund Grant	29,714
IOLTA	20,711
Self Help for the Elderly	4,167
Chinatown CDC	<u>2,957</u>
	<u>\$561,350</u>

14. Revenue Sharing Agreement

As of December 16, 2009, AAAJ - ALC entered into a Revenue Sharing Agreement with three other nonprofit organizations with missions similar to AAAJ - ALC. Each member is to contribute the lesser of \$30,000 or 1% of contributions from new or existing major individual donors who have given a gift of cash or stock with a minimum value of \$25,000. The Common Fund that will be created will be used to support the development of new members.

15. Change in Net Assets

During the year ended June 30, 2011, AAAJ - ALC received multi-year grants in the amount of \$3,237,774. In accordance with the principle of net assets accounting this amount was recorded as revenue for the year ended June 30, 2011. Of this amount, \$2,197,463 was temporarily restricted at June 30, 2011 to cover for expenses incurred during the fiscal years ending June 30, 2013 and 2012. The change in net assets of (\$288,808) and (\$503,641) for the years ended June 30, 2013 and 2012 were covered by the multi-year grants recorded as revenue for the year ended June 30, 2011. As of June 30, 2013, temporarily restricted net assets in the amount of \$1,646,323 are restricted for future expenditures and will be released once the restrictions are met.

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, 2013, 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 19, 2013.

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 deficiencies, significant deficiencies, or material weaknesses. 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*.

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 AAAJ - ALC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Group

San Francisco, California
November 19, 2013