

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

**FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION**

JUNE 30, 2015

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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, 2015, 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 Asian Americans Advancing Justice – Asian Law Caucus'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 Asian Americans Advancing Justice – Asian Law Caucus'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, 2015, 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' 2014 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 22, 2014. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2014, 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 10, 2015, 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 10, 2015

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

STATEMENT OF FINANCIAL POSITION

June 30, 2015

With comparative totals at June 30, 2014

	Unrestricted	Temporarily Restricted	2015	2014
Assets				
Cash and cash equivalents (Note 2)	\$ 383,981	\$ 922,079	\$ 1,306,060	\$ 1,122,750
Grants receivable	154,945		154,945	179,989
Pledges receivable (Note 3)	86,100	159,093	245,193	450,194
Investments (Note 4)	6,988	636,793	643,781	366,897
Prepaid expenses	42,219		42,219	36,730
Property and equipment (Note 6)	1,373,594		1,373,594	1,410,185
	\$ 2,047,827	\$ 1,717,965	\$ 3,765,792	\$ 3,566,745
Liabilities and net assets				
Liabilities				
Accounts payable	\$ 21,076	\$ -	\$ 21,076	\$ 236,532
Accrued liabilities (Note 7)	168,506		168,506	139,084
Line of credit (Note 8)			-	-
Capital lease obligations (Note 9)	1,122,050		1,122,050	1,123,089
	1,311,632	-	1,311,632	1,498,705
Net assets				
Unrestricted	736,195		736,195	791,416
Temporarily restricted (Note 11)		1,717,965	1,717,965	1,276,624
	736,195	1,717,965	2,454,160	2,068,040
	\$ 2,047,827	\$ 1,717,965	\$ 3,765,792	\$ 3,566,745

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, 2015

With comparative totals for the year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2015</u>	<u>2014</u>
Revenue				
In-kind donations (Note 2)	\$ 4,084,707	\$ -	\$ 4,084,707	\$ 1,260,724
Grants	2,000	1,538,750	1,540,750	1,336,848
Government contract revenue (Note 13)	706,710		706,710	710,967
Contributions	358,046		358,046	219,872
Special events - net of expenses of \$114,341	230,743		230,743	146,919
Program fees	152,515		152,515	75,563
Miscellaneous income	23,786		23,786	1,088
Dividend and interest income	4,895		4,895	3,632
Gain on investments	4,064		4,064	8,781
Net assets released from program restrictions	1,097,409	(1,097,409)	-	-
Total revenue	<u>6,664,875</u>	<u>441,341</u>	<u>7,106,216</u>	<u>3,764,394</u>
Expenses				
Program services	6,331,731		6,331,731	3,640,961
General and administration	251,342		251,342	233,063
Fundraising	137,023		137,023	134,737
Total expenses	<u>6,720,096</u>	<u>-</u>	<u>6,720,096</u>	<u>4,008,761</u>
Change in net assets before Korematsu				
Fiscal Sponsorship Distribution	(55,221)	441,341	386,120	(244,367)
Korematsu Fiscal Sponsorship Distribution (Note 15)			-	134,235
Change in net assets (Note 16)	(55,221)	441,341	386,120	(378,602)
Net assets, beginning of year	<u>791,416</u>	<u>1,276,624</u>	<u>2,068,040</u>	<u>2,446,642</u>
Net assets, end of year	<u>\$ 736,195</u>	<u>\$ 1,717,965</u>	<u>\$ 2,454,160</u>	<u>\$ 2,068,040</u>

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, 2015

With comparative totals for the year ended June 30, 2014

	Program	General and		Total Expenses	
	Services	Administration		Fundraising	2015
Salaries	\$ 1,360,055	\$ 33,737	\$ 103,000	\$ 1,496,792	\$ 1,495,189
Employee benefits	144,751	3,589	10,881	159,221	172,503
Payroll Taxes	101,540	2,517	7,632	111,689	113,190
Total personnel costs	1,606,346	39,843	121,513	1,767,702	1,780,882
In-kind expenses (Note 2)	4,084,707			4,084,707	1,260,724
Interest	2,984	196,291		199,275	191,315
Subcontractors	120,766			120,766	129,516
Contract services	89,773		2,260	92,033	181,554
Telecommunications	74,679	1,729	600	77,008	74,262
Professional fees	53,594	639		54,233	62,159
Affiliate expenses	49,403			49,403	21,554
Depreciation	43,797			43,797	46,128
Litigation	42,925			42,925	9,065
Occupancy	34,300			34,300	32,911
Community outreach	22,759			22,759	37,342
Travel	21,900			21,900	41,965
Equipment rental and maintenance	20,293	270		20,563	23,382
Insurance	15,970	2,424		18,394	27,250
Printing and publications	7,380		8,400	15,780	22,481
Professional development	14,745			14,745	3,325
Conference, catering and meals	11,015		1,683	12,698	14,588
Bank charges	31	10,146		10,177	5,732
Office supplies	8,551		67	8,618	14,442
Postage	4,937		2,500	7,437	26,672
Other	876			876	1,079
Dues and subscriptions				-	433
Total 2015 functional expenses	\$ 6,331,731	\$ 251,342	\$ 137,023	\$ 6,720,096	
Total 2014 functional expenses	\$ 3,640,961	\$ 233,063	\$ 134,737		\$ 4,008,761

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, 2015

With comparative totals for the year ended June 30, 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 386,120	\$ (378,602)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	43,797	46,128
(Gain) on investments	(4,064)	(8,781)
Changes in operating assets and liabilities:		
Decrease (increase) in grants receivable	25,044	(100,475)
Decrease in pledge receivable	205,001	521,090
(Increase) decrease in prepaid expenses	(5,489)	16,822
(Decrease) increase in accounts payable	(215,456)	159,334
Increase (decrease) in accrued liabilities	29,422	(20,351)
Net cash provided by operating activities	464,375	235,165
Cash flows from investing activities:		
Purchase of property and equipment	(7,206)	(36,610)
Purchase of investments	(417,227)	(444,410)
Proceeds from sale of investments	144,407	357,917
Net cash (used) by investing activities	(280,026)	(123,103)
Cash flows from financing activities:		
Principal payments on capital lease obligation	(1,039)	(1,804)
Net cash (used) by financing activities	(1,039)	(1,804)
Net increase in cash and cash equivalents	183,310	110,258
Cash and cash equivalents, beginning of year	1,122,750	1,012,492
Cash and cash equivalents, end of year	\$ 1,306,060	\$ 1,122,750
Supplemental disclosure:		
Operating activities reflect interest paid related to the capital lease	\$ 192,752	\$ 188,668

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 other 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, and ASPIRE. 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 \$1,217,965 at June 30, 2015 (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, 2015.

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 these elements are 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, 2015, AAAJ - ALC received in-kind contributions of \$4,084,707 consisting of \$23,580 in donated materials and \$4,061,127 in donated services.

In-kind donations of \$4,084,707 includes the fair value of legal services of \$4,061,127 received for the year ended June 30, 2015, and was due in large part to a case, *Din v. Kerry*, that was litigated with co-counsel up to the Supreme Court of the United States. The value of the legal services was based upon the number of hours contributed at appropriate billing rates and has been recorded as an in-kind donation and expense (see Note 5).

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.

continued

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

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, 2014 from which the summarized information was derived.

Reclassification

Certain amounts from the June 30, 2014 financial statements have been reclassified to conform to the June 30, 2015 presentation.

Subsequent Events

Management has evaluated subsequent events through November 10, 2015, 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, 2015 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of June 30, 2015. Total amount of pledges receivable is \$245,193 as of June 30, 2015 and are expected to be collected within one year.

4. Investments

Investments at June 30, 2015 consist of the following:

Fixed income	\$390,772
Equity	234,390
Alternate investment	<u>18,619</u>
	<u>\$643,781</u>

continued

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

5. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2015 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	\$234,659	\$ -	\$ -	\$234,659
Multisector bonds	68,438			68,438
Short-term bond	43,792			43,792
Corporate bond	29,595			29,595
Bank loan	14,288			14,288
	<u>390,772</u>			<u>390,772</u>
Equity Funds				
Large value	129,283			129,283
Large growth	80,056			80,056
Large blend	25,051			25,051
	<u>234,390</u>			<u>234,390</u>
Alternate investments				
Short-term bond	10,252			10,252
Non-traditional bond	8,367			8,367
	<u>18,619</u>			<u>18,619</u>
	<u>\$643,781</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$643,781</u>

The fair value of fixed income, equity funds and alternate investments 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, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledges – New	\$ -	\$ -	\$296,250	\$ 296,250
Contributed legal services		4,061,127		4,061,127
Contributions goods		23,580		23,580
	<u>\$ -</u>	<u>\$4,084,707</u>	<u>\$296,250</u>	<u>\$4,380,957</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 (Level 3 inputs).

continued

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

6. Property and Equipment

Property and equipment at June 30, 2015 consist of the following:

Building	\$1,240,000
Leasehold improvements	361,253
Furniture and equipment	225,867
Computers	78,794
Construction in progress	<u>27,763</u>
	1,933,677
Less: accumulated depreciation	<u>(560,083)</u>
	<u>\$1,373,594</u>

7. Accrued Liabilities

Accrued liabilities at June 30, 2015 consist of the following:

Accrued vacation	\$ 85,171
Clients' trust accounts	63,097
Other liabilities	<u>20,238</u>
	<u>\$168,506</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 June 2016, secured by broad form-UCC. No amount was outstanding at June 30, 2015.

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>	
2016	\$ 196,014
2017	196,014
2018	196,014
2019	196,014
2020	196,014
Thereafter	<u>3,890,454</u>
Total minimum lease payments	4,870,524
Less: portion representing interest	<u>(3,748,474)</u>
Present value of net minimum lease payments	<u>\$ 1,122,050</u>

continued

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

9. Capital Lease Obligations, continued

The cost of property under capital leases at June 30, 2015 consists of the following:

Building	\$1,240,000
Less: accumulated depreciation	<u>(151,803)</u>
	<u>\$1,088,197</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>	
2016	\$17,000
2017	<u>2,258</u>
	<u>\$19,258</u>

Rent expense under operating leases for the year ended June 30, 2015 was \$20,563.

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, 2015 consist of the following:

Operating reserve	\$ 500,000
General operations	439,375
Employment, voting rights, and general fund	355,333
Immigration and criminal justice reform	246,729
National security and civil rights	91,111
Communications	<u>85,417</u>
	<u>\$1,717,965</u>

continued

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

11. Temporarily Restricted Net Assets, continued

For the year ended June 30, 2015, net assets released from program restrictions amounted to \$1,097,409.

The operating reserve relates to the 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 at 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, 2015, 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, 2015 was \$3,250.

13. Government Contract Revenue

Government contract revenue for the year ended June 30, 2015 consists of the following:

City and County of San Francisco:

Office on the Aging	\$172,598
Mayor's Office of Housing	160,575
Office of Civic Engagement & Immigrant Affairs	50,000
Rent Board	20,000

City and County of San Francisco passed through Other Agencies:

San Francisco Immigrant Legal and Education Network (SFILEN)	106,125
Self Help for the Elderly	50,000
Chinese Progressive Association	36,723
Asian Pacific Islander Legal Outreach (APILO)	34,025
Tenderloin Housing Clinic	13,250

State Bar of California:

Equal Access Fund Grant	34,558
IOLTA	28,084

Others	772
	<u>\$706,710</u>

continued

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

14. 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.

15. Korematsu Fiscal Sponsorship

The Fred T. Korematsu Institute for Civil Rights and Education, a program of AAAJ - ALC advances pan-ethnic civil and human rights through education.

The Korematsu Institute left AAAJ - ALC at the end of the last fiscal year and joined Community Initiatives, which is a non-profit agency which provides fiscal sponsorship and financial, human resources, and grants management services.

16. 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 subsequent years. The change in net assets of (\$378,602), (\$288,808), and (\$503,641) for the years ended June 30, 2014, 2013 and 2012 respectively were covered by the multi-year grants recorded as revenue for the year ended June 30, 2011. As of June 30, 2015, temporarily restricted net assets in the amount of \$1,247,965 are restricted for future expenditures and will be released once the restrictions are met.

ADDITIONAL INFORMATION



Certified Public Accountants, LLP

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

To the Board of Directors
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, 2015, 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 10, 2015.

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*.

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 AAAJ - ALC'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 10, 2015

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