

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

**FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION**

JUNE 30, 2019

CONTENTS

Independent Auditors' Report	1-2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-17
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 <i>Government Auditing Standards</i>	18-19

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, 2019, 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 from 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, 2019, 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

Report on Summarized Comparative Information

We have previously audited Asian Americans Advancing Justice - Asian Law Caucus' 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 30, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, 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 13, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Asian Americans Advancing Justice - Asian Law Caucus' 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

Oakland, California

November 13, 2019

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

STATEMENT OF FINANCIAL POSITION

June 30, 2019

With comparative totals at June 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019</u>	<u>2018</u>
ASSETS				
Cash and cash equivalents (Note 2)	\$ 2,748,745	\$ 2,963,861	\$ 5,712,606	\$ 4,959,466
Grants and contracts receivable (Note 10)	257,061		257,061	739,829
Pledges receivable (Note 4)		2,263,443	2,263,443	2,994,929
Investments (Note 5)	845,743		845,743	847,248
Prepaid expenses	45,035		45,035	45,689
Property and equipment (Note 6)	1,265,613		1,265,613	1,293,130
TOTAL ASSETS	<u>\$ 5,162,197</u>	<u>\$ 5,227,304</u>	<u>\$ 10,389,501</u>	<u>\$ 10,880,291</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 83,902	\$ -	\$ 83,902	\$ 1,003,110
Accrued liabilities (Note 7)	208,347		208,347	215,224
Capital lease obligations (Note 9)	1,102,376		1,102,376	1,108,613
TOTAL LIABILITIES	<u>1,394,625</u>	<u>-</u>	<u>1,394,625</u>	<u>2,326,947</u>
NET ASSETS				
Without donor restrictions				
Undesignated	288,222		288,222	304,048
Board designated operating reserve (Note 3)	3,479,350		3,479,350	2,030,277
With donor restrictions (Note 11)		5,227,304	5,227,304	6,219,019
TOTAL NET ASSETS	<u>3,767,572</u>	<u>5,227,304</u>	<u>8,994,876</u>	<u>8,553,344</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,162,197</u>	<u>\$ 5,227,304</u>	<u>\$ 10,389,501</u>	<u>\$ 10,880,291</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, 2019

With comparative totals for the year ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	2019	2018
REVENUE				
In-kind donations (Note 2)	\$ 4,853,062	\$ -	\$ 4,853,062	\$ 2,779,851
Grants		3,031,446	3,031,446	7,279,468
Government contract revenue (Note 13)	1,350,259		1,350,259	1,198,986
Contributions	554,780		554,780	556,576
Special events - net of expenses of \$198,092	255,965		255,965	236,231
Program fees	119,575		119,575	61,269
Dividend and interest income	52,891		52,891	28,435
Gain on investments	38,856		38,856	11,160
Miscellaneous income	19,497		19,497	14,614
Net assets released from restrictions (Note 11)	4,023,161	(4,023,161)	-	-
TOTAL REVENUE	11,268,046	(991,715)	10,276,331	12,166,590
EXPENSES				
Program services	9,089,133		9,089,133	6,775,719
General and administration	410,489		410,489	409,285
Fundraising	335,177		335,177	301,668
TOTAL EXPENSES	9,834,799	-	9,834,799	7,486,672
CHANGE IN NET ASSETS	1,433,247	(991,715)	441,532	4,679,918
NET ASSETS, BEGINNING OF YEAR	2,334,325	6,219,019	8,553,344	3,873,426
NET ASSETS, END OF YEAR	\$ 3,767,572	\$ 5,227,304	\$ 8,994,876	\$ 8,553,344

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, 2019

With comparative totals for the year ended June 30, 2018

	Program Services				Total Program Services	General and Administration	Fundraising	Total Expenses	
	National Security and Civil Rights	Housing	Immigration	Other				2019	2018
Salaries	\$ 348,397	\$ 279,394	\$ 640,237	\$ 925,690	\$ 2,193,718	\$ 129,044	\$ 258,084	\$ 2,580,846	\$ 2,271,535
Payroll taxes and employee benefits	53,924	45,628	103,701	149,329	352,582	20,739	41,481	414,802	388,745
Total personnel costs	402,321	325,022	743,938	1,075,019	2,546,300	149,783	299,565	2,995,648	2,660,280
In-kind expenses (Note 2)	480,244	2,608,826	1,346,851	397,990	4,833,911		19,151	4,853,062	2,779,851
Affiliate expenses				886,116	886,116			886,116	816,293
Interest				8,626	8,626	197,645	306	206,577	198,393
Contract services	3,026	9,581	53,105	110,331	176,043	8,492	5,000	189,535	129,384
Subcontractors	56,200		80,185	5,000	141,385			141,385	351,277
Occupancy	1,664	300	1,326	96,871	100,161	1,399	30	101,590	90,202
Office expenses	9,147	13,876	6,128	36,130	65,281	8,208	10,385	83,874	86,901
Other	654	3,600	250	45,075	49,579	26,780		76,359	44,061
Travel	8,651	2,062	12,174	39,996	62,883	803		63,686	62,474
Telecommunications	238		187	50,990	51,415	5,777	570	57,762	79,202
Depreciation				55,539	55,539			55,539	46,936
Professional fees	1,144	1,075	1,584	40,657	44,460	6,972		51,432	55,026
Community outreach	205	959	165	23,510	24,839	2,385		27,224	40,009
Conference, catering, and meals	771	759	2,486	20,341	24,357	2,245	170	26,772	26,994
Equipment rental and maintenance				17,757	17,757			17,757	18,001
Construction costs				481	481			481	1,388
TOTAL 2019 FUNCTIONAL EXPENSES	\$ 964,265	\$ 2,966,060	\$ 2,248,379	\$ 2,910,429	\$ 9,089,133	\$ 410,489	\$ 335,177	\$ 9,834,799	
TOTAL 2018 FUNCTIONAL EXPENSES	\$ 578,198	\$ 1,265,258	\$ 909,966	\$ 4,022,297	\$ 6,775,719	\$ 409,285	\$ 301,668		\$ 7,486,672

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, 2019

With comparative totals for the year ended June 30, 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 441,532	\$ 4,679,918
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	55,539	46,936
(Gain) on investments	(38,856)	(11,160)
(Increase) decrease in operating assets:		
Grants and contracts receivable	482,768	(481,040)
Pledge receivable	731,486	(2,338,395)
Prepaid expenses	654	(902)
Increase (decrease) in operating liabilities:		
Accounts payable	(919,208)	798,118
Accrued liabilities	(6,877)	30,711
NET CASH PROVIDED BY OPERATING ACTIVITIES	747,038	2,724,186
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(28,022)	(12,311)
Purchase of investments	(308,652)	(207,611)
Proceeds from sale of investments	349,013	191,475
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	12,339	(28,447)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligation	(6,237)	(5,260)
NET CASH (USED) BY FINANCING ACTIVITIES	(6,237)	(5,260)
NET INCREASE IN CASH AND CASH EQUIVALENTS	753,140	2,690,479
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,959,466	2,268,987
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 5,712,606	\$ 4,959,466
SUPPLEMENTAL DISCLOSURE:		
Operating activities reflect interest paid related to the capital lease:	\$ 194,457	\$ 193,393

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.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions. Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve.

With Donor Restrictions. Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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.

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.

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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, 2019, AAAJ - ALC received donated services of \$4,853,062.

In-kind donations of \$4,853,062 includes the fair value of legal services of \$4,853,062 received for the year ended June 30, 2019. 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 14).

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

Recently Adopted Accounting Pronouncement

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now titled "without donor restrictions" and "with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed-in-service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for fiscal years beginning after December 15, 2017. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for the periods prior to adoption. AAAJ - ALC's financial statements for year-ended June 30, 2019 are presented in accordance with ASU 2016-14.

Reclassification

Certain amounts from the June 30, 2018 financial statements have been reclassified to conform to the June 30, 2019 presentation.

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, 2018, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through November 13, 2019, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

continued

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

3. Liquidity and Availability of Resources

AAAJ - ALC receives numerous grants, donations and earned income primarily from foundations, corporations, and local government which totaled \$5,312,025 in fiscal year June 30, 2019.

Of its \$10.38 million dollar in assets, \$3.85 million is available as liquid assets.

As of the end of fiscal year June 30, 2019, AAAJ - ALC maintained a 7.98 current ratio using only unencumbered liquid assets for the calculations.

In 2016, the Board of Directors of AAAJ - ALC established a Board-designated Operating Reserve to: (a) cover unanticipated operating shortfalls; (b) guard against financial insecurity during unforeseen, destabilizing events (such as substantial decrease of financial support, economic recession, natural catastrophe, etc.); and (c) take advantage of unplanned opportunities. The goal is six months' operating costs. At June 30, 2019, the Operating Reserve totaled \$3,479,350, which represents 5.6 months' projected operating costs for fiscal year 2019-2020.

Cash and cash equivalents	\$2,748,745
Investments	845,743
Grants and contracts receivable	<u>257,061</u>
Total financial assets at year-end	<u>\$3,851,549</u>

Financial assets available to meet expenditures over the next 12 months.

Total financial assets	\$3,851,549
Less: Accounts payable	(83,902)
Client's trust account	(46,169)
Accrued salaries and wages	(46,114)
Capital lease obligation	<u>(196,014)</u>
Assets available to meet expenditures in the next 12 months	<u>\$3,479,350</u>

4. 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, 2019 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of June 30, 2019. A discount rate of 3.0% has been used to calculate the present value of pledges receivable. Total amount of pledges receivable at June 30, 2019 of \$2,263,443 is expected to be collected within one year.

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

5. Investments

Investments at June 30, 2019 consist of the following:

Fixed income funds	\$531,618
Equity funds	<u>314,125</u>
	<u>\$845,743</u>

6. Property and Equipment

Property and equipment at June 30, 2019 consist of the following:

Building	\$1,240,000
Leasehold improvements	361,253
Furniture and equipment	255,875
Computers	129,697
Construction in progress	<u>27,763</u>
	2,014,588
Less: accumulated depreciation	<u>(748,975)</u>
	<u>\$1,265,613</u>

Depreciation expense for the year ended June 30, 2019 was \$55,539.

7. Accrued Liabilities

Accrued liabilities at June 30, 2019 consist of the following:

Accrued vacation	\$116,064
Clients' trust accounts	46,169
Accrued salaries and wages	<u>46,114</u>
	<u>\$208,347</u>

8. Line of Credit

AAAJ - ALC has a revolving line of credit with a bank, secured by broad form-UCC. No amount was outstanding at June 30, 2019.

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 ending June 30,</u>	
2020	\$ 196,014
2021	196,014
2022	196,014
2023	196,014
2024	196,014
Thereafter	<u>3,106,398</u>
Total minimum lease payments	4,086,468
Less: portion representing interest	<u>(2,984,092)</u>
Present value of net minimum lease payments	<u>\$ 1,102,376</u>

The cost of property under capital leases at June 30, 2019 consists of the following:

Building	\$1,240,000
Less: accumulated depreciation	<u>(241,983)</u>
	<u>\$ 998,017</u>

10. Commitments and Contingencies

Obligations Under Operating Leases

AAAJ - ALC leases property and equipment under operating lease with remaining terms of less than a year. 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 ending June 30,</u>	
2020	\$12,342
2021	12,589
2022	12,841
2023	13,097
2024	<u>7,729</u>
	<u>\$58,598</u>

Rent expense under these operating leases for the year ended June 30, 2019 was \$29,877.

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

10. 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.

11. Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2019 consist of the following:

General operations – time restricted	\$1,784,186
Affiliate work	1,414,852
Employment, voting rights, and general fund	827,354
National security and civil rights	619,207
Immigration and criminal justice reform	420,711
Litigation	<u>160,994</u>
	<u>\$5,227,304</u>

For the year ended June 30, 2019, net assets released from purpose restrictions were \$4,023,161.

Net assets released from donor restrictions 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, 2019, 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.

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, 2019 was \$36,887.

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

13. Government Contract Revenue

Government contract revenue for the year ended June 30, 2019 consists of the following:

City and County of San Francisco:	
Mayor's Office of Housing	\$ 426,685
Office on the Aging	194,814
Rent Board	20,000
City and County of San Francisco passed-through other agencies:	
San Francisco Immigrant Legal and Education Network (SFILEN)	117,130
Chinese Progressive Association	95,345
State Bar of California:	
Equal Access Fund Grant	142,560
IOLTA	137,580
Central American Resource Center (CARECEN)	206,703
Others	9,442
	<u>\$1,350,259</u>

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. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2019 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	\$251,846	\$ -	\$ -	\$251,846
Corporate bond	160,013			160,013
World bond	79,980			79,980
Short-term bond	20,046			20,046
High yield bond	19,733			19,733
Total fixed income	<u>531,618</u>	<u>-</u>	<u>-</u>	<u>531,618</u>

continued

ASIAN AMERICANS ADVANCING JUSTICE - ASIAN LAW CAUCUS

NOTES TO FINANCIAL STATEMENTS

15. Fair Value Measurements, continued

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity funds				
Large value	138,301			138,301
Large growth	109,961			109,961
Small blend	<u>65,863</u>			<u>65,863</u>
Total equity funds	<u>314,125</u>	<u>-</u>	<u>-</u>	<u>314,125</u>
 Total mutual funds	 <u>\$845,743</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$845,743</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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledges – new	\$ -	\$ -	\$1,424,000	\$1,424,000
Contributed legal services		<u>4,853,062</u>		<u>4,853,062</u>
	<u>\$ -</u>	<u>\$4,853,062</u>	<u>\$1,424,000</u>	<u>\$6,277,062</u>

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

The fair values of pledges-new 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 (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2019, 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 13, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Asian Americans Advancing Justice - Asian Law Caucus' 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 Asian Americans Advancing Justice - Asian Law Caucus' internal control. Accordingly, we do not express an opinion on the effectiveness of Asian Americans Advancing Justice - Asian Law Caucus' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Asian Americans Advancing Justice - Asian Law Caucus' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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

Oakland, California
November 13, 2019