

U.S. - Japan Council

Financial Statements For The Year Ended
December 31, 2011 and Independent
Auditors' Report

INDEPENDENT AUDITORS' REPORT

Board of Directors
U.S.-Japan Council

We have audited the accompanying statement of financial position of U.S.-Japan Council (a nonprofit corporation) as of December 31, 2011, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of U.S.-Japan Council at December 31, 2011, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

March 19, 2012

U.S.-JAPAN COUNCIL

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011

<u>ASSETS</u>	<u>Notes</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
CURRENT ASSETS:				
Cash and cash equivalents	2	\$ 1,006,560	\$ 721,536	\$ 1,728,096
Time certificates of deposit	2	20,256		20,256
Grants and pledges receivable	2	58,350	750,000	808,350
Receivables, other		490		490
Prepaid expenses		<u>16,498</u>		<u>16,498</u>
Total current assets		<u>1,102,154</u>	<u>1,471,536</u>	<u>2,573,690</u>
PROPERTY AND EQUIPMENT, net of accumulated depreciation				
	2,3	<u>6,297</u>		<u>6,297</u>
TOTAL ASSETS		<u>\$ 1,108,451</u>	<u>\$ 1,471,536</u>	<u>\$ 2,579,987</u>
<u>LIABILITIES AND NET ASSETS</u>				
CURRENT LIABILITIES:				
Accounts payable		\$ 5,981		\$ 5,981
Deferred revenue	2	98,634		98,634
Accrued expenses		2,852		2,852
Accrued vacation		21,263		21,263
Earthquake Relief Fund payable	2,6	<u>625,000</u>		<u>625,000</u>
Total current liabilities		<u>753,730</u>		<u>753,730</u>
COMMITMENTS				
	5			
NET ASSETS	2,4,6	<u>354,721</u>	<u>\$ 1,471,536</u>	<u>1,826,257</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 1,108,451</u>	<u>\$ 1,471,536</u>	<u>\$ 2,579,987</u>

See notes to financial statements.

U.S.-JAPAN COUNCIL

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Notes</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE:				
Support:				
Grant and pledge income	2	\$ 33,520		\$ 33,520
Earthquake Relief Fund	6	1,916,360	\$ 647,946	2,564,306
Donations	2	440,277		440,277
Revenue:				
Programs		758,416		758,416
TOMODACHI	6		837,187	837,187
Interest income		2,914		2,914
In-kind contributions		22,365		22,365
Net assets released from restriction:				
Restriction satisfied by performance	2	<u>27,753</u>	<u>(27,753)</u>	
Total support and revenue		<u>3,201,605</u>	<u>1,457,380</u>	<u>4,658,985</u>
FUNCTIONAL EXPENSES (see statement of functional expense):				
Program services		1,069,847		1,069,847
Earthquake Relief Fund	6	1,916,360		1,916,360
Management and general		73,695		73,695
Fundraising		51,586		51,586
Total functional expenses		<u>3,111,488</u>	<u>0</u>	<u>3,111,488</u>
Change in net assets		90,117	1,457,380	1,547,497
NET ASSETS, JANUARY 1, 2011		<u>264,604</u>	<u>14,156</u>	<u>278,760</u>
NET ASSETS, DECEMBER 31, 2011		<u>\$ 354,721</u>	<u>\$ 1,471,536</u>	<u>\$ 1,826,257</u>

See notes to financial statements.

U.S.-JAPAN COUNCIL

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

INCREASE IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase in net assets	\$	1,547,497
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization		2,309
Changes in:		
Grants and pledges receivable		(803,850)
Receivable, other		(490)
Prepaid expenses		(9,680)
Deposits		3,300
Accounts payable		(13,089)
Deferred revenue		73,634
Accrued expenses		1,691
Accrued vacations		9,731
Earthquake Relief Fund payable		625,000
Net cash provided by operating activities		<u>1,436,053</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Increase in time certificates of deposit		(10,077)
Purchase of property and equipment		<u>(8,214)</u>
Net cash used in investing activities		<u>(18,291)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 1,417,762

CASH AND CASH EQUIVALENTS, JANUARY 1, 2011 310,334

CASH AND CASH EQUIVALENTS, DECEMBER 31, 2011 \$ 1,728,096

See notes to financial statements.

U.S.-JAPAN COUNCIL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011

1. GENERAL

The U.S.-Japan Council (USJC) is a nonprofit, public benefit corporation incorporated in the state of California in December 2008 to promote people-to-people relations on national and community levels between the United States of America and Japan. The USJC has offices in Washington, DC and Los Angeles, California.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Recognition of donor restrictions - Contributions received are recorded as unrestricted or temporarily restricted support depending on the existence or nature of donor restrictions. The two net asset classes are based solely on the existence or absence of donor-imposed restrictions. Amounts that are received for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases these net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the USJC reports the support as unrestricted.

- a. Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by USJC's actions. USJC currently has no permanently restricted net assets.
- b. Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of USJC pursuant to these stipulations. The net assets may be temporarily restricted for various purposes, such as use in future periods or use for specific purposes. USJC currently has a temporarily restricted net asset balance of \$1,471,536 which includes \$721,536 of cash and cash equivalents (Earthquake Relief Fund and TOMODACHI) and \$750,000 of pledges receivable (TOMODACHI).
- c. In the absence of donor-imposed restrictions, net assets are classified as unrestricted.

Cash and cash equivalents - USJC considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. USJC maintains its cash in bank deposit accounts which, at times, may exceed the federally insured limits. USJC believes it is not exposed to any significant credit risk on these cash deposits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment - Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is determined on the straight-line method over the estimated useful lives of the assets. Repairs and maintenance are charged as expense when incurred.

Income taxes - The Internal Revenue Service has classified the organization as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Under the statute of limitations, USJC is open to examination by the Internal Revenue Service for the years ended December 31, 2009 through December 31, 2011.

Deferred revenue - Deferred revenue represents temporarily restricted funds received from grantors and foundations that are received in advance and will benefit subsequent periods.

Functional expenses - USJC allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classifications. Other expense that are common to several functions are allocated by direct labor costs.

In-kind contributions - The Terasaki Foundation provided the Los Angeles office space to the USJC during the year. Based on fair market value provided by the Terasaki Foundation, approximately \$7,100 of in-kind donations are included in revenues and expenses in the financial statements. In-kind donations also includes donations of other rental space, food and beverages for meetings and receptions.

Use of estimates - Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported public support revenues and expenses. Actual results could differ from those estimates and assumptions.

Fair value of financial instruments - The carrying amounts of cash and cash equivalents, receivables, accounts payable, and accrued expenses approximate fair value because of the short maturities of these instruments.

3. PROPERTY AND EQUIPMENT

The major classes of property and equipment and the estimated useful lives in computing depreciation are as follows:

	<u>Amount</u>	<u>Lives</u>
Office equipment	\$ 8,848	3 years
Less accumulated depreciation	<u>2,551</u>	
	<u>\$ 6,297</u>	

Depreciation expense for property and equipment amounted to \$2,309 for the year.

4. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes (see note 6):

Earthquake Relief Fund	\$ 647,946
TOMODACHI	<u>823,590</u>
	\$ <u><u>1,471,536</u></u>

5. COMMITMENTS

The USJC has a noncancelable lease for its office facilities which expires May 2014. Rent expense for the year amounted to \$64,249, which includes \$7,142 of donated office space.

The minimum future rental follows:

<u>Year ended December 31,</u>	<u>Amount</u>
2012	\$ 73,555
2013	75,394
2014	<u>31,737</u>
	\$ <u><u>180,686</u></u>

6. SUBSEQUENT EVENTS

Earthquake Relief Fund

The USJC responded to the March 11, 2011 Great East Japan Earthquake by establishing the U.S.-Japan Council Earthquake Relief Fund (EQRF). The USJC Board of Directors (BOD) approved 100 percent distribution of the contributions to support immediate relief efforts and longer term rebuilding in the devastated region of Tohoku, Japan. \$2,564,306 was collected as of December 31, 2011. The BOD approved commitments of \$1,916,360 to qualified Non-Profit Organizations or Non-Governmental Organizations that supported relief and rebuilding efforts. The total distribution as of December 31, 2011 was \$1,291,360, with a balance of \$625,000 payable.

Subsequent contributions of \$9,732 were received by the EQRF in 2012. The remaining balance of the EQRF and any additional contributions received will be designated with BOD approval for distribution by December 31, 2012.

6. SUBSEQUENT EVENTS (Continued)

TOMODACHI

In Fall 2011, the USJC and the U.S. Embassy in Tokyo, with the support of the government of Japan, formed a public-private partnership, TOMODACHI, to aid in the long-term recovery of Japan. TOMODACHI raises funds from U.S. and Japanese donors that will invest in the next generation of Japanese and Americans to strengthen cultural and economic ties, and deepen the friendship between the U.S. and Japan over the long-term. The USJC is administering the TOMODACHI initiative in collaboration with numerous public and private entities. TOMODACHI will be supported by USJC staff in Tokyo and in the U.S.

A Private Benefit Organization (PBO) corporation, U.S.-Japan Council (Japan) was formed in Tokyo, Japan in March 2012. The Japanese organization is a separate legal entity and governed by executive board members independent of the USJC. The Japanese organization will collaborate with USJC in supporting the TOMODACHI initiative.

\$837,187 in contributions was received and \$13,597 was expensed for TOMODACHI as of December 31, 2011. Subsequent commitments of approximately \$5,400,000 have been received in 2012.

U.S.-JAPAN COUNCIL

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Services		Management And General	Fundraising	Total
	Programs	Earthquake Relief Fund			
Salaries	\$ 407,804		\$ 49,133	\$ 34,393	\$ 491,330
Payroll taxes	30,482		3,672	2,571	36,725
Employee benefits	23,223		2,798	1,958	27,979
Programs and events	442,848	\$ 1,916,360			2,359,208
Program consultant	15,311				15,311
Depreciation	1,916		231	162	2,309
Fees	13,618		1,641	1,148	16,407
Insurance	5,325		641	449	6,415
Meetings	5,260		634	444	6,338
Office expenses	8,959		1,080	755	10,794
Printing	11,887		1,432	1,003	14,322
Professional services	11,780		1,419	994	14,193
Rent	53,327		6,425	4,497	64,249
Supplies	8,603		1,036	725	10,364
Taxes and licenses	825		99	69	993
Telephone and internet	14,043		1,691	1,184	16,918
Training	3,491		420	294	4,205
Travel	11,145		1,343	940	13,428
TOTAL	\$ <u>1,069,847</u>	\$ <u>1,916,360</u>	\$ <u>73,695</u>	\$ <u>51,586</u>	\$ <u>3,111,488</u>

See notes to financial statements.