

U.S. - Japan Council

Financial Statements For The Year Ended
December 31, 2012 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, 2012, 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, 2012, 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.

Sasaki Shishima & Co.

March 25, 2012

U.S.-JAPAN COUNCILSTATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012

<u>ASSETS</u>	<u>Notes</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
CURRENT ASSETS:				
Cash and cash equivalents	2	\$ 360,618	\$ 638,004	\$ 998,622
Time certificates of deposit	2	20,360		20,360
Grants and pledges receivable	2	22,517	2,295,000	2,317,517
Due from USJC - Japan	6	361,015		361,015
Prepaid expenses		9,830		9,830
Total current assets		<u>774,340</u>	<u>2,933,004</u>	<u>3,707,344</u>
PROPERTY AND EQUIPMENT, net of accumulated depreciation	2,3	<u>26,217</u>		<u>26,217</u>
TOTAL ASSETS		<u>\$ 800,557</u>	<u>\$ 2,933,004</u>	<u>\$ 3,733,561</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable		\$ 7,984		\$ 7,984
Deferred revenue	2	116,633		116,633
Accrued expenses		9,684		9,684
Accrued vacation		27,306		27,306
Earthquake Relief Fund payable	2,6,7	<u>38,017</u>		<u>38,017</u>
Total current liabilities		<u>199,624</u>		<u>199,624</u>
COMMITMENTS	5			
NET ASSETS	2,4,6	<u>600,933</u>	<u>\$ 2,933,004</u>	<u>3,533,937</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 800,557</u>	<u>\$ 2,933,004</u>	<u>\$ 3,733,561</u>

See notes to financial statements.

U.S.-JAPAN COUNCIL

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Notes</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE:				
Support:				
Earthquake Relief Fund	7	\$ 59,010	\$	\$ 59,010
Donations	2	595,305		595,305
Revenue:				
Programs		848,945		848,945
TOMODACHI	6		\$ 6,232,635	6,232,635
Interest income		617	4	621
In-kind contributions		99,251	170,166	269,417
Net assets released from restriction:				
Restriction satisfied by performance	2	4,941,337	(4,941,337)	0
Total support and revenue		<u>6,544,465</u>	<u>1,461,468</u>	<u>8,005,933</u>
FUNCTIONAL EXPENSES (see statement of functional expense):				
Program services		6,017,441		6,017,441
Management and general		203,160		203,160
Fundraising		51,947		51,947
Total functional expenses		<u>6,272,548</u>	<u>0</u>	<u>6,272,548</u>
OTHER EXPENSES:				
Foreign exchange loss		(25,705)	0	(25,705)
Change in net assets		246,212	1,461,468	1,707,680
NET ASSETS, JANUARY 1, 2012		354,721	1,471,536	1,826,257
NET ASSETS, DECEMBER 31, 2012		\$ <u>600,933</u>	\$ <u>2,933,004</u>	\$ <u>3,533,937</u>

See notes to financial statements.

U.S.-JAPAN COUNCIL

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

INCREASE IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase in net assets	\$ 1,707,680
Adjustments to reconcile increase in net assets to net cash used in operating activities:	
Depreciation and amortization	2,993
Changes in:	
Grants and pledges receivable	(1,509,167)
Receivable, other	(360,525)
Prepaid expenses	6,668
Accounts payable	2,003
Deferred revenue	17,999
Accrued expenses	6,832
Accrued vacations	6,043
Earthquake Relief Fund payable	(586,983)
Net cash used in operating activities	<u>(706,457)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Increase in time certificates of deposit	(104)
Purchase of property and equipment	(22,913)
Net cash used in investing activities	<u>(23,017)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (729,474)

CASH AND CASH EQUIVALENTS, JANUARY 1, 2012 1,728,096

CASH AND CASH EQUIVALENTS, DECEMBER 31, 2012 \$ 998,622

See notes to financial statements.

U.S.-JAPAN COUNCIL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012

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, Los Angeles, California and Tokyo, Japan.

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 \$2,933,004 (TOMODACHI) which includes \$638,004 of cash and cash equivalents and \$2,295,000 of pledges receivable.
- 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, 2012.

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 - USJC received donated office space with an approximate fair market value of \$7,000 and \$3,000 for Los Angeles and San Francisco office space respectively. USJC received in-kind legal services to support the TOMODACHI initiative in the amount of \$156,636. Other in-kind donations include air travel, 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:

	Amount	Lives
Office equipment	\$ 32,232	3 years
Less accumulated depreciation	<u>6,015</u>	
	<u>\$ 26,217</u>	

Depreciation expense for property and equipment amounted to \$2,993 for the year.

4. RESTRICTIONS ON NET ASSETS

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

TOMODACHI	\$ <u>2,933,004</u>
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5. COMMITMENTS

The USJC has a noncancelable lease for its office facilities which expires May 2014. Rent expense for the year amounted to \$75,078, which includes \$10,742 of donated office space.

The minimum future rental follows:

<u>Year ended December 31,</u>	<u>Amount</u>
2013	\$ 75,394
2014	<u>31,737</u>
	<u>\$ 107,131</u>

6. 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 is supported by USJC staff in Tokyo and in the U.S.

A Public Benefit Foundation, U.S.-Japan Council (Japan) was formed in Tokyo, Japan in March 2012. The Japanese organization is a separate legal entity and governed by a Board of Directors and Board of Counselors. The Japanese organization is collaborating with USJC in supporting the TOMODACHI initiative. The USJC has a service agreement with the Japan entity to provide management, program and operational support. Total reimbursable expenses in 2012 from U.S.-Japan Council (Japan) to U.S.-Japan Council (US) was \$361,015.

In 2012, TOMODACHI programs (USJC) received \$6,402,805 in total contributions which included multi-year pledges. Total direct program expenses as of December 31, 2012 was \$4,272,378.

Donors to the TOMODACHI initiative have the discretion of directing contributions to either the U.S. or Japan entity.

7. EARTHQUAKE RELIEF FUND

USJC officially concluded its Earthquake Relief Fund as of December 31, 2012. Final distributions were made February 2013 on actions by the Board of Directors at its December 2012 meeting.

8. SUBSEQUENT EVENTS

The Company had no reportable subsequent events for the period ended December 31, 2012 through the issuance of the financial statements.

U.S.-JAPAN COUNCIL

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Program Services</u>			
	<u>Programs</u>	<u>Management And General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 649,881	\$ 76,457	\$ 38,228	\$ 764,566
Payroll taxes	69,466	8,173	4,085	81,724
Employee benefits	48,699	5,729	2,863	57,291
Programs and events	4,890,620	170		4,890,790
Program consultant	575			575
Depreciation	2,629	243	121	2,993
Fees	10,505	1,125	562	12,192
In-kind legal	103,191	52,896	549	156,636
In-kind travel	62,614	25,191	243	88,048
Insurance	5,190	467	233	5,890
Meetings	18,961	1,466	731	21,158
Office expenses	8,274	584	293	9,151
Printing	6,590	401	200	7,191
Professional services	7,364	3,774	39	11,177
Rent	63,398	9,106	2,574	75,078
Supplies	9,193	585	292	10,070
Taxes and licenses	1,666	54	27	1,747
Telephone and internet	20,167	1,446	723	22,336
Training	633	75	37	745
Travel	37,825	15,218	147	53,190
TOTAL	\$ <u>6,017,441</u>	\$ <u>203,160</u>	\$ <u>51,947</u>	\$ <u>6,272,548</u>

See notes to financial statements.