

U.S. - Japan Council

Financial Statements For The Year Ended
December 31, 2014 and Independent
Auditors' Report

INDEPENDENT AUDITORS' REPORT

Board of Directors
U.S.-Japan Council

We have audited the accompanying financial statements of the U.S.-Japan Council (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, 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 controls 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. 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 auditor's 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 the U.S.-Japan Council as of December 31, 2014, 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.



March 23, 2015

U.S.-JAPAN COUNCILSTATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014

<u>ASSETS</u>	<u>Notes</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
CURRENT ASSETS:				
Cash and cash equivalents	2	\$ 896,220	\$ 539,456	\$ 1,435,676
Time certificates of deposit	2	20,457		20,457
Grants and pledges receivable:				
TOMODACHI	2,6	14,958	2,134,127	2,149,085
Other		50,530		50,530
Due from USJC - Japan	6	565,238		565,238
Prepaid expenses		20,825		20,825
Total current assets		<u>1,568,228</u>	<u>2,673,583</u>	<u>4,241,811</u>
PROPERTY AND EQUIPMENT, net of accumulated depreciation	2,3	<u>19,261</u>	<u>2,335</u>	<u>21,596</u>
TOTAL ASSETS		<u>\$ 1,587,489</u>	<u>\$ 2,675,918</u>	<u>\$ 4,263,407</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable:				
TOMODACHI	6	\$ 166,577		\$ 166,577
Other		75,214		75,214
Deferred revenue	2	19,000		19,000
Accrued expenses		5,085		5,085
Accrued vacation		63,271		63,271
Total current liabilities		<u>329,147</u>		<u>329,147</u>
COMMITMENTS	5			
NET ASSETS	2,4,6	<u>1,258,342</u>	<u>\$ 2,675,918</u>	<u>3,934,260</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 1,587,489</u>	<u>\$ 2,675,918</u>	<u>\$ 4,263,407</u>

See notes to financial statements.

U.S.-JAPAN COUNCIL

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Notes</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE:				
Support:				
Donations	2	\$ 478,797	\$	478,797
Revenue:				
Programs		1,300,029		1,300,029
TOMODACHI	6	138	\$ 2,697,121	2,697,121
Interest income		243,208	1,268	244,476
In-kind contributions				
Net assets released from restriction:				
Restriction satisfied by performance	2	3,276,673	(3,276,673)	0
Total support and revenue		<u>5,298,845</u>	<u>(578,284)</u>	<u>4,720,561</u>
FUNCTIONAL EXPENSES (see statement of functional expense):				
Program services				
TOMODACHI	6	2,210,038		2,210,038
General education		1,623,004		1,623,004
Management and general		184,584		184,584
Fundraising		118,661		118,661
Total functional expenses		<u>4,136,287</u>	<u>0</u>	<u>4,136,287</u>
OTHER EXPENSES:				
Foreign exchange loss		170,159	0	170,159
Change in net assets		992,399	(578,284)	414,115
NET ASSETS, JANUARY 1, 2014		<u>265,943</u>	<u>3,254,202</u>	<u>3,520,145</u>
NET ASSETS, DECEMBER 31, 2014		<u>\$ 1,258,342</u>	<u>\$ 2,675,918</u>	<u>\$ 3,934,260</u>

See notes to financial statements.

U.S.-JAPAN COUNCIL

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

DECREASE IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 414,115
Adjustments to reconcile the change in net assets to net cash used in operating activities:	
Depreciation and amortization	5,041
Changes in:	
Grants and pledges receivable - TOMODACHI	(15,202)
Grants and pledges receivable - other	24,480
Receivable, other	(337,060)
Prepaid expenses	(7,048)
Accounts payable - TOMODACHI	(287,639)
Accounts payable - other	57,066
Deferred revenue	(11,500)
Accrued expenses	(1,492)
Accrued vacations	22,577
Net cash used in operating activities	<u>(136,662)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Increase in time certificates of deposit	(41)
Purchase of property and equipment	<u>(5,428)</u>
Net cash used in investing activities	<u>(5,469)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (142,131)

CASH AND CASH EQUIVALENTS, JANUARY 1, 2014 1,577,807

CASH AND CASH EQUIVALENTS, DECEMBER 31, 2014 \$ 1,435,676

See notes to financial statements.

U.S.-JAPAN COUNCIL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014

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 \$2,675,918 (TOMODACHI) which includes \$539,456 of cash and cash equivalents, \$2,134,127 of pledges receivable and \$2,335 of net property and equipment.
- 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, 2011 through December 31, 2014.

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 in California with an approximate fair market value of \$22,142. 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:

	<u>Amount</u>	<u>Lives</u>
Office equipment	\$ 39,715	3 years
Less accumulated depreciation	<u>20,454</u>	
	<u>\$ 19,261</u>	

Depreciation expense for property and equipment amounted to \$5,041 for the year.

4. RESTRICTIONS ON NET ASSETS

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

TOMODACHI	\$ <u>2,675,918</u>
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5. COMMITMENTS

The USJC has a noncancelable lease for its office facilities which expires May 2017. Rent expense for the year amounted to \$79,989, which includes \$22,142 of donated office space.

The minimum future rental follows:

<u>Year ended December 31,</u>	<u>Amount</u>
2015	\$ 80,323
2016	82,331
2017	<u>34,657</u>
	<u>\$ 197,311</u>

6. TOMODACHI

USJC and the U.S Embassy in Tokyo formed a public-private partnership "TOMODACHI", to support long-term recovery of Japan following the March 11, 2011 Great East Japan Earthquake. TOMODACHI supports programs in educational exchange and leadership development that invest in the next generation of young Japanese and Americans in ways that deepen the friendship between the United States and Japan.

TOMODACHI raises funds from contributors in the U.S. and Japan. Donors have the option of contributing to the U.S.-Japan Council (US) or to a separate and independent public benefit corporation, U.S.-Japan Council (Japan). Management and program services are provided to U.S.-Japan Council (Japan) through a Management Agreement to support TOMODACHI activities in Japan

In 2014, USJC (US) received \$2,698,389 in total contributions for TOMODACHI which included multi-year pledges. This included \$796,724 of accrued contributions committed prior to year-end. All multi-year pledges with unconditional restrictions were recognized in full as revenue in 2014 based on Generally Accepted Accounting Principles (GAAP). The total direct program and program support expenses of \$2,210,038 as of December 31, 2014 were \$1,822,292 and \$387,746, respectively. A portion of the 2014 direct program expenses were offset by approximately \$1,500,000 of revenue recognized in 2013 and 2012.

At 2014 year end, USJC (US) received a seven-year commitment from a major donor, subject to conditional restrictions. Based on Statement of Financial Accounting Standards No. 116, the USJC (US) met the first year conditions and therefore included the first year donation in the 2014 TOMODACHI revenue.

7. SUBSEQUENT EVENTS

The Organization had no reportable subsequent events for the period ended December 31, 2014 through the issuance of the financial statements.

U.S.-JAPAN COUNCIL

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Program Services			Supporting Services		
	General Education	TOMODACHI	Total Programs	Management And General	Fundraising	Total
Salaries	\$ 443,947	\$ 287,102	\$ 731,049	\$ 132,918	\$ 85,447	\$ 949,414
Payroll taxes and employee benefits	62,030	50,656	112,686	20,488	13,171	146,345
TOMODACHI program services		1,822,292	1,822,292			1,822,292
Programs and events - general education	995,537		995,537			995,537
Depreciation	2,517	1,364	3,881	706	454	5,041
Fees	13,221	1,218	14,439	2,625	1,688	18,752
Insurance	4,116	2,227	6,343	1,153	741	8,237
Office expenses	6,686	7,245	13,931	2,533	1,630	18,094
Postage	1,556	203	1,759	320	206	2,285
Printing	7,883	2,634	10,517	1,912	1,229	13,658
Professional services	11,468	3,310	14,778	2,687	1,727	19,192
Rent	28,891	15,651	44,542	8,099	5,206	57,847
Supplies	5,548	2,510	8,058	1,465	941	10,464
System upgrade	5,970	3,398	9,368	1,703	1,095	12,166
Taxes and licenses	734	142	876	159	102	1,137
Telephone and internet	11,743	4,460	16,203	2,946	1,894	21,043
Travel	21,157	5,626	26,783	4,870	3,130	34,783
TOTAL	\$ 1,623,004	\$ 2,210,038	\$ 3,833,042	\$ 184,584	\$ 118,661	\$ 4,136,287

See notes to financial statements.