

U.S. - Japan Council

Financial Statements For The Year Ended
December 31, 2015 and Independent
Auditors' Report

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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, 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 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, 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.

 & Co.

February 25, 2016

U.S.-JAPAN COUNCIL

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015

<u>ASSETS</u>	<u>Notes</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
CURRENT ASSETS:					
Cash and cash equivalents	2	\$ 1,425,431	\$ 1,397,214	\$ 10,000,000	\$ 12,822,645
Time certificates of deposit	2	20,506			20,506
Grants and pledges receivable:					
TOMODACHI	2,6		1,370,238		1,370,238
Other		98,059	5,000		103,059
Due from USJC - Japan	6	492,806			492,806
Prepaid expenses		14,535			14,535
Total current assets		<u>2,051,337</u>	<u>2,772,452</u>	<u>10,000,000</u>	<u>14,823,789</u>
PROPERTY AND EQUIPMENT, net of accumulated depreciation	2,3	47,236			47,236
OTHER ASSETS			<u>2,335</u>		<u>2,335</u>
TOTAL ASSETS		<u>\$ 2,098,573</u>	<u>\$ 2,774,787</u>	<u>\$ 10,000,000</u>	<u>\$ 14,873,360</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable:		\$ 49,195		\$ 49,195	\$ 49,195
Deferred revenue	2	424,488			424,488
Accrued expenses		80,493			80,493
Accrued vacation		41,892			41,892
Total current liabilities		<u>596,068</u>			<u>596,068</u>
COMMITMENTS	5				
NET ASSETS	2,4,6	<u>1,502,505</u>	<u>\$ 2,774,787</u>	<u>\$ 10,000,000</u>	<u>14,277,292</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 2,098,573</u>	<u>\$ 2,774,787</u>	<u>\$ 10,000,000</u>	<u>\$ 14,873,360</u>

See notes to financial statements.

U.S.-JAPAN COUNCIL

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Notes</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE:					
Support:					
Donations	2	\$ 303,955		\$ 10,000,000	\$ 10,303,955
Revenue:					
Programs		1,431,557			1,431,557
TOMODACHI	6		\$ 1,574,951		1,574,951
In-kind contributions		123,624			123,624
Miscellaneous income		3,196			3,196
Net assets released from restriction:					
Restriction satisfied by performance	2	1,476,082	(1,476,082)		0
Total support and revenue		<u>3,338,414</u>	<u>98,869</u>	<u>10,000,000</u>	<u>13,437,283</u>
FUNCTIONAL EXPENSES (see statement of functional expense):					
Program services					
TOMODACHI	6	1,627,270			1,627,270
General education		1,106,493			1,106,493
Management and general		240,237			240,237
Fundraising		80,332			80,332
Total functional expenses		<u>3,054,332</u>	<u>0</u>	<u>0</u>	<u>3,054,332</u>
OTHER EXPENSES:					
Foreign exchange loss		39,919	0	0	39,919
Change in net assets		244,163	98,869	10,000,000	10,343,032
NET ASSETS, JANUARY 1, 2015		<u>1,258,342</u>	<u>2,675,918</u>	<u>0</u>	<u>3,934,260</u>
NET ASSETS, DECEMBER 31, 2015		<u>\$ 1,502,505</u>	<u>\$ 2,774,787</u>	<u>\$ 10,000,000</u>	<u>\$ 14,277,292</u>

See notes to financial statements.

U.S.-JAPAN COUNCIL

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

INCREASE IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 10,343,032
Adjustments to reconcile the change in net assets to net cash provided by operating activities:	
Depreciation and amortization	13,185
Changes in:	
Grants and pledges receivable - TOMODACHI	778,847
Grants and pledges receivable - other	(52,529)
Due from USJC - Japan	72,432
Prepaid expenses	6,290
Other assets	(2,335)
Accounts payable - TOMODACHI	(166,577)
Accounts payable - other	(26,019)
Deferred revenue	405,488
Accrued expenses	75,408
Accrued vacations	(21,379)
Net cash provided by operating activities	<u>11,425,843</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Increase in time certificates of deposit	(49)
Purchase of property and equipment	(38,825)
Net cash used in investing activities	<u>(38,874)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 11,386,969

CASH AND CASH EQUIVALENTS, JANUARY 1, 2015 1,435,676

CASH AND CASH EQUIVALENTS, DECEMBER 31, 2015 \$ 12,822,645

See notes to financial statements.

U.S.-JAPAN COUNCIL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015

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, temporarily or permanently restricted support depending on the existence or nature of donor restrictions. The three 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

- 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.

In 2015, USJC received a generous endowment gift of \$10 million from Mr. Toshizo Watanabe. The contribution shall establish a permanently Endowed Fund to be known as the Toshizo Watanabe Endowed Scholarship Fund (the "Fund"). The Fund shall consist of the initial contribution, and any subsequent contributions, which are directed to the Fund by the Donor, and any earnings from the investment of the assets of the Fund. The purpose of the Fund is to provide scholarships for study abroad to American and Japanese students that demonstrate high potential and financial need. The scholarships to be awarded to students will assist in supporting the cost of tuition and/or living expenses for a student's academic study abroad in either Japan or the United States.

- 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 \$2,774,787 (TOMODACHI) which includes \$1,397,214 of cash and cash equivalents, \$1,375,238 of pledges receivable and \$2,335 of net property and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2012 through December 31, 2015.

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 \$15,394. 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	\$ 81,988	3 years
Less accumulated depreciation	<u>34,752</u>	
	<u>\$ 47,236</u>	

Depreciation expense for property and equipment amounted to \$13,185 for the year.

4. RESTRICTIONS ON NET ASSETS

Temporarily and permanently restricted net assets are available for the following purpose:

TOMODACHI (see note 6)	\$ <u>2,774,787</u>
TOSHIZO WATANABE ENDOWED SCHOLARSHIP FUND (see note 2a.)	\$ <u>10,000,000</u>

5. COMMITMENTS

The USJC has a noncancelable lease for its office facilities which expires May 2017. Rent expense for the year amounted to \$52,833 and \$15,394 of donated office space. USJC signed an amendment to the current lease effective February 1, 2016 to extend the term of the lease until January 31, 2019.

The minimum future rental follows:

<u>Year ended December 31,</u>	<u>Amount</u>
2016	\$ 119,173
2017	125,455
2018	128,566
2019	<u>10,735</u>
	<u>\$ 383,929</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 2015, USJC (US) received \$1,574,951 in total contributions for TOMODACHI which included multi-year pledges. This included \$771,132 of accrued contributions committed prior to year end. All multi-year pledges (with unconditional restrictions) were recognized in full as income in 2015 based on generally accepted accounting principles. The total direct program and program support expenses of \$1,627,270 as of December 31, 2015 were \$1,154,569 and \$472,701, respectively. A portion of the 2015 direct program expenses were offset by approximately \$1,013,710 of revenue recognized in 2014.

Donors to the TOMODACHI initiative have the discretion of directing their contribution to either the U.S. or Japan entity. In 2015, U.S. Japan-US and U.S. Japan Council-Japan held a joint annual conference. Total conference revenues and expenses were shared equally between the two entities.

7. SUBSEQUENT EVENTS

The Organization had no reportable subsequent events for the period ended December 31, 2015 through February 25, 2016, the date of issuance of the financial statements.

U.S.-JAPAN COUNCIL

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Program Services			Supporting Services		Total
	General	TOMODACHI	Programs	Management And General	Fundraising	
	Education					
Salaries, payroll taxes and employee benefits	\$ 446,475	\$ 402,687	\$ 849,162	\$ 214,857	\$ 53,919	\$ 1,117,938
TOMODACHI program services		1,154,569	1,154,569			1,154,569
Programs and events - general education	440,459		440,459			440,459
Depreciation	2,579	5,648	8,227	4,079	879	13,185
Fees	12,611	5,854	18,465	1,892	1,244	21,601
In-kind services	123,623		123,623			123,623
Insurance	4,253	3,130	7,383	878	644	8,905
Meetings	4,482	4,008	8,490	1,458	937	10,885
Office expenses	2,312	202	2,514	985	1,708	5,207
Postage	2,419		2,419	706	351	3,476
Printing	7,602	5,548	13,150	736	3,016	16,902
Professional services	12,526	17,115	29,641	3,225	7,922	40,788
Rent	26,186	17,539	43,725	4,541	4,567	52,833
Supplies	4,435	4,696	9,131	1,739	916	11,786
Taxes and licenses	1,968	379	2,347	616	556	3,519
Telephone and internet	6,470	5,079	11,549	1,458	1,275	14,282
Travel	8,093	816	8,909	3,067	2,398	14,374
TOTAL	\$ 1,106,493	\$ 1,627,270	\$ 2,733,763	\$ 240,237	\$ 80,332	\$ 3,054,332

See notes to financial statements.