

# **U.S. - Japan Council**

Financial Statements For The Year Ended  
December 31, 2016 and Independent  
Auditors' Report

# PAUL SHISHIMA & CO.

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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, 2016, 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, 2016, 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.

Handwritten signature of Paul Shishima, followed by the initials "P.C." in a stylized script.

February 17, 2017

U.S.-JAPAN COUNCIL

STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2016

<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	\$ 1,578,256	\$ 2,245,489	\$ 212,498	\$ 4,036,243
Time certificates of deposit	2	20,632			20,632
Investments	3	350,000		9,971,957	10,321,957
Grants and pledges receivable:					
TOMODACHI	2,7		793,922		793,922
Other		88,406			88,406
Due from USJC - Japan	7	492,448			492,448
Prepaid expenses		21,745			21,745
Total current assets		<u>2,551,487</u>	<u>3,039,411</u>	<u>10,184,455</u>	<u>15,775,353</u>
PROPERTY AND EQUIPMENT, net of accumulated depreciation	2,4	51,505			51,505
OTHER ASSETS		<u>2,335</u>			<u>2,335</u>
TOTAL ASSETS		<u>\$ 2,605,327</u>	<u>\$ 3,039,411</u>	<u>\$ 10,184,455</u>	<u>\$ 15,829,193</u>
<u>LIABILITIES AND NET ASSETS</u>					
CURRENT LIABILITIES:					
Accounts payable		\$ 30,143			\$ 30,143
Deferred revenue	2	434,054			434,054
Accrued expenses		111,929			111,929
Accrued vacation		29,856			29,856
Total current liabilities		<u>605,982</u>			<u>605,982</u>
COMMITMENTS	6				
NET ASSETS	2,5,7	<u>1,999,345</u>	<u>\$ 3,039,411</u>	<u>\$ 10,184,455</u>	<u>15,223,211</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 2,605,327</u>	<u>\$ 3,039,411</u>	<u>\$ 10,184,455</u>	<u>\$ 15,829,193</u>

See notes to financial statements.

U.S.-JAPAN COUNCIL

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Notes	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE:</b>					
Support:					
Donations	2	\$ 768,972		\$	768,972
Revenue:					
Programs		1,984,794			1,984,794
TOMODACHI	7		\$ 2,249,540		2,249,540
Interest income		332		198,302	198,634
In-kind contributions		144,842			144,842
Miscellaneous income		2,653			2,653
Foreign currency exchange adjustment		33,375			33,375
Net realized and unrealized gain on investments				15,410	15,410
Net assets released from restriction:					
Restriction satisfied by performance	2	1,984,916	(1,984,916)		0
Total support and revenue		4,919,884	264,624	213,712	5,398,220
<b>FUNCTIONAL EXPENSES (see statement of functional expense):</b>					
Program services					
TOMODACHI	7	2,122,712			2,122,712
General education		1,977,985			1,977,985
Management and general		204,864		29,257	234,121
Fundraising		107,186			107,186
Total functional expenses		4,412,747	0	29,257	4,442,004
<b>OTHER EXPENSES:</b>					
Foreign exchange loss		10,297	0	0	10,297
Change in net assets		496,840	264,624	184,455	945,919
<b>NET ASSETS, JANUARY 1, 2016</b>		1,502,505	2,774,787	10,000,000	14,277,292
<b>NET ASSETS, DECEMBER 31, 2016</b>		\$ 1,999,345	\$ 3,039,411	\$ 10,184,455	\$ 15,223,211

See notes to financial statements.

U.S.-JAPAN COUNCIL

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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DECREASE IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$	945,919
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation and amortization		24,908
Net realized and unrealized gain on investments		(15,410)
Changes in:		
Grants and pledges receivable - TOMODACHI		576,316
Grants and pledges receivable - other		14,653
Due from USJC - Japan		358
Prepaid expenses		(7,210)
Accounts payable - other		(19,052)
Deferred revenue		9,566
Accrued expenses		31,436
Accrued vacations		(12,036)
Net cash provided by operating activities		<u>1,549,448</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Increase in time certificates of deposit		(126)
Net purchase of investments		(10,306,547)
Purchase of property and equipment		(29,177)
Net cash used in investing activities		<u>(10,335,850)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (8,786,402)

CASH AND CASH EQUIVALENTS, JANUARY 1, 2016 12,822,645

CASH AND CASH EQUIVALENTS, DECEMBER 31, 2016 \$ 4,036,243

See notes to financial statements.

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## U.S.-JAPAN COUNCIL

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016

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#### 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 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.

In 2015, USJC received a generous endowment gift of \$10 million from Mr. Toshizo Watanabe. The contribution established a permanently Endowed Fund to be known as the Toshizo Watanabe Endowed Scholarship Fund (the "Fund"). The Fund consists 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 \$3,039,411 (TOMODACHI) which includes \$2,245,489 of cash and cash equivalents, \$793,922 of pledges receivable.



## 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, 2013 through December 31, 2016.

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 \$13,834. Other in-kind donations include air travel, food and beverages for meetings and receptions. In-kind contributions were not audited and are based on management's best estimates.

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 measurements - The Financial Accounting Standards Board's Accounting Standards Codification (ASC) 820, "Fair Value Measurements and Disclosures", established a framework for measuring fair value and expanded disclosures about fair value measurements. ASC 820 defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. ASC 820 ranks the types of inputs to valuation techniques used to measure fair value, with the highest priority given to Level 1 measurements:

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Inputs other than Level 1 quoted prices that are observable, either directly or indirectly through corroboration with market data. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3: Inputs that are unobservable, but significant, with little or no market activity.

## 3. INVESTMENTS

Investments are stated at fair market value. Investments consist of the following:

	Cost	Market
Bonds	\$ 3,356,594	\$ 3,326,629
Stocks	6,117,681	6,166,953
Other assets	816,375	828,375
	<u>\$ 10,290,650</u>	<u>\$ 10,321,957</u>

The fair value of all debt and equity securities has been measured on a recurring basis using Level 1 inputs (See note 2 - Fair Value Measurements).

The USJC received a private company stock donation in December 2016 valued at \$350,000. The investment has been measured using Level 3 inputs (See note 2 - Fair Value Measurements).

## 4. 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	\$ 113,712	3 years
Less accumulated depreciation	<u>62,207</u>	
	<u>\$ 51,505</u>	

Depreciation expense for property and equipment amounted to \$24,908 for the year ended December 31, 2016.



## 5. RESTRICTIONS ON NET ASSETS

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

TOMODACHI (see note 7)	\$ <u>3,039,411</u>
TOSHIZO WATANABE ENDOWED SCHOLARSHIP FUND (see note 2a.)	\$ <u>10,184,455</u>

## 6. COMMITMENTS

The USJC has a noncancelable lease for its office facilities which expires January 2019. Rent expense for the year amounted to \$76,595 and \$13,834 of donated office space.

The minimum future rental expense follows:

<u>Year ended December 31,</u>	<u>Amount</u>
2017	\$ 125,455
2018	128,566
2019	<u>10,735</u>
	\$ <u>264,755</u>

## 7. 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 2016, USJC (US) received \$2,249,540 in total contributions for TOMODACHI which included multi-year pledges. This included \$793,922 of accrued contributions committed prior to year end. All multi-year pledges (with unconditional restrictions) were recognized in full as income in 2016 based on generally accepted accounting principles. The total direct program and program support expenses of \$2,122,712 as of December 31, 2016 were \$1,758,994 and \$363,718, respectively. A portion of the 2016 direct program expenses were offset by approximately \$1,100,215 of revenue recognized in 2015.

## 7. TOMODACHI (Continued)

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

## 8. ANNUAL CONFERENCE

In 2015, U.S.-Japan Council (US) and U.S.- Japan Council (Japan) held a joint Annual Conference in Tokyo, Japan. Total conference revenues, expenses and net proceeds were shared equally between the two entities. In 2016, the Annual Conference was held in the US. The total conference revenues, expenses and net proceeds were shared between the two entities based on the ratio of revenue received and expenses paid, which were 70% (US) and 30% (Japan). These distributions were approved by both Boards of Directors.

## 9. SUBSEQUENT EVENTS

The Organization had no reportable subsequent events for the period ended December 31, 2016 through February 17, 2017, the date of issuance of the financial statements.

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U.S.-JAPAN COUNCIL

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Services			Supporting Services		
	General Education	TOMODACHI	Total Programs	Management And General	Fundraising	Total
Salaries, payroll taxes and employee benefits	\$ 637,291	\$ 297,684	\$ 934,975	\$ 157,343	\$ 78,254	\$ 1,170,572
TOMODACHI program services		1,159,888	1,159,888			1,159,888
Programs and events - general education	1,005,917		1,005,917			1,005,917
Depreciation	10,763	6,667	17,430	5,399	2,079	24,908
Fees	13,860	5,338	19,198	36,973	1,120	57,291
In-kind services	131,008		131,008			131,008
Insurance	4,611	2,743	7,354	1,253	756	9,363
Meetings	2,477	4,207	6,684	230	115	7,029
Office expenses	8,883	1,525	10,408	1,689	1,374	13,471
Printing	6,910	2,162	9,072	3,457	2,464	14,993
Professional services	59,461	6,754	66,215	4,301	4,440	74,956
Rent	49,885	25,531	75,416	9,601	5,412	90,429
Supplies	5,109	2,334	7,443	3,233	3,276	13,952
System upgrade	3,588	4,087	7,675			7,675
Taxes and licenses	(150)		(150)	1,507	372	1,729
Telephone and internet	5,741	2,971	8,712	3,577	1,053	13,342
TOMODACHI pledge write-off		599,106	599,106			599,106
Travel	32,631	1,715	34,346	5,558	6,471	46,375
TOTAL	\$ 1,977,985	\$ 2,122,712	\$ 4,100,697	\$ 234,121	\$ 107,186	\$ 4,442,004

See notes to financial statements.