



U.S.-JAPAN COUNCIL

FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

U.S.-JAPAN COUNCIL

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DECEMBER 31, 2020 AND 2019**

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Independent Auditors' Report

To the Board of Directors
U.S.-Japan Council
Washington, D.C.

We have audited the accompanying financial statements of U.S.-Japan Council (USJC), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 control 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 auditors' 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 auditors consider 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 U.S.-Japan Council (USJC) as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
U.S.-Japan Council

Correction of Error

As described in Note 18 to the financial statements, an error resulted in the failure to recognize certain payables and expenses in the financial statements for the year ended December 31, 2019. Accordingly, the financial statements as of and for the year ended December 31, 2019, have been restated to reflect this adjustment. Our opinion is not modified with respect to this matter.

Councilor, Buchanan & Mitchell, P.C.

Bethesda, Maryland
March 30, 2021

Certified Public Accountants

U.S.-JAPAN COUNCIL

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020**

Assets	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Current Assets			
Cash and Cash Equivalents	\$ 2,639,362	\$ 2,669,031	\$ 5,308,393
Investments	357,792	14,477,974	14,835,766
Promises to Give	68,423	-	68,423
Due from USJC - Japan	32,584	-	32,584
Prepaid Expenses	22,155	-	22,155
 Total Current Assets	 3,120,316	 17,147,005	 20,267,321
 Property and Equipment, Net	 <u>51,070</u>	 <u>-</u>	 <u>51,070</u>
 Total Assets	 <u><u>\$ 3,171,386</u></u>	 <u><u>\$ 17,147,005</u></u>	 <u><u>\$ 20,318,391</u></u>
 Liabilities and Net Assets			
Current Liabilities			
Accounts Payable	\$ 20,565	\$ -	\$ 20,565
Accrued Expenses	64,017	-	64,017
Accrued Vacation	88,832	-	88,832
Deferred Revenue	10,001	-	10,001
 Total Current Liabilities	 <u>183,415</u>	 <u>-</u>	 <u>183,415</u>
 Net Assets			
Without Donor Restrictions	2,987,971	-	2,987,971
With Donor Restrictions	-	17,147,005	17,147,005
 Total Net Assets	 <u>2,987,971</u>	 <u>17,147,005</u>	 <u>20,134,976</u>
 Total Liabilities and Net Assets	 <u><u>\$ 3,171,386</u></u>	 <u><u>\$ 17,147,005</u></u>	 <u><u>\$ 20,318,391</u></u>

See accompanying Notes to Financial Statements.

U.S.-JAPAN COUNCIL

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019 (RESTATED)**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total (Restated)</u>
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 2,093,373	\$ 1,294,500	\$ 3,387,873
Investments	350,000	12,796,597	13,146,597
Promises to Give	-	1,177,812	1,177,812
Due from USJC - Japan	493,564	-	493,564
Prepaid Expenses	20,149	-	20,149
Total Current Assets	2,957,086	15,268,909	18,225,995
Promises to Give	98,167	-	98,167
Property and Equipment, Net	82,643	-	82,643
Total Assets	\$ 3,137,896	\$ 15,268,909	\$ 18,406,805
Liabilities and Net Assets			
Current Liabilities			
Accounts Payable	\$ 494,336	\$ -	\$ 494,336
Accrued Expenses	349,494	-	349,494
Accrued Vacation	128,622	-	128,622
Deferred Revenue	20,501	-	20,501
Total Current Liabilities	992,953	-	992,953
Net Assets			
Without Donor Restrictions	2,144,943	-	2,144,943
With Donor Restrictions	-	15,268,909	15,268,909
Total Net Assets	2,144,943	15,268,909	17,413,852
Total Liabilities and Net Assets	\$ 3,137,896	\$ 15,268,909	\$ 18,406,805

See accompanying Notes to Financial Statements.

U.S.-JAPAN COUNCIL

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue			
Program Revenue	\$ 1,409,404	\$ 1,466,579	\$ 2,875,983
Contributions	634,745	-	634,745
Grants and Contributions	406,400	-	406,400
Investment Income, Net	2,987	2,255,236	2,258,223
Administrative Fees	217,496	-	217,496
Other Income	9,204	20,076	29,280
Net Assets Released from Restrictions	<u>1,863,795</u>	<u>(1,863,795)</u>	<u>-</u>
 Total Revenue	 4,544,031	 1,878,096	 6,422,127
Expenses			
Program Services			
General Education	1,405,032	-	1,405,032
TOMODACHI	1,476,939	-	1,476,939
Supporting Services			
General and Administration	507,457	-	507,457
Fundraising	<u>311,575</u>	<u>-</u>	<u>311,575</u>
 Total Expenses	 <u>3,701,003</u>	 <u>-</u>	 <u>3,701,003</u>
 Change in Net Assets	 843,028	 1,878,096	 2,721,124
 Net Assets, Beginning of Year	 <u>2,144,943</u>	 <u>15,268,909</u>	 <u>17,413,852</u>
 Net Assets, End of Year	 <u><u>\$ 2,987,971</u></u>	 <u><u>\$ 17,147,005</u></u>	 <u><u>\$ 20,134,976</u></u>

See accompanying Notes to Financial Statements.

U.S.-JAPAN COUNCIL

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2019 (RESTATED)**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total (Restated)</u>
Revenue			
Program Revenue	\$ 2,861,915	\$ 1,852,723	\$ 4,714,638
Contributions	418,017	-	418,017
Investment Income, Net	40,728	1,828,917	1,869,645
Administrative Fees	218,348	-	218,348
Other Income	7,645	-	7,645
Donated Services	151,111	-	151,111
Net Assets Released from Restrictions	<u>1,993,338</u>	<u>(1,993,338)</u>	<u>-</u>
 Total Revenue	 5,691,102	 1,688,302	 7,379,404
Expenses			
Program Services			
General Education	3,339,376	-	3,339,376
TOMODACHI	2,307,448	-	2,307,448
Supporting Services			
General and Administration	312,625	-	312,625
Fundraising	<u>192,216</u>	<u>-</u>	<u>192,216</u>
 Total Expenses	 <u>6,151,665</u>	 <u>-</u>	 <u>6,151,665</u>
 Change in Net Assets	 (460,563)	 1,688,302	 1,227,739
 Net Assets, Beginning of Year	 <u>2,605,506</u>	 <u>13,580,607</u>	 <u>16,186,113</u>
 Net Assets, End of Year	 <u><u>\$ 2,144,943</u></u>	 <u><u>\$ 15,268,909</u></u>	 <u><u>\$ 17,413,852</u></u>

See accompanying Notes to Financial Statements.

U.S.-JAPAN COUNCIL

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020**

	General Education	TOMODACHI	Total Program Services	General and Administration	Fundraising	Total
Salaries and Benefits	\$ 913,754	\$ 374,261	\$ 1,288,015	\$ 339,157	\$ 278,115	\$ 1,905,287
Program Services	307,661	445,564	753,225	-	-	753,225
Grant Expense	-	500,000	500,000	-	-	500,000
Professional Services	115,425	17,851	133,276	131,590	1,538	266,404
Facilities and Equipment	31,235	64,874	96,109	22,518	15,107	133,734
General and Office Expenses	10,373	45,043	55,417	2,769	2,991	61,176
Travel and Meetings	6,792	1,092	7,884	4,097	919	12,900
Depreciation and Amortization	6,015	11,767	17,782	3,006	2,749	23,537
Telecommunication	5,104	8,476	13,579	2,997	2,017	18,594
Credit Card and Other Service Charges	4,516	1,188	5,704	968	6,128	12,801
Insurance	4,157	6,823	10,980	355	2,011	13,346
Total	\$ 1,405,032	\$ 1,476,939	\$ 2,881,971	\$ 507,457	\$ 311,575	\$ 3,701,003

See accompanying Notes to Financial Statements.

U.S.-JAPAN COUNCIL

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019 (RESTATED)**

	<u>General Education</u>	<u>TOMODACHI</u>	<u>Total Program Services</u>	<u>General and Administration</u>	<u>Fundraising</u>	<u>Total (Restated)</u>
Salaries and Benefits	\$ 1,169,794	\$ 315,319	\$ 1,485,113	\$ 265,732	\$ 163,976	\$ 1,914,821
Program Services	1,787,352	1,892,799	3,680,151	-	-	3,680,151
Office Expenses	76,710	14,094	90,804	10,149	4,936	105,889
Travel and Meeting	135,587	5,897	141,484	6,462	6,887	154,833
Professional Services	24,121	13,146	37,267	5,243	2,622	45,132
Depreciation and Amortization	12,018	7,169	19,187	2,758	1,379	23,324
Facilities and Equipment	58,900	40,815	99,715	14,956	7,477	122,148
Telecommunications	52,129	10,086	62,215	3,862	1,931	68,008
Credit Card and Other Service Charges	16,603	3,180	19,783	1,703	2,128	23,614
Insurance	6,162	4,943	11,105	1,760	880	13,745
Total	<u><u>\$ 3,339,376</u></u>	<u><u>\$ 2,307,448</u></u>	<u><u>\$ 5,646,824</u></u>	<u><u>\$ 312,625</u></u>	<u><u>\$ 192,216</u></u>	<u><u>\$ 6,151,665</u></u>

See accompanying Notes to Financial Statements.

U.S.-JAPAN COUNCIL

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (RESTATED)

	2020	2019 (Restated)
Cash Flows from Operating Activities		
Change in Net Assets	\$ 2,721,124	\$ 1,227,739
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	31,362	16,865
Loss on Disposals	3,077	-
Gain on Investments	(2,253,332)	(1,818,594)
<u>(Increase) Decrease in Assets</u>		
Promises to Give	1,207,556	361,686
Due from USJC - Japan	460,980	(420,848)
Prepaid Expenses	(2,006)	45,794
<u>Increase (Decrease) in Liabilities</u>		
Accounts Payable	(473,771)	401,701
Accrued Expenses	(285,477)	178,618
Accrued Vacation	(39,790)	11,762
Deferred Revenue	(10,500)	(62,049)
Net Cash Provided by (Used in) Operating Activities	1,359,223	(57,326)
Cash Flows from Investing Activities		
Purchases of Fixed Assets	(2,866)	(72,087)
Purchases of Investments	(29,225)	(7,498,207)
Sales of Investments	593,388	7,896,525
Net Cash Provided by Investing Activities	561,297	326,231
Net Increase in Cash and Cash Equivalents	1,920,520	268,905
Cash and Cash Equivalents, Beginning of Year	3,387,873	3,118,968
Cash and Cash Equivalents, End of Year	\$ 5,308,393	\$ 3,387,873

See accompanying Notes to Financial Statements.

U.S.-JAPAN COUNCIL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

1. ORGANIZATION

U.S.-Japan Council (USJC) is a not-for-profit corporation incorporated in the State of California in December 2008 that contributes to strengthening U.S.-Japan relations by bringing together diverse leadership, engaging stakeholders, and exploring issues that benefit communities, businesses, and government entities on both sides of the Pacific. USJC promotes people-to-people relations as crucial to a strong U.S.-Japan relationship. USJC has offices in Washington, D.C., and Los Angeles, California.

In 2012, the U.S.-Japan Council (Japan) (USJC-J) was created to support the administration of the TOMODACHI Initiative (see Note 11) and is a Public Interest Corporation (*Koeki Zaidan Hojin*). USJC-J maintains an office in Tokyo, Japan.

USJC is supported primarily by contributions and contract revenue related to its programs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of accounting policies followed in the preparation of USJC's financial statements.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

USJC has presented its financial statements in accordance with *U.S. Generally Accepted Accounting Principles*. Under those principles, USJC is required to report information regarding its financial position and activities according to two classes of net assets:

- *Net Assets Without Donor Restrictions* - resources that are available for general operations and resources designated by USJC's Board of Directors for approved expenditures.
- *Net Assets With Donor Restrictions* - resources that are subject to donor-imposed restrictions; temporary or permanent. Temporary restrictions are those that expire either by passage of time or fulfillment of purpose by actions of USJC. Permanent restrictions are that neither expire by passage of time nor fulfillment of purpose.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

U.S.-JAPAN COUNCIL

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

USJC is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

USJC requires that a tax position be recognized or derecognized based on a “more-likely-than-not” threshold. This applies to positions taken or expected to be taken in a tax return. USJC does not believe its financial statements include, or reflect, any uncertain tax positions.

USJC’s IRS Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the taxing authorities, generally for three years after filing.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and other highly liquid instruments with initial maturities of less than three months when purchased.

Promises to Give

Promises to give consist primarily of amounts due from organization and individual pledges that were not received by USJC at year end. Management reviews the collectability of the accounts on a regular basis. No reserve for doubtful accounts is deemed necessary as all amounts are deemed to be fully collectible.

Investments

Marketable equity securities consist of investments in equity and fixed income mutual funds, and other investment funds. Investments in equity securities and investment funds with readily determinable fair values and all investments in debt securities are carried at their fair values in the statements of financial position.

USJC invests non-marketable equity securities which consists of an investment in one privately held company with no readily determinable market value. USJC accounts for this non-marketable equity security at cost less impairment, with realized gains and losses on non-marketable securities sold or impaired recognized in the statements of activities and changes in net assets as increases or decreases in net assets. As of December 31, 2020 and 2019, non-marketable securities accounted for under the method had a carry value of \$350,000.

USJC invests in other investment funds that follow a fund of funds format. These funds are valued at fair value as practical expedient.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of three years for furniture, fixtures, and office equipment. USJC capitalizes all furniture and equipment purchases over \$500.

U.S.-JAPAN COUNCIL

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Repairs and maintenance which do not significantly add to the value of assets are expensed as incurred.

Donated Services

Donated services are recognized as contributions, at fair value, if the services (a) create nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by USJC.

Grants and Contributions

Grants and contributions are recognized when a donor makes an unconditional promise to give or when a donor makes a conditional promise to give, and the condition is met. Grants and contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence or nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends, or the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Contributions received with donor-imposed conditions and restrictions that are met in the same reporting period are reported as support without donor restrictions and increase net assets without donor restrictions.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include compensation, benefits, and general expenses, which are allocated on the basis of estimates of time and effort by employees. Expenses directly identifiable to specific programs and supporting activities are allocated accordingly.

Reclassifications

Certain reclassifications have been made to the December 31, 2019 financial statements to make them comparable with the December 31, 2020 financial statements.

3. ADOPTION OF ACCOUNTING STANDARDS

For the year ended December 31, 2019, USJC adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. Management believes that the adoption of this standard provides better consistency and comparability across non-profit and for-profit entities. The standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised

U.S.-JAPAN COUNCIL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

3. ADOPTION OF ACCOUNTING STANDARDS (CONTINUED)

goods or services to customers. The updated standard replaces most existing revenue recognition guidance in U.S. GAAP. This change in accounting principle was adopted for the year ended December 31, 2019.

For the year ended December 31, 2019, USJC adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU provides additional guidance in (1) evaluating whether transactions should be accounted for as contributions (within the scope of ASC 958) or as exchange (reciprocal) transactions (subject to ASC 606); and (2) distinguishing between conditional and unconditional contributions. Management believes that the adoption of this ASU enhances the comparability of financial information among not-for-profit entities.

These new principles did not have a significant effect on the financial statements for the years ended December 31, 2020 and 2019.

4. LIQUIDITY AND AVAILABILITY OF RESOURCES

USJC's cash flows have seasonal variations due to the timing of grants, contributions, program revenues, and vendor payments. USJC manages its liquidity to meet general expenditures, liabilities, and other obligations as they become due.

The following reflects USJC's financial assets as of December 31, 2020 and 2019, reduced by amounts not available for general operating expenditure within one year:

Description	2020	2019
Cash and Cash Equivalents	\$ 5,308,393	\$ 3,387,873
Investments	14,835,766	13,146,597
Promises to Give within One Year	68,423	1,177,812
Due from USJC - Japan	32,584	493,564
Less Amount Restricted by Donors for Purpose (including Endowment)	(17,147,005)	(15,268,909)
Plus Amount Expected to be Appropriated by the Endowment Fund	385,000	430,000
Total Financial Assets and Liquidity Resources Available within One Year	<u>\$ 3,483,161</u>	<u>\$ 3,366,937</u>

5. CONCENTRATIONS

USJC maintains cash balances at financial institutions in the Washington, D.C., metropolitan area, California, and Tokyo, Japan. The accounts at the U.S. institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to the maximum amount allowed by law. While the amounts, at times, exceed the amount insured by federal agencies and, therefore, bear some risk, USJC has not experienced, nor does it anticipate, any loss of funds.

USJC invests in professionally managed portfolios that contain mutual funds. Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amount reported in the financial statements.

U.S.-JAPAN COUNCIL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

6. INVESTMENTS AND FAIR VALUE MEASUREMENTS

USJC has categorized its financial instruments based on fair value hierarchy as follows:

Level 1 - values are based on quoted prices for identical assets in an active market.

Level 2 - values are based on quoted prices for similar assets in active or inactive markets.

Level 3 - values are based on unobservable inputs to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. The fair value measurement objective is to determine an exit price from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs reflected USJC's judgment about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances, which might include USJC's own data.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis as of December 31, 2020 and 2019.

Registered investment companies (Mutual Funds): Valued at the net asset value (NAV) of shares held by USJC at year end.

Other Investment Funds: Value at the fair market value of the underlying assets of the fund as determined by the fund managers. USJC invests in other investment funds that follow a fund-of-funds format. The investment funds are described as follows:

Global Equity Opportunities Fund: Allows investors to gain global equity exposure through an efficient and diversified structure. The fund seeks to generate higher risk-adjusted returns than broad global equity markets by investing in skilled managers along with fewer constraints in portfolio construction. The fund is diversified across regions, market capitalizations, and styles among a concentrated group of managers.

Diversified Income Fund: Allows investors to gain global fixed income exposure through an efficient and diversified structure. The fund seeks to achieve higher returns than broad fixed-income markets by investing in skilled managers and applying fewer constraints in portfolio construction. The fund is diversified across regions and sectors among a concentrated group of managers.

Absolute Return Fund: Allows investors to gain hedge fund exposure through an efficient and diversified structure. The goal of the fund is to generate superior risk-adjusted returns with moderate volatility by investing in funds sponsored by historically successful managers pursuing a cross-section of absolute return strategies, mitigate losses in failing markets, exhibit relatively low correlation to traditional asset classes, and provide a range of exposure across sectors, regions, strategies, and managers.

USJC utilizes Fair Value Measurement (Topic 820): *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to value the investments in these funds (collectively referred to as Other Investment Funds). This standard allows those assets measured using NAV to be excluded from the fair value hierarchy table. The total invested in these funds is \$13,889,983 and \$11,545,070 for 2020 and 2019, respectively.

U.S.-JAPAN COUNCIL

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

6. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

The preceding methods described may produce a fair value estimate that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although USJC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fair values of assets at December 31, 2020 and 2019, are as follows:

	2020			
	Fair Value	Level 1	Level 2	Level 3
Money Market Fund	\$ 23,561	\$ 23,561	\$ -	\$ -
Equity Funds	-	-	-	-
Exchange Traded Funds	-	-	-	-
Fixed Income Funds	572,222	572,222	-	-
Total Investments Measured at Fair Value	595,783	\$ 595,783	\$ -	\$ -
Other Investment Funds at NAV	13,889,983			
Non-Marketable Investments	350,000			
Total Investments	\$ 14,835,766			

	2019			
	Fair Value	Level 1	Level 2	Level 3
Money Market Fund	\$ 195,683	\$ 195,683	\$ -	\$ -
Equity Funds	1,044	1,044	-	-
Exchange Traded Funds	-	-	-	-
Fixed Income Funds	1,054,800	1,054,800	-	-
Total Investments Measured at Fair Value	1,251,527	\$ 1,251,527	\$ -	\$ -
Other Investment Funds	11,545,070			
Non-Marketable Investments Valued at Cost	350,000			
Total Investments	\$ 13,146,597			

Other Investment Funds activity for the years ended December 31, 2020 and 2019, is as follows:

Other Investment Funds	2020	2019
Balance at January 1	\$ 11,545,070	\$ 4,657,195
Purchases of Investments	-	7,025,000
Transfer of Funds	50,000	-
Sales of Investments	-	(1,405,000)
Net Investment Income, Attributable to Assets Held at Year End	2,294,913	1,267,875
Balance at December 31	\$ 13,889,983	\$ 11,545,070

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**NOTES TO FINANCIAL STATEMENTS
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6. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

USJC recognizes transfers into and out of levels within the fair value hierarchy at the end of the reporting period. There were no transfers between levels during the years ended December 31, 2020 and 2019.

Investment income for the years ended December 31, 2020 and 2019, is as follows:

Description	2020	2019
Interest and Dividends	\$ 4,891	\$ 3,375
Realized and Unrealized Gains on Investments	2,310,507	1,920,843
Investment Fees	<u>(57,175)</u>	<u>(54,573)</u>
Total Investment Income	<u>\$ 2,258,223</u>	<u>\$ 1,869,645</u>

Investment securities are exposed to various risks such as interest rates, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

7. CONTRIBUTIONS AND PROMISES TO GIVE

USJC has been awarded major contributions, which included conditional contributions and unconditional promises to give.

A contribution is conditioned for measurable performance related to TOMODACHI program and right of release of the contributor from its obligation. The fund is given to USJC annually after the program performance is approved by the donor and is recorded as a promise to give at that time. The conditional promises to give are not recorded as revenue until the conditions are met. In 2020, the TOMODACHI program was disrupted by the coronavirus pandemic. Although USJC reconfigured the activities to adapt the disruption, the conditions were not achieved to receive the remaining promises to give. The balances of conditional promises to give are approximately \$-0- and \$1,700,000 as of December 31, 2020 and 2019, respectively. Unconditional promises to give are recorded as receivables and revenue when received. USJC distinguishes promises to give between each net asset category in accordance with donor-imposed restrictions. Promises to give which have not been received are recorded after being discounted to the anticipated net present value of the future cash flows.

As of December 31, 2020 and 2019, contribution receivables are expected to be realized in the following periods:

Description	2020	2019
In One Year or Less	\$ 68,423	\$ 1,177,812
Between One Year and Five Years	<u>-</u>	<u>98,167</u>
	<u>\$ 68,423</u>	<u>\$ 1,275,979</u>

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8. ANNUAL CONFERENCE

Traditionally U.S.-Japan Council (US) and U.S. Japan Council (Japan) hold a joint Annual Conference either in United States or Japan. Given the threat and impact of the coronavirus pandemic, USJC canceled the in-person Annual Conference in 2020. In lieu of a traditional in-person Annual Conference this year, USJC hosted series of virtual events and engagements throughout the remainder of the year to provide insights and exclusive content to the members and supporters. Total event revenue, expenses, and net proceeds were shared between the two entities based on the ratio of revenue received and expenses paid which were agreed by both U.S.-Japan Council (US) and U.S.-Japan Council (Japan).

9. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2020 and 2019:

Description	2020	2019
Furniture and Fixtures	\$ 39,342	\$ 39,342
Office Equipment	142,109	142,916
	<u>181,451</u>	<u>182,258</u>
Less Accumulated Depreciation	<u>(130,381)</u>	<u>(99,615)</u>
Net	<u>\$ 51,070</u>	<u>\$ 82,643</u>

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes at December 31, 2020 and 2019:

Description	2020	2019
<i>With Temporary Donor Restrictions</i>		
TOMODACHI	\$ 2,243,885	\$ 3,550,130
Watanabe Endowment Fund - Scholarships	3,832,161	1,718,779
Silicon Valley Japan Platform (SVJP)	1,070,959	-
<i>With Permanent Donor Restrictions</i>		
Watanabe Endowment Fund - Scholarships	<u>10,000,000</u>	<u>10,000,000</u>
Total Net Assets With Donor Restrictions	<u>\$ 17,147,005</u>	<u>\$ 15,268,909</u>

Net assets were released from donor restrictions during 2020 and 2019 as follows:

Description	2020	2019
TOMODACHI	\$ 1,575,837	\$ 1,540,026
Watanabe Endowment Fund - Scholarships	124,439	453,312
Silicon Valley Japan Platform (SVJP)	<u>163,519</u>	<u>-</u>
Total	<u>\$ 1,863,795</u>	<u>\$ 1,993,338</u>

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11. TOMODACHI

USJC and the U.S. Embassy in Tokyo, with support from the government of Japan, formed a public-private partnership (TOMODACHI), to support the 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 (US) through a Management Agreement to support TOMODACHI activities in Japan.

12. SILICON VALLEY JAPAN PLATFORM

The Silicon Valley Japan Platform (SVJP) is an initiative of USJC and the Asia Pacific Initiative. SVJP aims to connect the technological dynamism of the Silicon Valley with current and future needs of economic revitalization in Japan. The SVJP holds regular programs featuring speakers on cutting-edge topics and organizes meetings with corporate leaders to discuss future trends and opportunities for partnerships between Japan and the Silicon Valley.

13. DONOR RESTRICTED ENDOWMENTS

USJC's endowment consists of the donor-restricted Toshizo Watanabe Endowed Scholarship Fund (the Fund). The Fund was created to provide study abroad scholarships to American and Japanese students who demonstrate leadership potential and financial need. The scholarships assist in supporting the cost of tuition and/or living expenses for a student's academic study in Japan and the United States. The scholarship program seeks to promote cross-cultural education between the two countries.

As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of USJC has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the District of Columbia as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, USJC classifies as net assets with permanent donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the Fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with permanent donor restrictions are classified as net assets with temporary donor restrictions until those amounts are appropriated for expenditure by USJC in a manner consistent with the standard of prudence prescribed by UPMIFA.

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13. DONOR RESTRICTED ENDOWMENTS (CONTINUED)

In accordance with UPMIFA, USJC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of USJC, and (7) USJC's investment policies.

Investment Return Objectives, Risk Parameters, and Strategies: USJC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment assets. Endowment assets shall exist into perpetuity and therefore be invested with the objective of preserving its long-term real purchasing power while providing for the annual spending distribution. The primary investment objective of the Fund, measured over five to seven rolling periods, is to earn an annualized return of at least 4.0 percent, net of fees. The secondary investment objective of the Fund is to be competitive over the long term (defined as five- to seven-year rolling periods) relative to its market benchmark. The Fund will also be reviewed relative to a peer universe of endowment funds with recognition that the Fund is likely to have a different total return and risk profile than many of the endowments in universe comparisons.

Spending Policy: The Fund's annual minimum distribution requirement is \$200,000, less certain administrative fees. The Board has discretion to establish a prudent spending policy in excess of the minimum requirement. In any given year, the spending policy may range from not less than \$200,000 to approximately 4.0 percent of the market value of the Fund.

In December 2019, the USJC Investment Committee discussed and approved change to the Endowment spending policy. The distribution shall be based on the average of the prior three years' investment portfolio, times the approved spending rate. The average will be calculated using the past 12 quarter ending balances as of September 30 of the year; the spending rate will be 4%, unless changed by action of the Board.

Composition and changes in endowment net assets for the years ended December 31, 2020 and 2019, were as follows:

	With Donor Restrictions		Total
	With Purpose Restricted	With Permanently Restricted	
Endowment Net Assets, January 1, 2019	\$ 400,218	\$ 10,000,000	\$ 10,400,218
Investment Return	1,771,873	-	1,771,873
Appropriation of Endowment Assets for Expenditure	(453,312)	-	(453,312)
Endowment Net Assets, December 31, 2019, Restated	1,718,779	10,000,000	11,718,779
Investment Return	2,237,821	-	2,237,821
Appropriation of Endowment Assets for Expenditure	(124,439)	-	(124,439)
Endowment Net Assets, December 31, 2020	\$ 3,832,161	\$ 10,000,000	\$ 13,832,161

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14. DONATED SERVICES

The value of donated services and facilities and the corresponding functional expense categories for the years ended December 31, 2020 and 2019, are as follows:

Description	2020	2019
<i>General Education</i>		
Supplies	\$ -	\$ 22,207
Travel	-	75,000
Printing	-	35,000
Meetings	-	11,070
Facilities and Equipment	-	7,834
Total	\$ -	\$ 151,111

15. RETIREMENT PLAN

USJC has a 401(k) retirement plan (the Plan). Employees may elect to defer a portion of compensation by enrolling in the Plan. All employees over the age of 21 and completing three months of service are eligible to receive an employer matching contribution equal to 100% of their deferrals up to 6% of their compensation. Employees' and USJC's contributions to the Plan are 100% vested upon participation. During the years ended December 31, 2020 and 2019, USJC's contributions to the Plan were \$57,906 and \$90,055, respectively.

16. LEASES

Office Equipment Lease

USJC has entered into a lease of certain office equipment and is obligated under the lease through April 2025.

Office Lease

USJC has a non-cancellable office lease that expires on January 31, 2022. The lease contains an annual increase of rent amounts and additional payments for operating charges.

The minimum future lease payments under the above leases are as follows:

For the Years Ending December 31,

2021	\$ 179,372
2022	19,467
2023	5,388
2024	5,388
2025	14,528
Total Future Minimum Lease Payments	\$ 224,143

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17. PAYCHECK PROTECTION PROGRAM LOAN

USJC has received a Small Business Administration (SBA) loan under the Paycheck Protection Program (PPP) in the amount of \$406,400. PPP provides up to eight weeks of cash-flow assistance through 100% federally guaranteed loans to eligible recipients to maintain payroll during the COVID-19 (coronavirus disease) public health emergency and cover certain other expenses. The first loan payment is deferred for six months. If USJC maintains its workforce, up to 100% of the loan is forgivable by the SBA if the loan proceeds are used to cover the first eight weeks of payroll, and certain other expenses. The Treasury Department anticipates that no more than 25% of the forgiven amount may be for non-payroll costs. Also, if USJC does not retain its entire workforce, the level of forgiveness is reduced by the percentage of the decrease. Loans under PPP have an interest rate of 1% and a maturity of two years.

USJC accounted the SBA loan as revenue since repayment has been waived as of December 31, 2020, as such, the proceeds are reflected in grants and contributions in the statements of activities and changes in net assets.

18. RESTATEMENT OF FINANCIAL STATEMENTS

USJC restated its financial statements as of and for the year ended December 31, 2019, to reflect expenses incurred prior to December 31, 2019, which were not recorded in that period. The adjustment, which increased accounts payable and expenses, resulted in a decrease in total net assets of \$485,917 to \$17,413,852 at December 31, 2019.

19. SUBSEQUENT EVENTS

The spread of COVID-19 (coronavirus disease) has had a disruptive impact on the daily life and operations of individuals, businesses, and companies around the world. There is uncertainty about financial and economic impacts in all sectors of the economy. The financial markets have experienced significant volatility, and this may continue for an extended period of time. In light of these circumstances, management continues to assess how best to adapt to changed circumstances

On February 2, 2021, USJC was approved for a second draw Small Business Administration (SBA) loan under the Paycheck Protection Program (PPP) in the amount of \$365,520.

USJC has evaluated subsequent events through March 30, 2021, the date on which the financial statements were available to be issued.