



U.S.-JAPAN COUNCIL

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

U.S.-JAPAN COUNCIL

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DECEMBER 31, 2022 AND 2021

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Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of U.S. Japan Council (USJC), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USJC as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of USJC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 of the financial statements, USJC adopted Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about USJC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 USJC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about USJC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Councilor, Buchanan + Mitchell, P.C.

Bethesda, Maryland
June 12, 2023

Certified Public Accountants

U.S.-JAPAN COUNCIL

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 2,976,182	\$ 3,966,058	\$ 6,942,240
Investments	-	21,011,083	21,011,083
Promises to Give	121,613	204,999	326,612
Prepaid Expenses	14,793	5,434	20,227
Total Current Assets	3,112,588	25,187,574	28,300,162
Operating Lease Asset	277,780	-	277,780
Finance Lease Asset, Net of Accumulated Amortization of \$5,388	9,353	-	9,353
Property and Equipment, Net	970	-	970
Total Assets	\$ 3,400,691	\$ 25,187,574	\$ 28,588,265
Liabilities and Net Assets			
Current Liabilities			
Accounts Payable	\$ 29,235	\$ -	\$ 29,235
Operating Lease Liability	68,939	-	68,939
Finance Lease Liability	5,325	-	5,325
Accrued Expenses	131,285	-	131,285
Accrued Vacation	115,053	-	115,053
Deferred Revenue	275,000	-	275,000
Total Current Liabilities	624,837	-	624,837
Operating Lease Liability, Net of Current Portion	231,706	-	231,706
Finance Lease Liability, Net of Current Portion	4,028	-	4,028
Total Liabilities	860,571	-	860,571
Net Assets			
Without Donor Restrictions	2,540,120	-	2,540,120
With Donor Restrictions	-	25,187,574	25,187,574
Total Net Assets	2,540,120	25,187,574	27,727,694
Total Liabilities and Net Assets	\$ 3,400,691	\$ 25,187,574	\$ 28,588,265

See accompanying Notes to Financial Statements.

U.S.-JAPAN COUNCIL

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 3,097,459	\$ 3,129,793	\$ 6,227,252
Investments	357,710	15,058,164	15,415,874
Promises to Give	143,545	450,000	593,545
Prepaid Expenses	105,076	-	105,076
	<u>3,703,790</u>	<u>18,637,957</u>	<u>22,341,747</u>
Total Current Assets			
Property and Equipment, Net	<u>22,345</u>	<u>-</u>	<u>22,345</u>
Total Assets	<u><u>\$ 3,726,135</u></u>	<u><u>\$ 18,637,957</u></u>	<u><u>\$ 22,364,092</u></u>
Liabilities and Net Assets			
Current Liabilities			
Accounts Payable	\$ 31,726	\$ -	\$ 31,726
Accrued Expenses	46,765	-	46,765
Accrued Vacation	91,482	-	91,482
Due to USJC - Japan	38,249	-	38,249
Deferred Revenue	10,001	-	10,001
	<u>218,223</u>	<u>-</u>	<u>218,223</u>
Total Current Liabilities			
Net Assets			
Without Donor Restrictions	3,507,912	-	3,507,912
With Donor Restrictions	<u>-</u>	<u>18,637,957</u>	<u>18,637,957</u>
Total Net Assets	<u>3,507,912</u>	<u>18,637,957</u>	<u>22,145,869</u>
Total Liabilities and Net Assets	<u><u>\$ 3,726,135</u></u>	<u><u>\$ 18,637,957</u></u>	<u><u>\$ 22,364,092</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, 2022**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Activities			
Revenue			
Program Revenue	\$ 1,940,549	\$ 1,196,740	\$ 3,137,289
Contributions	310,751	10,000,000	10,310,751
Grants	267,349	-	267,349
Administrative Fees	1,600	-	1,600
Other Income	26,134	-	26,134
Donated Services	117,150	-	117,150
Net Assets Released from Restrictions	1,462,879	(1,462,879)	-
Total Revenue	4,126,412	9,733,861	13,860,273
Expenses			
Program Services			
General Education	3,165,756	-	3,165,756
TOMODACHI	619,845	-	619,845
Supporting Services			
General and Administration	1,021,354	-	1,021,354
Fundraising	438,377	-	438,377
Total Expenses	5,245,332	-	5,245,332
Change in Net Assets from Operations	(1,118,920)	9,733,861	8,614,941
Nonoperating Activities			
Investment Return, Net	151,128	(3,184,244)	(3,033,116)
Total Nonoperating Activities	151,128	(3,184,244)	(3,033,116)
Net Assets, Beginning of Year	3,507,912	18,637,957	22,145,869
Net Assets, End of Year	\$ 2,540,120	\$ 25,187,574	\$ 27,727,694

See accompanying Notes to Financial Statements.

U.S.-JAPAN COUNCIL

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Activities			
Revenue			
Program Revenue	\$ 603,180	\$ 1,951,932	\$ 2,555,112
Contributions	383,998	-	383,998
Grants	1,627,243	-	1,627,243
Administrative Fees	12,500	-	12,500
Other Income	74	6,645	6,719
Donated Services	32,086	-	32,086
Net Assets Released from Restrictions	<u>1,443,235</u>	<u>(1,443,235)</u>	<u>-</u>
 Total Revenue	 4,102,316	 515,342	 4,617,658
Expenses			
Program Services			
General Education	1,705,835	-	1,705,835
TOMODACHI	695,205	-	695,205
Supporting Services			
General and Administration	668,938	-	668,938
Fundraising	<u>501,927</u>	<u>-</u>	<u>501,927</u>
 Total Expenses	 <u>3,571,905</u>	 <u>-</u>	 <u>3,571,905</u>
 Change in Net Assets from Operations	 530,411	 515,342	 1,045,753
Nonoperating Activities			
Investment Return, Net	<u>(10,470)</u>	<u>975,610</u>	<u>965,140</u>
Total Nonoperating Activities	(10,470)	975,610	965,140
 Net Assets, Beginning of Year	 <u>2,987,971</u>	 <u>17,147,005</u>	 <u>20,134,976</u>
 Net Assets, End of Year	 <u><u>\$ 3,507,912</u></u>	 <u><u>\$ 18,637,957</u></u>	 <u><u>\$ 22,145,869</u></u>

See accompanying Notes to Financial Statements.

U.S.-JAPAN COUNCIL

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>General Education</u>	<u>TOMODACHI</u>	<u>Total Program Services</u>	<u>General and Administration</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and Benefits	\$ 1,099,755	\$ 128,138	\$ 1,227,893	\$ 728,749	\$ 402,041	\$ 2,358,683
Professional Services	212,561	1,909	214,470	157,778	192	372,440
Facilities and Equipment	52,137	10,256	62,393	16,239	6,838	85,470
Grant Expense	334,670	-	334,670	-	-	334,670
Scholarships	322,296	2,762	325,058	-	-	325,058
Program Implementation Fees	35,868	404,940	440,808	-	-	440,808
General and Office Expenses	62,759	31,089	93,848	3,415	2,877	100,140
Telecommunication	7,057	-	7,057	48,437	2,592	58,086
Travel and Meetings	899,460	33,941	933,401	18,434	12,199	964,034
In-Kind	95,850	-	95,850	21,300	-	117,150
Bank and Other Fees	13,251	413	13,664	17,865	7,791	39,320
Depreciation and Amortization	16,325	3,212	19,537	5,085	2,141	26,763
Insurance	13,767	3,185	16,952	4,052	1,706	22,710
Total	\$ 3,165,756	\$ 619,845	\$ 3,785,601	\$ 1,021,354	\$ 438,377	\$ 5,245,332

See accompanying Notes to Financial Statements.

U.S.-JAPAN COUNCIL

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>General Education</u>	<u>TOMODACHI</u>	<u>Total Program Services</u>	<u>General and Administration</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and Benefits	\$ 1,022,187	\$ 261,329	\$ 1,283,516	\$ 294,639	\$ 430,251	\$ 2,008,406
Professional Services	260,425	98,287	358,712	178,688	6,462	543,862
Facilities and Equipment	64,806	42,587	107,393	46,290	31,477	185,160
Grant Expense	-	166,440	166,440	-	-	166,440
Scholarships	162,801	-	162,801	-	-	162,801
Program Implementation Fees	82,385	70,478	152,863	-	-	152,863
General and Office Expenses	44,352	41,873	86,225	55,704	1,451	143,380
Telecommunication	14,780	-	14,780	33,266	12,565	60,611
Travel and Meetings	21,455	2,996	24,451	7,840	5,629	37,920
In-Kind	12,209	-	12,209	19,877	-	32,086
Bank and Other Fees	4,076	684	4,760	20,854	6,309	31,923
Depreciation and Amortization	10,054	6,607	16,661	7,181	4,883	28,725
Insurance	6,305	3,924	10,229	4,599	2,900	17,728
Total	\$ 1,705,835	\$ 695,205	\$ 2,401,040	\$ 668,938	\$ 501,927	\$ 3,571,905

See accompanying Notes to Financial Statements.

U.S.-JAPAN COUNCIL

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 5,581,825	\$ 2,010,893
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation and Amortization	26,763	28,725
(Gain) Loss on Investments	3,575,409	(421,142)
Operating Lease Expense	87,483	-
<u>(Increase) Decrease in Assets</u>		
Promises to Give	266,933	(525,122)
Due to/from USJC - Japan	(38,249)	70,833
Prepaid Expenses	84,849	(82,921)
<u>Increase (Decrease) in Liabilities</u>		
Accounts Payable	(2,491)	11,161
Accrued Expenses	84,520	(17,252)
Accrued Vacation	23,571	2,650
Deferred Revenue	264,999	-
Operating Lease Liability	(64,618)	-
	<u>9,890,994</u>	<u>1,077,825</u>
Cash Flows from Investing Activities		
Purchases of Investments	(10,049,728)	(23,953,834)
Sales of Investments	879,110	23,794,868
	<u>(9,170,618)</u>	<u>(158,966)</u>
Cash Flows from Financing Activities		
Principal Payments on Finance Lease Liability	(5,388)	-
	<u>(5,388)</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	714,988	918,859
Cash and Cash Equivalents, Beginning of Year	6,227,252	5,308,393
Cash and Cash Equivalents, End of Year	<u>\$ 6,942,240</u>	<u>\$ 6,227,252</u>
Noncash Transactions from Investing Activities		
Establishment of Right-of-Use Operating Lease Asset	\$ 277,780	\$ -
Establishment of Right-of-Use Finance Lease Asset	9,353	-
Establishment of Operating Lease Liability	72,967	-
Establishment of Finance Lease Liability	9,353	-

See accompanying Notes to Financial Statements.

U.S.-JAPAN COUNCIL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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 10) 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.

Adoption of Accounting Standards Update 2016-02

During the year ended December 31, 2022, USJC adopted the Financial Accounting Standards Board's (FASB) Accounting Standard Update (ASU) 2016-02, *Leases (Topic 842)*, which supersedes the leasing guidance in *Topic 840*. USJC also adopted the following ASUs, which amend and clarify *Leases (Topic 842)*: ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU 2018-10, *Codification Improvements to Topic 842, Leases*; ASU 2018-11, *Leases (Topic 842): Targeted Improvements*; ASU 2018-20, *Narrow-scope Improvements for Lessors*; ASU 2019-01, *Leases (Topic 842): Codification Improvements*; ASU 2021-05, *Leases (Topic 842): Lessors - Certain Leases with Variable Lease Payments*; and ASU 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*. The most significant change in the new lease guidance is the requirement to recognize right-of-use assets and lease liabilities for operating leases on the statement of financial position.

USJC adopted the leasing standards effective January 1, 2022, using the modified retrospective approach with January 1, 2022, as the initial date of application. Management has elected to apply all practical expedients available under the new guidance.

The most significant impact was the recognition of right-of-use assets and lease liabilities for all leases with terms greater than twelve months. Accordingly, an operating lease asset and lease liability totaling approximately \$338,000 and \$338,000, respectively, was recognized as of January 1, 2022. In addition, a finance lease asset and lease liability totaling approximately \$15,000 and \$15,000, respectively, was recognized as of January 1, 2022.

U.S.-JAPAN COUNCIL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

U.S.-JAPAN COUNCIL

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2021, 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.

In 2022, USJC drew funds from non-marketable investments and other investment funds and transferred the funds to marketable equity securities. As of December 31, 2022, all investments are maintained in money market fund, equity funds, and fixed income mutual funds.

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.

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

Right-of-Use Assets and Lease Liabilities

The determination of whether an arrangement is a lease is made at the lease's inception. Under the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

Lease liabilities are initially measured at the present value of minimum lease payments using a risk-free rate that approximates the remaining term of the lease. The right-of-use asset is the lease liability adjusted for other lease-related accounts. Management considers the likelihood of exercising renewal or termination clauses (if any) in measuring USJC's right-of-use assets and lease liabilities. Operating lease expense and finance lease amortization expense is allocated over the remaining lease term on a straight-line basis. Finance lease interest expense is calculated using a risk-free rate that approximates the remaining term of the lease multiplied by the outstanding finance lease liability.

U.S.-JAPAN COUNCIL

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Right-of-Use Assets and Lease Liabilities (Continued)

USJC considers leases with initial terms of twelve months or less, and no option to purchase the underlying asset, to be short-term leases. Accordingly, short-term lease costs are expensed over the remaining lease term, with no corresponding right-of-use asset or lease liability. In addition, USJC does not separate non-lease components from lease components (if any) when determining the payments for leases of office equipment.

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.

Reclassification

Certain reclassifications have been made to the December 31, 2021 financial statements to make them comparable with the December 31, 2022 financial statements.

3. 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.

U.S.-JAPAN COUNCIL

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

3. LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED)

The following reflects USJC's financial assets as of December 31, 2022 and 2021, reduced by amounts not available for general operating expenditure within one year:

Description	2022	2021
Cash and Cash Equivalents	\$ 6,942,240	\$ 6,227,252
Investments	21,011,083	15,415,874
Promises to Give within One Year	326,612	593,545
Due from USJC - Japan	-	-
Less Amount Restricted by Donors for Purpose (including Endowment)	(25,187,574)	(18,637,957)
Plus Amount Expected to be Appropriated by the Endowment Fund	453,000	436,687
Financial Assets and Liquidity Resources Available to Meet Cash Needs for General Expenditures within One Year	<u>\$ 3,545,361</u>	<u>\$ 4,035,401</u>

4. 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.

5. 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, 2022 and 2021.

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

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5. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

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 \$0- and \$13,889,983 for 2022 and 2021, respectively.

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, 2022, are as follows:

	2022			
	Fair Value	Level 1	Level 2	Level 3
Money Market Fund	\$ 582,594	\$ 582,594	\$ -	\$ -
Equity Funds	14,298,233	14,298,233	-	-
Fixed Income Funds	6,130,256	6,130,256	-	-
Total Investments Measured at Fair Value	<u>\$ 21,011,083</u>	<u>\$ 21,011,083</u>	<u>\$ -</u>	<u>\$ -</u>

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5. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Fair values of assets at December 31, 2021, are as follows:

	Fair Value	2021		
		Level 1	Level 2	Level 3
Money Market Fund	\$ 581,331	\$ 581,331	\$ -	\$ -
Equity Funds	9,216,495	9,216,495	-	-
Fixed Income Funds	3,806,867	3,806,867	-	-
Total Investments Measured at Fair Value	13,604,693	<u>\$ 13,604,693</u>	<u>\$ -</u>	<u>\$ -</u>
Other Investment Funds	1,461,181			
Non-Marketable Investments Valued at Cost	350,000			
Total Investments	<u>\$ 15,415,874</u>			

Other investment funds activity for the years ended December 31, 2022 and 2021, is as follows:

Other Investment Funds	2022	2021
Balance at January 1	\$ 1,461,181	\$ 13,889,983
Transfer of Funds	(1,461,181)	(11,465,276)
Realized and Unrealized (Loss) Gain	-	(963,526)
Balance at December 31	<u>\$ -</u>	<u>\$ 1,461,181</u>

USJC recognizes transfers into and out of levels within the fair value hierarchy at the end of the reporting period.

Investment return for the years ended December 31, 2022 and 2021, is as follows:

Description	2022	2021
Interest and Dividends	\$ 721,529	\$ 543,289
Realized and Unrealized (Losses) Gains on Investments, Net	(3,706,969)	472,793
Investment Fees	(47,676)	(50,942)
Total Investment Return	<u>\$ (3,033,116)</u>	<u>\$ 965,140</u>

For the year ended December 31, 2022, realized and unrealized losses include unrealized losses of \$3,575,409.

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.

6. CONTRIBUTIONS AND PROMISES TO GIVE

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.

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6. CONTRIBUTIONS AND PROMISES TO GIVE (CONTINUED)

Certain contributions are restricted for use for the TOMODACHI program. Promises to give included \$-0- and \$450,000 of pledges restricted for this purpose as of December 31, 2022 and 2021, respectively.

As of December 31, 2022 and 2021, promises to give are expected to be realized in the following periods:

Description	2022	2021
In One Year or Less	\$ 326,612	\$ 493,545
Within Two Years	-	100,000
	\$ 326,612	\$ 593,545

7. ANNUAL CONFERENCE

In 2022, U.S.-Japan Council (US) and U.S. Japan Council (Japan) held a joint Annual Conference in Tokyo, Japan. Given the threat and impact of the coronavirus pandemic, USJC did not host the in-person Annual Conferences in 2021. 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).

8. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2022 and 2021:

Description	2022	2021
Furniture and Fixtures	\$ 39,342	\$ 39,342
Office Equipment	142,109	142,109
	181,451	181,451
Less Accumulated Depreciation	(180,481)	(159,106)
Net	\$ 970	\$ 22,345

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes at December 31, 2022 and 2021:

Description	2022	2021
<i>With Temporary Donor Restrictions</i>		
TOMODACHI	\$ 2,629,503	\$ 2,709,622
Watanabe Endowment Fund - Scholarships	535,945	4,624,575
Silicon Valley Japan Platform (SVJP)	2,022,126	1,303,760
<i>With Permanent Donor Restrictions</i>		
Watanabe Endowment Fund - Scholarships	20,000,000	10,000,000
Total Net Assets With Donor Restrictions	\$ 25,187,574	\$ 18,637,957

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9. NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

The temporarily restricted portion of the Watanabe Endowment Fund reflects the accumulation of market activity over time; the decrease is driven by the unrealized market losses in 2022.

Net assets were released from donor restrictions during 2022 and 2021 as follows:

<u>Description</u>	<u>2022</u>	<u>2021</u>
TOMODACHI	\$ 237,779	\$ 559,274
Watanabe Endowment Fund - Scholarships	895,465	181,728
Silicon Valley Japan Platform (SVJP)	<u>329,635</u>	<u>702,233</u>
Total	<u>\$ 1,462,879</u>	<u>\$ 1,443,235</u>

10. 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.

11. SILICON VALLEY JAPAN PLATFORM

The Silicon Valley Japan Platform (SVJP) is an initiative of USJC and the International House of Japan. 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.

12. DONOR RESTRICTED ENDOWMENTS

USJC's endowment consists of the donor-restricted Toshizo Watanabe Endowed Scholarship Fund and the TOMODACHI Toshizo Watanabe Leadership Program (together, the Funds). The Funds were 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.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

12. DONOR RESTRICTED ENDOWMENTS (CONTINUED)

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.

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.

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.

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12. DONOR RESTRICTED ENDOWMENTS (CONTINUED)

Composition and changes in endowment net assets for the years ended December 31, 2022 and 2021, were as follows:

	With Donor Restrictions		Total
	With Purpose Restricted	With Permanently Restricted	
Endowment Net Assets, January 1, 2021	\$ 3,832,161	\$ 10,000,000	\$ 13,832,161
Investment Return	974,143	-	974,143
Appropriation of Endowment Assets for Expenditure	(181,729)	-	(181,729)
Endowment Net Assets, December 31, 2021	4,624,575	10,000,000	14,624,575
Investment Return	(3,193,165)	-	(3,193,165)
Contributions	-	10,000,000	10,000,000
Appropriation of Endowment Assets for Expenditure	(900,465)	-	(900,465)
Endowment Net Assets, December 31, 2022	\$ 530,945	\$ 20,000,000	\$ 20,530,945

13. DONATED SERVICES

The value of donated services and facilities and the corresponding functional expense categories for the years ended December 31, 2022 and 2021, are as follows:

Description	2022	2021
<i>General Education</i>		
Contributed Flights	\$ 75,350	\$ -
Services	20,500	10,000
Meetings	4,500	12,086
Facilities and Equipment	16,800	10,000
Total	\$ 117,150	\$ 32,086

14. RELATED PARTY TRANSACTIONS

Board members of USJC made contributions to support USJC. USJC obtained insurance policies through an insurance brokerage of which the owner is a board member of USJC. These transactions occurred in the normal course of USJC business and the members did not receive economic benefits in return of the transactions.

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, 2022 and 2021, USJC's contributions to the Plan were \$107,355 and \$75,352, respectively.

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16. LEASES

Operating Lease under Topic 842

USJC is obligated under a non-cancelable operating lease for office space. The office lease commenced in February 2019 as a fourth amendment to the lease, and it was scheduled to expire in January 2022. The lease was amended in December 2021, commenced on February 1, 2022, and expires on January 31, 2027. The lease includes a 2.5% annual rent escalation and four months of rent abatement. The lease contains an option to extend the lease term for an additional 5-year period or terminate the lease at the end of 2027. Neither option is considered reasonably certain for the calculation of the related right-of-use asset and lease liability, which are presented in the statement of financial position as of December 31, 2022.

Under accounting principles generally accepted in the United States of America (GAAP), operating lease expense is recognized on a straight-line basis over the remaining lease term. Operating lease expense for the year ended December 31, 2022, was approximately \$65,000 and is included in facilities and equipment on the statement of functional expenses.

Maturity of the operating lease liability as of December 31, 2022, is as follows:

For the Years Ending December 31,

2023	\$ 73,227
2024	75,067
2025	76,951
2026	78,877
2027	6,587
Thereafter	-
Total Undiscounted Minimum Lease Payments	310,709
Less Discount to Present Value	(10,064)
Total Operating Lease Liability	\$ 300,645

The supplementary qualitative operating lease information is as follows:

Supplementary Qualitative Operating Lease Information

Cash Paid for Amounts Included in the Measurement of	
Operating Lease Liabilities - Operating Cash Flows	\$ 64,618
Weighted-Average Remaining Lease Term	5 Years
Weighted-Average Discount Rate	1.63%

Operating Lease under Topic 840

Under accounting principles generally accepted in the United States of America (GAAP), all rental payments, including fixed rent increases, are recognized on a straight-line basis over the term of the lease. Lease incentives are amortized over the life of the lease on a straight-line basis as an offset to rent expense. The difference between the GAAP rent expense and the required lease payments, as well as any unamortized lease incentives, are reflected as deferred rent and lease incentive in the accompanying statement of financial position as of December 31, 2021.

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NOTES TO FINANCIAL STATEMENTS
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16. LEASES (CONTINUED)

Operating Lease under Topic 840 (Continued)

As previously disclosed in our 2021 audited financial statements and under the previous lease accounting, future minimum lease payments as of December 31, 2021, were as follows:

<u>For the Years Ending December 31,</u>	<u>Amount</u>
2022	\$ 61,221
2023	78,615
2024	80,455
2025	78,747
2026	78,877
2027	<u>6,587</u>
Total Future Minimum Lease Payments	<u><u>\$ 384,502</u></u>

Finance Lease under Topic 842

USJC is obligated under a non-cancelable finance lease for office equipment commencing January 2022 through September 2024. Amortization on the finance right-of-use asset totaled \$5,388 and is included in depreciation and amortization expense on the statement of functional expenses for the year ended December 31, 2022. The accumulated amortization on the finance right-of-use asset was approximately \$5,400 as of December 31, 2022. Interest expense on the finance lease liability totaled \$114 for the year ended December 31, 2022.

Maturity of the finance lease liability as of December 31, 2022, is as follows:

<u>For the Years Ending December 31,</u>	
2023	\$ 5,388
2024	<u>4,041</u>
Total Undiscounted Minimum Lease Payments	9,429
Less Discount to Present Value	<u>(76)</u>
Total Operating Lease Liability	<u><u>\$ 9,353</u></u>

The supplementary qualitative finance lease information is as follows:

<u>Supplementary Qualitative Finance Lease Information</u>	
Cash Paid for Amounts Included in the Measurement of Finance Lease Liabilities - Operating Cash Flows	\$ 114
Cash Paid for Amounts Included in the Measurement of Finance Lease Liabilities - Financing Cash Flows	5,388
Weighted-Average Remaining Lease Term	2.75 Years
Weighted-Average Discount Rate	0.97%

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17. COMMITMENTS AND CONTINGENCIES

Future Commitments

As businesses return to normalcy in 2022, USJC entered into various contracts for events and programs in 2023. In case of cancellations, USJC would be responsible for certain fees. USJC has future commitments as follows:

For the Year Ending December 31,

Event Management	\$ 13,800
Event Venue	294,800
Climate and Sustainability Initiative Promotion	5,000
Leadership Delegation Services	<u>45,300</u>
Future Commitments in 2023	<u>\$ 358,900</u>

COVID-19 Pandemic

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.

18. PAYCHECK PROTECTION PROGRAM LOAN

USJC has received Small Business Administration (SBA) loans under the Paycheck Protection Program (PPP) in the amount of \$406,440 in 2021. 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 repayments have been waived as of December 31, 2021, as such, the proceeds are reflected in grants in the statements of activities and changes in net assets.

19. SUBSEQUENT EVENTS

Subsequent to December 31, 2022, USJC entered various agreements for future events, of which the financial commitments are disclosed in Note 17.

USJC has evaluated subsequent events through June 12, 2023, the date on which the financial statements were available to be issued.