

EISNERAMPER

UNITED STATES-JAPAN FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

EISNERAMPER
LLP



INDEPENDENT AUDITORS' REPORT

The Board of Trustees
United States-Japan Foundation
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the United States-Japan Foundation (the "Foundation"), which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities, 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

The Foundation's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States-Japan Foundation as of December 31, 2018 and 2017 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.



EISNERAMPER LLP
New York, New York
November 5, 2019



UNITED STATES-JAPAN FOUNDATION

Statements of Financial Position

	December 31,	
	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 312,329	\$ 156,162
Due from broker	1,128,970	269,519
Accrued income receivable	2,151	3,145
Investments	74,376,994	83,040,284
Prepaid federal excise taxes	11,631	88,188
Security deposits and other assets	48,741	67,551
Property and equipment, net	<u>279,607</u>	<u>315,092</u>
	<u>\$ 76,160,423</u>	<u>\$ 83,939,941</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 130,696	\$ 109,734
Grants payable	140,607	119,047
Deferred excise taxes payable	<u>153,455</u>	<u>146,015</u>
	<u>424,758</u>	<u>374,796</u>
Commitments (see Note G)		
Net assets, without donor restrictions	<u>75,735,665</u>	<u>83,565,145</u>
	<u>\$ 76,160,423</u>	<u>\$ 83,939,941</u>

UNITED STATES-JAPAN FOUNDATION

Statements of Activities

	Year Ended December 31,	
	2018	2017
Revenue:		
Contributions	<u>\$ 32,979</u>	<u>\$ 35,435</u>
Investment income:		
Dividends	1,708,713	1,365,018
Interest	62,935	190,788
Net undistributed share of ordinary earnings from partnership investments	<u>(687,802)</u>	<u>(63,924)</u>
	<u>1,083,846</u>	<u>1,491,882</u>
Investment expenses	<u>(577,316)</u>	<u>(656,880)</u>
Net investment income	<u>506,530</u>	<u>835,002</u>
Total revenue	<u>539,509</u>	<u>870,437</u>
Expenses:		
Program services:		
US-Japan Relations:		
Grants expense, net	935,358	1,564,074
Other program expenses	<u>1,705,599</u>	<u>1,685,875</u>
	<u>2,640,957</u>	<u>3,249,949</u>
US-Japan Leadership Program	<u>781,896</u>	<u>700,877</u>
Total program services	<u>3,422,853</u>	<u>3,950,826</u>
Supporting services:		
Management and general	505,805	450,669
Investment	<u>284,611</u>	<u>295,074</u>
Total supporting services	<u>790,416</u>	<u>745,743</u>
Total expenses	<u>4,213,269</u>	<u>4,696,569</u>
Excess of expenses over revenue before net realized and unrealized gains (losses) on investments	<u>(3,673,760)</u>	<u>(3,826,132)</u>
Realized gains on investments (net of foreign exchange losses of \$3,775 and \$14,127 in 2018 and 2017, respectively)	2,780,454	196,096
Net unrealized changes in fair value of investments (net of increases in deferred excise tax payable of \$7,440 and \$86,291 in 2018 and 2017, respectively)	<u>(6,936,174)</u>	<u>8,542,818</u>
Change in net assets	<u>(7,829,480)</u>	<u>4,912,782</u>
Net assets, without donor restrictions, beginning of year	<u>83,565,145</u>	<u>78,652,363</u>
Net assets, without donor restrictions, end of year	<u>\$ 75,735,665</u>	<u>\$ 83,565,145</u>

UNITED STATES-JAPAN FOUNDATION

Statement of Functional Expenses

Year Ended December 31, 2018

(with summarized financial information for 2017)

	Program Services			Supporting Services			Totals	
	US-Japan Relations	US-Japan Leadership Program	Total Program Services	Management and General	Investment	Total Supporting Services	2018	2017
Grants expense, net	\$ 935,358		\$ 935,358				\$ 935,358	\$ 1,564,074
Salaries	745,474	\$ 218,232	963,706	\$ 193,407	\$ 112,165	\$ 305,572	1,269,278	1,230,046
Payroll taxes and employee benefits	272,380	94,349	366,729	55,810	34,451	90,261	456,990	480,425
Occupancy	336,482		336,482	75,018	15,004	90,022	426,504	427,835
Office expenses	80,390	27,414	107,804	23,053	4,610	27,663	135,467	154,375
Travel, meetings and conferences	120,218	440,592	560,810	38,253	57,381	95,634	656,444	643,586
Professional fees	114,036		114,036	30,500	61,000	91,500	205,536	130,000
Federal excise tax				76,529		76,529	76,529	7,817
Depreciation and amortization	30,882	1,309	32,191	13,235		13,235	45,426	48,835
Other expenses	5,737		5,737				5,737	9,576
	<u>\$ 2,640,957</u>	<u>\$ 781,896</u>	<u>\$ 3,422,853</u>	<u>\$ 505,805</u>	<u>\$ 284,611</u>	<u>\$ 790,416</u>	<u>\$ 4,213,269</u>	<u>\$ 4,696,569</u>

See notes to financial statements.

UNITED STATES-JAPAN FOUNDATION

Statement of Functional Expenses Year Ended December 31, 2017

	Program Services			Supporting Services			Total Expenses
	US-Japan Relations	US-Japan Leadership Program	Total Program Services	Management and General	Investment	Total Supporting Services	
Grants expense, net	\$ 1,564,074		\$ 1,564,074				\$ 1,564,074
Salaries	743,219	\$ 193,738	936,957	\$ 186,141	\$ 106,948	\$ 293,089	1,230,046
Payroll taxes and employee benefits	301,691	77,381	379,072	57,545	43,808	101,353	480,425
Occupancy	323,027		323,027	89,432	15,376	104,808	427,835
Office expenses	97,848	27,876	125,724	23,912	4,739	28,651	154,375
Travel, meetings and conferences	141,245	397,003	538,248	42,135	63,203	105,338	643,586
Professional fees	38,500		38,500	30,500	61,000	91,500	130,000
Federal excise tax				7,817		7,817	7,817
Depreciation and amortization	30,769	4,879	35,648	13,187		13,187	48,835
Other expenses	9,576		9,576				9,576
	<u>\$ 3,249,949</u>	<u>\$ 700,877</u>	<u>\$ 3,950,826</u>	<u>\$ 450,669</u>	<u>\$ 295,074</u>	<u>\$ 745,743</u>	<u>\$ 4,696,569</u>

See notes to financial statements.

UNITED STATES-JAPAN FOUNDATION

Statements of Cash Flows

	Year Ended December 31,	
	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (7,829,480)	\$ 4,912,782
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized losses (gains) on investments	4,144,505	(8,839,332)
Depreciation and amortization	45,426	48,834
Changes in:		
Due from broker	(859,451)	526,170
Accrued income receivable	994	1,586
Prepaid federal excise taxes	76,557	(42,183)
Security deposits and other assets	18,810	(10,633)
Grants payable	21,560	(227,333)
Accounts payable and accrued expenses	20,962	46,427
Deferred excise taxes payable	7,440	86,291
Net cash used in operating activities	<u>(4,352,677)</u>	<u>(3,497,391)</u>
Cash flows from investing activities:		
Purchases of investments	(10,626,273)	(17,959,749)
Proceeds from sales of investments	15,145,058	21,499,340
Purchases of property and equipment	(9,941)	(7,314)
Net cash provided by investing activities	<u>4,508,844</u>	<u>3,532,277</u>
Increase in cash and cash equivalents	156,167	34,886
Cash and cash equivalents, beginning of year	<u>156,162</u>	<u>121,276</u>
Cash and cash equivalents, end of year	<u>\$ 312,329</u>	<u>\$ 156,162</u>
Supplemental disclosure of cash flow information:		
Excise taxes paid	<u>\$ 0</u>	<u>\$ 50,000</u>

See notes to financial statements.

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2018 and 2017

NOTE A - THE FOUNDATION AND ITS SIGNIFICANT ACCOUNTING POLICIES

[1] The Foundation:

The United States-Japan Foundation (the "Foundation") is a private foundation incorporated in New York in 1980 for the purpose of promoting understanding and cooperation between the peoples and institutions of the United States and Japan.

[2] Tax status and income taxes:

The Foundation qualifies as a tax-exempt charitable organization under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, accordingly, is not subject to either federal or state income taxes, except on income from unrelated activities. The Foundation is, however, subject to a federal excise tax, not to exceed 2%, on net investment income, including realized gains, as defined in the Code. The Foundation was subject to a 2% excise tax of \$76,529 in 2018 and a 1% excise tax of \$7,817 in 2017.

In addition, the Foundation must make certain minimum qualifying distributions, in the form of grants and expenses spent for charitable purposes, in an amount equal to 5% of the average fair value of its assets held during the year. The Code allows for an organization to distribute any under-distributed income over the subsequent year. The required minimum qualifying distributions for 2018 and 2017 were approximately \$3,977,000 and \$3,995,000, respectively. During 2018, the Foundation made qualifying distributions of approximately \$3,801,000, and utilized a portion of its available carryover thereby satisfying the distribution requirement and leaving a remaining distribution carryover to future years of approximately \$1,831,000. During 2017, the Foundation made qualifying distributions of approximately \$4,578,000, resulting in a distribution carryover to future years of approximately \$2,007,000.

The Foundation is also subject to the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, as it relates to accounting and reporting for uncertainty in income taxes, which sets forth a threshold for financial statement recognition, measurement, and disclosure of a tax position taken, or expected to be taken, on a tax return. Such guidance requires the Foundation to determine whether a tax position of the Foundation is more likely than not to be sustained upon examination by the applicable taxing authority based on the technical merits of the position. Since the Foundation has always recorded the potential tax liability for excise and unrelated business income taxes, and, due to its general not-for-profit status, management believes ASC Topic 740 has not had, and is not anticipated to have, a material impact on the Foundation's financial statements. As of December 31, 2018 and 2017, the Foundation had not recorded a liability for any unrecognized tax benefits.

[3] Basis of accounting:

The financial statements of the Foundation have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"), as applicable to not-for-profit organizations.

[4] Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

[5] Cash and cash equivalents:

For financial reporting purposes, the Foundation considers highly liquid investments with maturities of three months or less, when purchased, to be cash equivalents, except for those amounts held as part of the investment portfolio.

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2018 and 2017

NOTE A - THE FOUNDATION AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[6] Investments:

The Foundation's investments in equity securities and mutual funds are reported at their fair values in the statements of financial position based on quoted market prices. Cash and cash equivalents held as part of the Foundation's investment portfolio are also included in the balances reported as investments.

The Foundation also has investments in limited partnerships and limited liability companies which are considered to be alternative investments, for which readily determinable fair values do not exist. The fair value of the alternative investments has been estimated based on the respective net asset value ("NAV") per share (or its equivalent unit) of each investment, as reported by the particular investment manager. Because of the complex management structures and nature of the underlying investments and the inherent uncertainty of the valuation of the alternative investments, the Foundation's management and its various investment managers monitor their positions to reduce the risk of potential losses due to changes in fair values or the failure of counterparties to perform on a routine basis. Management believes the carrying amount of the investments in non-publicly traded securities is a reasonable estimate of their fair value. However, such estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed.

Certain of the Foundation's portfolio managers for alternative investments enter into derivative contracts held or issued for trading purposes. These investments are subject to various market risks, which arise from changes in securities values and other market conditions. As part of their overall trading strategies, the investment managers may engage in the purchases and sales of index and equity options, for the purpose of generating profit and/or mitigating market risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of those securities could occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

The Foundation's investments, in general, are subject to various risks, such as interest-rate, market, and credit risks. Due to the level of risk associated with certain investment vehicles, it is at least reasonably possible that changes in the values of those securities could occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Investment transactions are recorded on a trade-date basis. Realized gains and losses on investments sold, and unrealized appreciation and depreciation on investments held, are reported in the statements of activities as increases or decreases in net assets without donor restrictions unless their use is restricted through donor stipulation. Realized gains and losses on investments are determined by comparison of the cost of acquisition to proceeds at the time of disposition. Unrealized gains and losses on investments are determined by comparing the investment's cost to the fair value at the end of each year. The earnings from dividends and interest are recognized when earned.

Any cash accounts and investments dominated in foreign currencies are translated at the closing rates of exchange at the end of the reporting period. Foreign transactions occurring during the year, including purchases and sales and income and expenses, are translated at the prevailing exchange rate on the dates of the transactions, and are reported within realized gains and losses on the statements of activities. The currency translation related to grant payments is reflected in Note J.

Investment expenses include the services of investment managers and custodians. The balances of investment management fees disclosed in the statements of activities are those specific fees charged by the Foundation's various investment managers in each year; however, they do not include those fees that are embedded in various other investment accounts and transactions.

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2018 and 2017

NOTE A - THE FOUNDATION AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[7] Due from broker:

From time-to-time, investment transactions may be initiated prior to year-end, but may not be settled until the beginning of the following year. Accordingly, amounts to be received by the Foundation are reported as "due from investment managers" in the statements of financial position.

[8] Property and equipment:

Property and equipment are stated at their original costs at the date of acquisition, or, if contributed, at their fair values at the dates of donation, net of accumulated depreciation and amortization. The Foundation capitalizes items of property and equipment that have a cost of \$2,000 or more and a useful life greater than one year, whereas minor costs of repairs and maintenance are expensed as incurred. Depreciation is calculated using the straight-line method over the assets' estimated useful lives. Equipment is depreciated over five to seven years; and furniture and fixtures are depreciated over five to fifteen years. Leasehold improvements are amortized over the term of the lease.

Management evaluates the recoverability of the investment in long-lived assets on an on-going basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of December 31, 2018 and 2017, respectively, and in the opinion of management, there were no impairments. However, it is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

[9] Net assets:

Net assets without donor restrictions represent those resources for which there are no restrictions by donors as to their use and are available for current operations.

[10] Revenue recognition:

Contributions to the Foundation are recognized as revenue upon the receipt of cash or other assets, or unconditional pledges. Contributions are reported as "with donor restrictions" if they are received with donor stipulations or time considerations as to their use. Conditional contributions are recognized when the donor's conditions have been met by requisite actions of the Foundation's management or necessary events have taken place. Contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved.

[11] Grants:

Grants are recognized as obligations at the time of approval by the Board of Trustees. Grants approved by the Board, but unpaid as of year-end, are reported as liabilities in the statements of financial position. Grants are expected to be paid within the upcoming year. Grant funds that have been awarded and that have been returned to, or withdrawn by, the Foundation are reported net with total grant expense.

[12] Functional allocation of expenses:

The costs of providing the Foundation's programs and activities have been summarized on a functional basis in the statements of functional expenses. Management considers "investment" expenses to be included in the "management and general" functional allocation which are allocated indirect costs specifically related to overseeing the Foundation's investment portfolio. Accordingly, direct costs have been allocated among the program and supporting services based on the nature of the expense. Indirect costs have been functionalized on the basis of time and space usage among employees. The Foundation incurs no significant fund-raising expenses.

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2018 and 2017

NOTE A - THE FOUNDATION AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[13] Adoption of accounting pronouncement:

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends financial-statement presentations and disclosures. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: (i) net asset classifications, (ii) investment returns, (iii) expense categorizations, and (iv) liquidity and the availability of resources. ASU 2016-14 was effective for annual reporting periods issued for years beginning after December 31, 2017. Accordingly, the Foundation was required to adopt ASU 2016-14 for its year-ended December 31, 2018, which under U.S. GAAP was a change in accounting principle requiring retroactive application in the financial statements of certain areas whereas certain other areas were adopted on a prospective basis. Although the Foundation's adoption of ASU 2016-14 had no effect on the Foundation's total net assets or its changes in net assets for 2018 and 2017, certain reclassifications were required. Accordingly, the Foundation changed its presentation of its net asset classes and expanded certain footnote disclosures; including the addition of the statements of functional expenses.

[14] Subsequent events:

The Foundation performed an evaluation of subsequent events through November 5, 2019, which is the date the financial statements were available to be issued.

NOTE B - INVESTMENTS

At each year-end, investments consisted of the following:

	December 31,			
	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Money-market and other temporary investments	\$ 419,198	\$ 419,198	\$ 1,821,768	\$ 1,821,768
Equity securities - domestic	5,482,256	5,150,183	5,386,124	4,161,314
Equity securities - international			1,072,553	661,222
Mutual funds:				
Domestic equity	17,886,552	18,254,501	24,491,507	19,053,809
Foreign equity	3,811,317	3,490,043	11,287,868	9,139,662
Domestic fixed income	29,030,871	25,686,162	13,895,701	13,988,587
Alternative investments:				
Opportunistic fixed income (a)			5,306,171	4,500,000
Other private investment fund (b)	2,777,165	2,900,206	3,000,379	2,575,600
Hedge funds (c)	5,039,774	2,917,023	8,939,719	5,922,123
Private credit fund (d)	635,223	430,836	1,137,136	827,485
Private equity funds (e)	6,353,097	4,660,023	4,645,664	3,968,459
Private real estate funds (f)	2,941,541	2,796,068	2,055,694	1,818,770
	<u>\$ 74,376,994</u>	<u>\$ 66,704,243</u>	<u>\$ 83,040,284</u>	<u>\$ 68,438,799</u>

(a) Invest in a diversified portfolio of structured credit products in the United States and European credit markets.

(b) Invest in a concentrated portfolio of listed equity securities of European companies.

(c) Long/short investment strategy with investments in North American and European equities.

(d) Invest in distressed companies primarily in North America and Western Europe.

(e) Invest in U.S. growth capital, small and middle market buyout investments, in addition to private equity investments with the primary purpose of obtaining control or influence in small to mid-size companies.

(f) Invest directly or indirectly in public or private debt, equity or other interest relating to real estate assets on a global basis, with primary focus in the United States.

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2018 and 2017

NOTE B - INVESTMENTS (CONTINUED)

The FASB's ASC Topic 820, *Fair Value Measurements*, establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value hierarchy:

Level 1 - Valuations are based on observable inputs that reflect quoted market prices in active markets for identical investments at the reporting date.

Level 2 - Valuations are based on: (i) quoted prices for similar investments in active markets, or (ii) quoted prices for those investments, or similar investments, in markets that are not active, or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date.

Level 3 - Valuations are based on pricing inputs that are unobservable and include situations where there is little, if any, market activity for the investments, or the investments cannot be independently valued.

Certain of the Foundation's investments are valued using NAV per share (or its equivalent unit) as a practical expedient of fair value. This applies to investments which (i) do not have a readily determinable fair value and (ii) whose financial statements were prepared by the respective investment manager consistent with the measurement principles of an investment company or have the attributes of an investment company. Investments that are valued using NAV (or its equivalent unit) are not required to be categorized within the fair value hierarchy and accordingly, have been excluded from the fair value hierarchy.

The available market data is monitored to assess the appropriate classification of financial instruments within the fair-value hierarchy. Changes in economic conditions or valuation techniques may require the transfer of financial instruments from one level to another. In such instances, the transfer is reported at the beginning of the reporting period. For 2018 and 2017, there were no transfers among the fair-value hierarchy levels.

The following tables summarize the fair values of the Foundation's assets at each year-end, in accordance with the FASB's ASC Topic 820 valuation levels:

	December 31, 2018			
	Amounts within Fair-Value Hierarchy		Valued at NAV	Total Investments
	Level 1	Total		
Money-market and other temporary investments	\$ 419,198	\$ 419,198		\$ 419,198
Equity securities	5,482,256	5,482,256		5,482,256
Mutual funds	50,728,740	50,728,740		50,728,740
Alternative investments			\$ 17,746,800	17,746,800
	<u>\$ 56,630,194</u>	<u>\$ 56,630,194</u>	<u>\$ 17,746,800</u>	<u>\$ 74,376,994</u>

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2018 and 2017

NOTE B - INVESTMENTS (CONTINUED)

	December 31, 2017			
	Amounts within Fair-Value Hierarchy		Valued at NAV	Total Investments
	Level 1	Total		
Money-market and other temporary investments	\$ 1,821,768	\$ 1,821,768		\$ 1,821,768
Equity securities	6,458,677	6,458,677		6,458,677
Mutual funds	49,675,076	49,675,076		49,675,076
Alternative investments			\$ 25,084,763	25,084,763
	<u>\$ 57,955,521</u>	<u>\$ 57,955,521</u>	<u>\$ 25,084,763</u>	<u>\$ 83,040,284</u>

The following table describes the funding commitment and redemption information for the Foundation's alternative investments:

	December 31, 2018			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity securities - international	\$ <u>2,777,165</u>	None	Quarterly	60 days
Hedge funds:	\$ 2,591,527	None	Quarterly	65 days
	<u>2,448,247</u>	None	Annually	90 days
	<u>\$ 5,039,774</u>			
Private credit funds	\$ 635,223	\$ 993,552	None	N/A
Private equity funds	\$ 6,353,097	\$ 6,399,091	None	N/A
Private real estate funds	\$ 2,941,541	\$ 1,154,274	None	N/A
	<u>\$ 17,746,800</u>	<u>\$ 8,546,917</u>		

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2018 and 2017

NOTE C - PROPERTY AND EQUIPMENT

At each year-end, property and equipment consisted of the following:

	December 31,	
	2018	2017
Cooperative apartment	\$ 790,725	\$ 790,725
Cooperative apartment improvements	241,370	241,370
Leasehold improvements	249,581	249,581
Equipment	200,478	190,537
Furniture and fixtures	<u>252,347</u>	<u>252,347</u>
	1,734,501	1,724,560
Less accumulated depreciation and amortization	<u>(1,454,894)</u>	<u>(1,409,468)</u>
	<u>\$ 279,607</u>	<u>\$ 315,092</u>

The maintenance and utility charges relating to the cooperative apartment were \$76,169 and \$70,106 for 2018 and 2017, respectively.

NOTE D - DEFERRED EXCISE TAXES PAYABLE

The Foundation provided for a deferred excise tax on the total unrealized appreciation in the fair value over the original cost of its investments of \$153,455 and \$146,015 for 2018 and 2017, respectively, which represented excise tax rates of 2% and 1% for 2018 and 2017, respectively.

NOTE E - US-JAPAN LEADERSHIP PROGRAM

The Foundation manages the US-Japan Leadership Program (the "Program"), which develops a network of communication, friendship and understanding among the next generation of leaders in each country. The Program brings selected young leaders together through annual conferences, a dedicated website, a semiannual newsletter and frequent reunions. The Program had total costs of \$781,896 and \$700,877 for 2018 and 2017, respectively.

NOTE F - RETIREMENT PLAN

The Foundation's New York office has a defined-contribution retirement plan, established under Section 403(b) of the Code. Under the terms of the plan, after one year of service, the Foundation may provide a discretionary contribution of 17% of an employee's annual salary. The Foundation's Tokyo office has a National Pension Plan and Nomura Security Pension Plan. The Foundation's total contributions to the plans were \$179,565 and \$181,851 for 2018 and 2017, respectively.

NOTE G - COMMITMENTS

[1] Leases:

The Foundation leases office space in New York City and Tokyo, Japan. The leases are effective through February 28, 2027 and are subject to escalation clauses based on increases in the cost of living and real estate taxes.

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2018 and 2017

NOTE G - COMMITMENTS (CONTINUED)

[1] Leases: (continued)

At December 31, 2018, future minimum lease payments under noncancellable leases (with expirations through 2019) are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 266,161
2020	236,769
2021	243,281
2022	250,480
2023	257,994
Thereafter	<u>868,573</u>
	<u>\$ 2,123,258</u>

Rent expense was \$288,527 and \$284,566 in 2018 and 2017, respectively.

[2] Other contracts:

In the normal course of business, the Foundation enters into various contracts for professional and other services, which are typically renewable on a year-to-year basis.

NOTE H- CONCENTRATION OF CREDIT RISK

The Foundation's cash balances frequently exceed federally insured limits. Additionally, the Foundation places its investments with large, high-quality financial institutions and diversifies its investments in hedge funds, mutual funds, and the equity securities of financially strong corporations. Management believes the Foundation is not exposed to the risk of any significant loss due to the failure of any of the financial institutions.

NOTE I - LIQUIDITY AND AVAILABILITY OF RESOURCES

Included below are the Foundation's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of December 31, 2018 because of contractual or internal designations. The Foundation's financial assets available within one year of the statement of financial position date for general expenditure which includes operating expenses and scheduled grant payments are as follows:

Cash and cash equivalents	\$ 312,329
Investments	61,998,886
Due from broker	1,128,970
Accrued income receivable	<u>2,151</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 63,442,336</u>

Liquidity policy:

The Foundation maintains a sufficient level of operating cash and liquid investments to be available as its general expenditures come due, as part of the Foundation's liquidity management.

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2018 and 2017

NOTE J - GRANT ACTIVITY

The Foundation's grant activity for 2018 was as follows:

Recipient Name and Purpose	Unpaid January 1, 2018	Net Grants Authorized 2018	Paid	Unpaid December 31, 2018
Precollege Education				
Ashoka Japan (Tokyo, Japan)				
To support the Young Changemakers Exchange project to facilitate cross-cultural exchange and foster long-standing connections between young social innovators from Japan and the US and collaborate to catalyze positive change in the globalizing world.		\$ 17,814	\$ 17,814	
Ballard Education Foundation, Ballard High School (Huxley, IA)				
To support the expansion of teaching about world history: World War II Unit, at Ballard High School and as part of the 2018 Elgin Heinz Award.		5,000	5,000	
Boston Higashi School (Randolph, MA)				
To support the internship program for two vocational high school students from Musashino Higashi Gakuen to come to Boston Higashi School.		10,000	10,000	
Concordia Language Villages of Concordia College (Moorhead, MN)				
To support scholarships for students to study Japanese at Concordia Language Villages and to improve the Japanese Language Camp.		30,000	30,000	
Creative Connections (Norwalk, CT)				
To support an arts-based cultural education project for students in Japan and the United States.		44,700	44,700	
Ed W. Clark High School (Las Vegas, NV)				
To support six students to participate in the 2019 National Japan Bowl on April 13, 2019 in Washington DC, and as part of the 2018 Elgin Heinz Award.		5,000	5,000	
Friends of the Randolph Shizukuishi Exchange Project Inc. (Randolph, VT)				
To support a student exchange program between Randolph Union Middle School, Vermont, and Shizukuishi Middle School, Japan.		40,000	40,000	
Global Fund for Educational Assistance (Beyond Tomorrow) (Tokyo, Japan)				
To support the 2019 Jiro Murase Scholarship Program, which brings Japanese students to the United States to learn about legal and political affairs.		55,000		\$ 55,000
Globalize DC (Washington, DC)				
To support Japanese language and Japan-related programs for students in Washington, DC public schools.		50,000	50,000	
Japan-America Society of Washington, DC (Washington, DC)				
To support a national Japanese language and culture competition for high school students.		35,000	35,000	
Kizuna Across Cultures (Washington, DC)				
To support the Global Classmates program for high school students in the US and Japan, which builds friendships, enhances language skills, and deepens cultural knowledge through dynamic online interaction.		59,950	59,950	
LaGuardia High School Parents Association Inc. (New York, NY)				
To support the reinstatement of AP Japanese class for the school year September-June 2018-19 which was discontinued for lack of funding.		5,000	5,000	
(carried forward)		357,464	302,464	55,000

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2018 and 2017

NOTE J - GRANT ACTIVITY (CONTINUED)

Recipient Name and Purpose	Unpaid January 1, 2018	Net Grants Authorized 2018	Paid	Unpaid December 31, 2018
(brought forward)		\$ 357,464	\$ 302,464	\$ 55,000
Precollege Education (continued)				
Michigan State University (East Lansing, MI) To support the 2018 Michigan-Japan Nuclear Science High School Exchange Program for Japanese and American teachers and students.	114,634		114,634	
Midori Foundation (New York, NY) To support Midori and Friends' music education programs in underprivileged elementary schools in the New York City Area, including their Journey to Japan program.		50,000	50,000	
Seafair Foundation (Seattle, WA) To support the Seafair Ambassador Program that engages local high school students in a trip to Kobe, Japan to strengthen the Seattle-Kobe Sister City relationship.		20,000	20,000	
Sumter County Schools (Americus, GA) To support an educational partnership and exchange between schools in Sumter County, Georgia, and Miyoshi, Japan, that was originally started by former President Jimmy Carter.		42,250	42,250	
Table for Two USA (New York, NY) To support a Japanese inspired food education program for K-12 students in the US.		67,976	67,976	
The America-Japan Society, Inc. (Tokyo, Japan) To support a national English language competition for Japanese high school students about American history, culture, arts, geography, science, and US-Japan relations (America Bowl).		8,907	8,907	
US-Japan Technical Connections (South Royalton, VT) To support a technical education program in Fukuoka, Japan for high school students from Vermont.		27,530	27,530	
Working Mothers Association of Japan (Tokyo, Japan) To support a program for junior high school students from single-parent households with an interest in the STEM field.		55,246		55,246
Subtotal for Precollege Education	<u>114,634</u>	<u>629,373</u>	<u>633,761</u>	<u>110,246</u>
US-Japan Policy				
American Defenders of Bataan and Corregidor Memorial Society (ADBC-MS) (Jamaica Plain, MA) To support the audio visual costs for the screening of the documentary film "Paper Lanterns" on Saturday, May 5 at the ADBC-MS annual convention from May 2-5, 2018 to be held in Albuquerque, New Mexico.		985	985	
Asia Pacific Initiative (formerly Rebuild Japan Initiative Foundation) (Tokyo, Japan) To support a joint research project with CSIS titled "US Japan Economic Cooperation In Third Countries".		20,027	20,027	
(carried forward)		21,012	21,012	

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2018 and 2017

NOTE J - GRANT ACTIVITY (CONTINUED)

Recipient Name and Purpose	Unpaid January 1, 2018	Net Grants Authoriz ed 2018	Paid	Unpaid December 31, 2018
(brought forward)		\$ 21,012	\$ 21,012	
US-Japan Policy (continued)				
Council on Foreign Relations NY (New York, NY) To support the first year of a project that aims to inform the public on the history of the Japanese Constitution and explore the growing interest in considering amendment.		64,678	64,678	
Subtotal for US-Japan Policy		85,690	85,690	
Communications/Public Opinion				
Asia-America Institute for New Music (Salt Lake City, UT) To support the 2018 Mainland Japan Tour bringing together American, Japanese, and Korean composers and performers and as part of the Foundation's Distinguished Service Award to Mr. Shigeaki Mori.	\$ 4,413		4,413	
Center for Independent Documentary (Boston, MA) To support the continued development of a documentary film on the history and role of baseball in US-Japan relations titled "Diamond Diplomacy".		37,065	37,065	
Coastal Enterprises (Brunswick, ME) To support the continued development of a tech transfer exchange between the scallop aqua culture industry in Aomori, Japan, and Maine.		19,360	19,360	
Cornell University: Yamatai Taiko Group (Ithaca, NY) To support Yamatai Taiko Group to join the 2019 East Coast Taiko Conference and participate in their educational programs.		10,000	10,000	
Henry Sheldon Museum of Vermont History (Middlebury, VT) To support a collaboration between Mr. Douglas Brook and the last active boat builder in Japan that will help with the production of a book on traditional Japanese boat building.		10,000	10,000	
Independent Filmmaker Project (New York, NY) To support a documentary film about national food education program in Japan titled "Nourishing Japan".		30,361		\$ 30,361
International Center for Journalists (Washington, DC) To support a media fellowship that will prepare and send three selected US Journalists on 19-day reporting tours to Japan.				
National Association of Japan-America Societies, Inc. (Washington, DC) To support the secretariat for the Manjiro Center for International Exchange-US, which helps operate the annual Manjiro US-Japan Grassroots Summit.		15,000	15,000	
New York Women in Film and Television (New York, NY) To support a documentary film "A Vow From the Ruins" on Hiroshima survivor Setsuko Thurlow.		50,000	50,000	
Portland State University (Portland, OR) To support public lecture and performing arts programs focused on Japan at Portland State University's Center for Japanese Studies.				
(carried forward)	4,413	171,786	145,838	30,361

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2018 and 2017

NOTE J - GRANT ACTIVITY (CONTINUED)

Recipient Name and Purpose	Unpaid January 1, 2018	Net Grants Authorized 2018	Paid	Unpaid December 31, 2018
(brought forward)	\$ 4,413	\$ 171,786	\$ 145,838	\$ 30,361
Communications/Public Opinion (continued)				
The Chicago Council on Global Affairs (Chicago, IL)				
To support an in-depth examination of US perceptions of Japan and the US Japan alliance as part of the Council's 2018 Chicago Council Survey.		50,000	50,000	
U.S.-Japan Council (Washington, DC)				
To support the council's program: Japan Flood Friendship Fund (JFFF) fundraising for flood affected region.		3,000	3,000	
Subtotal for Communications/Public Opinion	<u>4,413</u>	<u>224,786</u>	<u>198,838</u>	<u>30,361</u>
Subtotal	119,047	939,849	918,289	140,607
Prior years' awards withdrawn/returned in current year		<u>(4,491)</u>	<u>(4,491)</u>	
Total	<u>\$ 119,047</u>	<u>\$ 935,358</u>	<u>\$ 913,798</u>	<u>\$ 140,607</u>

(a) Net Grants Authorized reflect the additions of net currency gains (losses) which totaled \$63 for the year.

Current year reductions in awards have been netted against the original award.

(b) Unexpended funds returned in the current year are netted against payments.

EISNERKAMPER
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