

EISNERAMPER

UNITED STATES-JAPAN FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2019 and 2018



UNITED STATES-JAPAN FOUNDATION

Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of financial position as of December 31, 2019 and 2018	2
Statements of activities for the years ended December 31, 2019 and 2018	3
Statement of functional expenses for the year ended December 31, 2019 (with summarized financial information for 2018)	4
Statement of functional expenses for the year ended December 31, 2018	5
Statements of cash flows for the years ended December 31, 2019 and 2018	6
Notes to financial statements	7

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
United States-Japan Foundation

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, 2019 and 2018, the related statements of activities, functional expenses, and cash flows for each of 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, 2019 and 2018 and the changes in its net assets and its cash flows for each of the years then ended, in accordance with accounting principles generally accepted in the United States of America.

EisnerAmper LLP

EISNERAMPER LLP
New York, New York
October 30, 2020



UNITED STATES-JAPAN FOUNDATION

Statements of Financial Position

	December 31,	
	2019	2018
ASSETS		
Cash and cash equivalents	\$ 133,274	\$ 312,329
Due from broker	231,786	1,128,970
Investments	82,576,555	74,376,994
Prepaid federal excise taxes	-	11,631
Security deposits and other assets	58,212	50,892
Property and equipment, net	<u>238,810</u>	<u>279,607</u>
	<u>\$ 83,238,637</u>	<u>\$ 76,160,423</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 207,753	\$ 130,696
Grants payable	5,000	140,607
Federal excise taxes payable	235,932	-
Deferred excise taxes payable	<u>54,628</u>	<u>153,455</u>
Total liabilities	<u>503,313</u>	<u>424,758</u>
Commitments (see Notes B and G)		
Net assets:		
Net assets without donor restrictions	<u>82,735,324</u>	<u>75,735,665</u>
Total liabilities and net assets	<u>\$ 83,238,637</u>	<u>\$ 76,160,423</u>

UNITED STATES-JAPAN FOUNDATION

Statements of Activities

	Year Ended December 31,	
	2019	2018
Revenue:		
Contributions	<u>\$ 34,781</u>	<u>\$ 32,979</u>
Investment income:		
Dividends	1,819,216	1,708,713
Interest	74,731	62,935
Net undistributed share of ordinary earnings (losses) from partnership investments	<u>720,849</u>	<u>(687,802)</u>
	<u>2,614,796</u>	<u>1,083,846</u>
Investment expenses	<u>(500,281)</u>	<u>(577,316)</u>
Net investment income	<u>2,114,515</u>	<u>506,530</u>
Total revenue	<u>2,149,296</u>	<u>539,509</u>
Expenses:		
Program services:		
US-Japan Relations:		
Grants expense, net	676,029	935,358
Other program expenses	<u>1,877,581</u>	<u>1,705,599</u>
	<u>2,553,610</u>	<u>2,640,957</u>
US-Japan Leadership Program	<u>887,548</u>	<u>781,896</u>
Total program services	<u>3,441,158</u>	<u>3,422,853</u>
Supporting services – management and general:		
Administrative	753,623	505,805
Investment-related activities	<u>306,011</u>	<u>284,611</u>
Total supporting services	<u>1,059,634</u>	<u>790,416</u>
Total expenses	<u>4,500,792</u>	<u>4,213,269</u>
Excess of expenses over revenue before net realized and unrealized gains (losses) on investments	<u>(2,351,496)</u>	<u>(3,673,760)</u>
Realized gains on investments (net of foreign exchange losses of \$2,459 and \$3,775 in 2019 and 2018, respectively)	12,995,021	2,780,454
Net unrealized losses in fair value of investments [net of change in deferred excise tax payable of \$(98,827) and \$7,440 in 2019 and 2018, respectively]	<u>(3,643,866)</u>	<u>(6,936,174)</u>
Change in net assets	<u>6,999,659</u>	<u>(7,829,480)</u>
Net assets, without donor restrictions, beginning of year	<u>75,735,665</u>	<u>83,565,145</u>
Net assets, without donor restrictions, end of year	<u>\$ 82,735,324</u>	<u>\$ 75,735,665</u>

See notes to financial statements.

UNITED STATES-JAPAN FOUNDATION

Statement of Functional Expenses

Year Ended December 31, 2019

(with summarized financial information for 2018)

	Program Services			Management and General			Totals	
	US-Japan Relations	US-Japan Leadership Program	Total Program Services	Administrative	Investment- Related Activities	Total	2019	2018
Grants expense, net	\$ 676,029	\$ -	\$ 676,029	\$ -	\$ -	\$ -	\$ 676,029	\$ 935,358
Salaries	811,425	212,177	1,023,602	201,779	117,389	319,168	1,342,770	1,269,278
Payroll taxes and employee benefits	335,452	90,118	425,570	66,321	40,367	106,688	532,258	456,990
Occupancy	333,008	-	333,008	71,798	14,360	86,158	419,166	426,504
Office expenses	85,495	29,019	114,514	29,049	5,810	34,859	149,373	135,467
Travel, meetings and conferences	175,906	555,324	731,230	43,656	65,485	109,141	840,371	656,444
Professional fees	77,100	-	77,100	31,300	62,600	93,900	171,000	205,536
Federal excise tax	-	-	-	297,481	-	297,481	297,481	76,529
Depreciation and amortization	27,648	910	28,558	12,239	-	12,239	40,797	45,426
Other expenses	<u>31,547</u>	<u>-</u>	<u>31,547</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,547</u>	<u>5,737</u>
	<u>\$ 2,553,610</u>	<u>\$ 887,548</u>	<u>\$ 3,441,158</u>	<u>\$ 753,623</u>	<u>\$ 306,011</u>	<u>\$ 1,059,634</u>	<u>\$ 4,500,792</u>	<u>\$ 4,213,269</u>

See notes to financial statements.

UNITED STATES-JAPAN FOUNDATION

**Statement of Functional Expenses
Year Ended December 31, 2018**

	Program Services			Management and General			Total Expenses
	US-Japan Relations	US-Japan Leadership Program	Total Program Services	Administrative	Investment-Related Activities	Total	
Grants expense, net	\$ 935,358	\$ -	\$ 935,358	\$ -	\$ -	\$ -	\$ 935,358
Salaries	745,474	218,232	963,706	193,407	112,165	305,572	1,269,278
Payroll taxes and employee benefits	272,380	94,349	366,729	55,810	34,451	90,261	456,990
Occupancy	336,482	-	336,482	75,018	15,004	90,022	426,504
Office expenses	80,390	27,414	107,804	23,053	4,610	27,663	135,467
Travel, meetings and conferences	120,218	440,592	560,810	38,253	57,381	95,634	656,444
Professional fees	114,036	-	114,036	30,500	61,000	91,500	205,536
Federal excise tax	-	-	-	76,529	-	76,529	76,529
Depreciation and amortization	30,882	1,309	32,191	13,235	-	13,235	45,426
Other expenses	5,737	-	5,737	-	-	-	5,737
	<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>

See notes to financial statements.

UNITED STATES-JAPAN FOUNDATION

Statements of Cash Flows

	Year Ended December 31,	
	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 6,999,659	\$ (7,829,480)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized (gains) losses on investments	(9,254,787)	4,144,505
Depreciation and amortization	40,797	45,426
Changes in:		
Due from broker	897,184	(859,451)
Prepaid federal excise taxes	11,631	76,557
Security deposits and other assets	(7,320)	19,804
Grants payable	(135,607)	21,560
Accounts payable and accrued expenses	77,057	20,962
Federal excise taxes payable	235,932	-
Deferred excise taxes payable	(98,827)	7,440
Net cash used in operating activities	<u>(1,234,281)</u>	<u>(4,352,677)</u>
Cash flows from investing activities:		
Purchases of investments	(78,323,927)	(10,626,273)
Proceeds from sales of investments	79,379,153	15,145,058
Purchases of property and equipment	<u>-</u>	<u>(9,941)</u>
Net cash provided by investing activities	<u>1,055,226</u>	<u>4,508,844</u>
Change in cash and cash equivalents	(179,055)	156,167
Cash and cash equivalents, beginning of year	<u>312,329</u>	<u>156,162</u>
Cash and cash equivalents, end of year	\$ <u>133,274</u>	\$ <u>312,329</u>
Supplemental disclosure of cash flow information:		
Excise taxes paid	<u>\$ 50,000</u>	<u>\$ 0</u>

See notes to financial statements.

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2019 and 2018

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 \$297,481 and \$76,529 in 2019 and 2018, respectively. As a result of legislation passed in December 2019, for tax years beginning after December 20, 2019, the excise tax on net investment income shall become a single flat-rate tax of 1.39%.

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 2019 and 2018 were approximately \$3,720,000 and \$3,977,000, respectively. During 2019, the Foundation made qualifying distributions of approximately \$3,982,000, thereby satisfying the distribution requirement and leaving a remaining distribution carryover to future years of approximately \$2,092,000. 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.

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, 2019 and 2018, the Foundation had not recorded a liability for any unrecognized tax uncertainties.

[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.

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2019 and 2018

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

[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.

[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 the 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 denominated 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.

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2019 and 2018

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

[6] Investments: (continued)

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.

[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 broker" 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, 2019 and 2018, 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. Contributions with donor restrictions, the requirements of which are met in the year of donation, are reported as net assets without donor restrictions.

[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.

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2019 and 2018

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

[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.

[13] Adoption of accounting pronouncements:

(i) *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made:*

In June 2018, the FASB issued Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 985)*. ASU 2018-08 clarifies and improves guidance concerning: 1) evaluating whether a transaction should be accounted for as an exchange transaction or as a contribution, and 2) determining whether a contribution received is conditional. ASU 2018-08 is effective for annual periods beginning after December 15, 2018 for entities that are resource recipients and periods beginning after December 15, 2019 for entities that are resource providers. ASU 2018-08 should be applied on a modified prospective basis. The Foundation adopted the resource recipient portion of the standard, and this accounting guidance did not have a material effect on the Foundation's financial statements. The Foundation will adopt the resource provider portion of this standard for its year ended December 31, 2020.

(ii) *Disclosure Requirements for Fair-Value Measurements:*

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which modified the disclosure requirements for fair value measurements and is effective for years beginning after December 15, 2019, with early adoption permitted. The effect of adopting this accounting guidance will result in the removal or modification of certain fair value measurement disclosures presented in the Foundation's financial statements. The Foundation early adopted this pronouncement as of December 31, 2019, which under U.S. GAAP is a change in accounting principle requiring retroactive application in the financial statements for all periods presented. Analysis of this standard resulted in no significant changes in the Foundation's disclosure requirements for fair value measurements, and, therefore, no changes to the previously issued audited financial statements were required on a retrospective basis.

[14] Upcoming accounting pronouncements:

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will require entities to recognize lease assets and lease liabilities (related to leases previously classified as operating under previous U.S. GAAP) on the statements of financial position. The ASU will be effective commencing January 1, 2021. Management is in the process of assessing the impact of this ASU on the financial statements.

[15] Contingency and other uncertainty:

The extent of the impact of the coronavirus ("COVID-19") outbreak on the financial performance of the Foundation's investment portfolio will depend on future developments, including the duration and spread of the outbreak, related advisories and restrictions and the impact of COVID-19 on the financial markets and the overall economy, all of which are highly uncertain and cannot be predicted. If the financial markets and/or the overall economy are impacted for an extended period, the Foundation's investment portfolio results may be materially adversely affected.

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2019 and 2018

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

[16] Subsequent events:

The Foundation performed an evaluation of subsequent events through October 30, 2020, 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,			
	2019		2018	
	Fair Value	Cost	Fair Value	Cost
Money-market and other temporary investments	\$ 45	\$ 45	\$ 419,198	\$ 419,198
Equity securities - domestic	-	-	5,482,256	5,150,183
Mutual funds:				
Domestic equity	28,793,286	27,372,978	17,886,552	18,254,501
Foreign equity	28,802,051	27,624,420	3,811,317	3,490,043
Domestic fixed income	14,363,648	14,396,140	29,030,871	25,686,162
Alternative investments:				
Other private investment fund (a)	-	-	2,777,165	2,900,206
Hedge funds (b)	-	-	5,039,774	2,917,023
Private credit fund (c)	338,308	319,804	635,223	430,836
Private equity funds (d)	7,847,940	6,790,121	6,353,097	4,660,023
Private real estate funds (e)	2,431,277	2,142,989	2,941,541	2,796,068
	<u>\$ 82,576,555</u>	<u>\$ 78,646,497</u>	<u>\$ 74,376,994</u>	<u>\$ 66,704,243</u>

- (a) Invest in a concentrated portfolio of listed equity securities of European companies.
- (b) Long/short investment strategy with investments in North American and European equities.
- (c) Invest in distressed companies primarily in North America and Western Europe.
- (d) 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.
- (e) 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.

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.

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2019 and 2018

NOTE B - INVESTMENTS (CONTINUED)

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.

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, 2019			
Amounts within Fair-Value Hierarchy			
Level 1	Total	Valued at NAV	Total Investments
Money-market and other temporary investments	\$ 45	\$ 45	\$ -
Mutual funds	71,958,985	71,958,985	-
Alternative investments	-	-	-
	<u>10,617,525</u>	<u>10,617,525</u>	<u>10,617,525</u>
	<u>\$ 71,959,030</u>	<u>\$ 71,959,030</u>	<u>\$ 82,576,555</u>

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

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2019 and 2018

NOTE B - INVESTMENTS (CONTINUED)

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

	December 31, 2019			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private credit funds	\$ 338,308	\$ 993,552	Upon liquidation	N/A
Private equity funds	7,847,940	4,226,119	Upon liquidation	N/A
Private real estate funds	<u>2,431,277</u>	<u>731,726</u>	Upon liquidation	N/A
	<u>\$ 10,617,525</u>	<u>\$ 5,951,397</u>		

NOTE C - PROPERTY AND EQUIPMENT

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

	December 31,	
	2019	2018
Cooperative apartment	\$ 790,725	\$ 790,725
Cooperative apartment improvements	241,370	241,370
Leasehold improvements	249,581	249,581
Equipment	200,478	200,478
Furniture and fixtures	<u>252,347</u>	<u>252,347</u>
	1,734,501	1,734,501
Less: accumulated depreciation and amortization	<u>(1,495,691)</u>	<u>(1,454,894)</u>
	<u>\$ 238,810</u>	<u>\$ 279,607</u>

The maintenance and utility charges relating to the cooperative apartment were \$80,116 and \$76,169 for 2019 and 2018, respectively.

In February 2020, subsequent to year-end, the Foundation's cooperative apartment in New York City was sold for \$4,400,000, which resulted in a gain on sale of approximately \$4,198,000.

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 \$54,628 and \$153,455 for 2019 and 2018, respectively, which represented excise tax rates of 1.39% and 2% for 2019 and 2018, respectively.

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2019 and 2018

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 \$887,548 and \$781,896 for 2019 and 2018, 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 \$192,199 and \$179,565 for 2019 and 2018, 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.

At December 31, 2019, future minimum lease payments under noncancellable leases are as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 275,745
2021	243,281
2022	250,480
2023	257,994
2024	265,734
Thereafter	<u>602,839</u>
	<u>\$ 1,896,073</u>

Rent expense was \$289,358 and \$288,527 in 2019 and 2018, respectively.

[2] Employment agreement:

The Foundation has a three-year employment contract extending through October 2022 with its president. The renewal at the end of the contract period is subject to agreement by both parties.

[3] 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.

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2019 and 2018

NOTE H - CONCENTRATION OF CREDIT RISK

The Foundation places its cash and cash equivalents with high credit quality financial institutions in amounts that, from time to time, may exceed federal insurance limits. The Foundation's management believes there is no substantial risk of loss associated with the failure of these financial institutions.

NOTE I - LIQUIDITY AND AVAILABILITY OF RESOURCES

Included below are the Foundation's financial assets available for general expenditure (including scheduled grant payments and funding investment capital calls) as of the statements of financial position dates, reduced by amounts not available for general use within one year of December 31, 2019 and 2018 because of contractual liquidity restrictions:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 133,274	\$ 312,329
Due from broker	231,786	1,128,970
Accrued income receivable	-	2,151
Investments (net of \$10,617,525 and \$12,378,108 of investments not available due to contractual restrictions as of December 31, 2019 and 2018, respectively)	<u>71,959,030</u>	<u>61,998,886</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 72,324,090</u>	<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, 2019 and 2018

NOTE J - GRANT ACTIVITY

The Foundation's grant activity for 2019 was as follows:

Recipient Name and Purpose	Unpaid January 1, 2019	Net Grants Authorized 2019	Paid	Unpaid December 31, 2019
Precollege Education				
AmerAsian School in Okinawa (Okinawa, Japan)				
To support funding a principal and teacher for an independent school in Okinawa targeted at Japanese-American students and other students that have difficulty fitting into the Japanese public school system.	\$ -	\$ 54,409	\$ 54,409	\$ -
Ashoka Japan (Tokyo, Japan)				
To support the Changemaker's Program which identifies and guides outstanding young leaders.	-	18,337	18,337	-
Brooklyn Japanese Dual Language Association Inc. (Brooklyn, NY)				
To support the salary of a Japanese language teacher in an existing dual language elementary school.	-	37,048	37,048	-
Concordia Language Villages (Moorhead, MN)				
To support a program to strengthen the teaching of the Japanese language in the US.	-	30,000	30,000	-
Creative Connections (Norwalk, CT)				
To support transition funding for the US/Japan Artlink program.	-	5,000	5,000	-
Del Norte County Schools/Del Norte High School (Crescent City, CA)				
To support an exchange program between California and Iwate High School, which were brought together by a wayward boat lost in the 2011 Tsunami.	-	22,400	22,400	-
EngageAsia (Rye, NY)				
To support EngageAsia's solicitation, selection, and travel costs as part of the 2019 Elgin Heinz Award.	-	2,500	2,500	-
EngageAsia (Rye, NY)				
To support funding for the selection of the 2020 and 2021 Elgin Heinz Outstanding Teacher Awards.	-	5,000	5,000	-
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	1,752	56,752	-
Global Fund for Educational Assistance (Beyond Tomorrow) (Tokyo, Japan)				
To support the Beyond Tomorrow program to assist underprivileged Japanese youth, including a trip to the US.	-	43,066	43,066	-
Japan Society of San Diego and Tijuana (San Diego, CA)				
To support a day-long high school competition focused on Japanese language and culture.	-	4,000	4,000	-
Japan-America Society of Washington, DC (Washington, DC)				
To support the annual "Japan Bowl" competition for US high school teams.	-	35,000	35,000	-
Kizuna Across Cultures (Washington, DC)				
To support classroom to classroom virtual exchanges.	-	55,000	55,000	-
Midori Foundation Inc. (Midori & Friends) (New York, NY)				
To support transition funding for in-school music and cultural programming.	-	10,000	10,000	-
(carried forward)	55,000	323,512	378,512	-

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2019 and 2018

NOTE J - GRANT ACTIVITY (CONTINUED)

Recipient Name and Purpose	Unpaid January 1, 2019	Net Grants Authorized 2019	Paid	Unpaid December 31, 2019
(brought forward)				
Precollege Education (continued)	\$ 55,000	\$ 323,512	\$ 378,512	\$ -
Stanford University, The Board of Trustees of the Leland Stanford Junior University (Redwood City, CA)				
To support the extension of the 2020 e-Japan and Reischauer Scholars Program award ceremony.	-	5,000	-	5,000
Sumter County Schools (Americus, GA)				
To support the high school exchange program between Sumter County (GA) and Miyoshi, Japan.	-	52,050	52,050	-
Table for Two USA (New York, NY)				
To support the Wa-Shokuiku project, which brings Japanese food and culture experiences to elementary school children.	-	68,505	68,505	-
US Japan Technical Connections Inc. (South Royalton, VT)				
To support an exchange program that brings rural US students to Fukuoka for a work study program.	-	13,000	13,000	-
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.	<u>55,246</u>	<u>1,760</u>	<u>57,006</u>	<u>-</u>
Subtotal for Precollege Education	<u>110,246</u>	<u>463,827</u>	<u>569,073</u>	<u>5,000</u>
US-Japan Policy				
Council on Foreign Relations NY (New York, NY)				
To support the creation of an infoGuide to educate and explain the current Japanese constitutional debate.		35,322	35,322	
Trustees of Dartmouth College (Lebanon, NH)				
To support a project to assess the Japanese citizen's perception of Self-Defense Forces.		<u>39,000</u>	<u>39,000</u>	
Subtotal for US-Japan Policy		<u>74,322</u>	<u>74,322</u>	

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2019 and 2018

NOTE J - GRANT ACTIVITY (CONTINUED)

Recipient Name and Purpose	Unpaid January 1, 2019	Net Grants Authorized 2019	Paid	Unpaid December 31, 2019
Communications/Public Opinion				
Asia Policy Point (Washington, DC) To support their Historians Luncheon: a discussion about Bataan's POWs, to be held on May 31, 2019 in Norfolk, Virginia.	\$ -	\$ 600	\$ 600	\$ -
Board of Regents of the University of Nebraska (Omaha, NE) To support a knowledge exchange between the US and Japan concerning screening, assessment, and treatment of abuse victims.	-	73,441	73,441	-
Independent Filmmaker Project (New York, NY) To support a documentary film about a national food education program in Japan titled "Nourishing Japan."	30,361	-	30,361	-
National Association of Japan-American Societies (Washington, DC) To support the administration and logistics of the Grassroots Summit.	-	15,000	15,000	-
National Bureau of Asian Research (NBR) (Washington, DC) To support episodes of the NBR "Asia Insight" Podcast, which will focus on the dynamics of Asia as they affect the US-Japan relationship.	-	13,101	13,101	-
New York University (US-Asia Law Institute) (New York, NY) To support a project to bring US expertise to Japan to study miscarriage of justice.	-	25,000	25,000	-
Obon Society (Astoria, OR) To support the discovery, identification, and return of Japanese war flags to their Japanese families.	-	20,000	20,000	-
The Film Collaborative Inc. (Los Angeles, CA) To support the short-term filming and production activities for the creation of a film about Reverend TK Nakagaki and his book "The Buddhist Swastika and Hitler's Cross."	-	5,000	5,000	-
The International House of Japan, Inc. (Tokyo, Japan) To support a series of leadership sessions for young Asia Pacific leaders.	-	29,610	29,610	-
Tucson Repertory Orchestra (Tucson, AZ) To support a US-Japan joint orchestra concert in Osaka.	-	4,464	4,464	-
Subtotal for Communications/Public Opinion	<u>30,361</u>	<u>186,216</u>	<u>216,577</u>	<u>-</u>
Subtotal	140,607	724,365	859,972	5,000
Prior years' awards withdrawn/returned in current year	<u>-</u>	<u>(42,167)</u>	<u>(42,167)</u>	<u>-</u>
Total	<u>\$ 140,607</u>	<u>\$ 682,198</u>	<u>\$ 817,805</u>	<u>\$ 5,000</u>

- (a) Net Grants Authorized are presented gross of net currency losses, which totaled \$6,169 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.