

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JULY 31, 2022 AND 2021

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CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

To the Board of Trustees
The Japan - America Society of Washington, Inc.
Washington, DC

Opinion

We have audited the accompanying financial statements of The Japan – America Society of Washington, Inc. (a nonprofit organization), which comprise the statements of financial position as of July 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 The Japan – America Society of Washington, Inc. as of July 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 The Japan – America Society of Washington, Inc. 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.

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 The Japan – America Society of Washington, Inc.'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 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 The Japan – America Society of Washington, Inc.'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 The Japan – America Society of Washington, Inc.'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.

Emphasis of Matter

As discussed in Note B to the financial statements, during the year ended July 31, 2022, The Japan – America Society of Washington, Inc. adopted new accounting guidance, Accounting Standards Update 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Our opinion is not modified with respect to this matter.



Washington, DC
March 23, 2023

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
STATEMENTS OF FINANCIAL POSITION
JULY 31, 2022 AND 2021

	2022	2021
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 277,177	\$ 169,609
Accounts receivable	60,869	18,000
Prepaid expenses	13,505	10,121
Total Current Assets	351,551	197,730
PROPERTY AND EQUIPMENT, NET	4,015	6,138
INVESTMENTS	1,295,363	1,541,556
INVENTORY	58,828	-
COLLECTIONS (donated)	9,539	9,539
TOTAL ASSETS	\$ 1,719,296	\$ 1,754,963
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 6,277	\$ 26,388
Accrued expenses	65,546	12,254
Deferred revenue	58,271	107,827
PPP loan	-	70,729
Total Current Liabilities	130,094	217,198
NON-CURRENT LIABILITIES		
Deferred rent	11,131	10,430
Total Liabilities	141,225	227,628
NET ASSETS		
Without donor restrictions:		
Undesignated	268,618	-
Board designated	1,295,363	1,512,335
Total Without Donor Restrictions	1,563,981	1,512,335
With donor restrictions	14,090	15,000
Total Net Assets	1,578,071	1,527,335
TOTAL LIABILITIES AND NET ASSETS	\$ 1,719,296	\$ 1,754,963

The accompanying notes are an integral part of these financial statements.

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JULY 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Registrations	\$ 911,945	\$ -	\$ 911,945
Language school	178,154	-	178,154
Sponsorships	242,547	-	242,547
In-kind contributions	28,208	-	28,208
Contributions	142,734	87,936	230,670
Member dues	119,350	-	119,350
Miscellaneous revenue	6,853	-	6,853
Investment loss, net	(191,912)	-	(191,912)
Net assets released from restrictions	88,846	(88,846)	-
Total Revenue and Support	1,526,725	(910)	1,525,815
EXPENSES			
Program Services:			
Sakura Matsuri	663,124	-	663,124
National Japan Bowl	144,371	-	144,371
JASW School	99,741	-	99,741
Annual Dinner	173,710	-	173,710
Cultural Activities	39,957	-	39,957
Other Programs	72,695	-	72,695
Total Program Services	1,193,598	-	1,193,598
Supporting Services:			
Management and general	260,467	-	260,467
Fundraising	21,014	-	21,014
Total Supporting Services	281,481	-	281,481
Total Expenses	1,475,079	-	1,475,079
CHANGE IN NET ASSETS	51,646	(910)	50,736
NET ASSETS			
Beginning of year	1,512,335	15,000	1,527,335
End of year	\$ 1,563,981	\$ 15,000	\$ 1,578,071

The accompanying notes are an integral part of these financial statements.

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JULY 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Registrations	\$ 129,506	\$ -	\$ 129,506
Language school	187,106	-	187,106
Sponsorships	45,500	-	45,500
In-kind contributions	80,733	-	80,733
Contributions	155,020	56,394	211,414
Member dues	106,441	-	106,441
Miscellaneous revenue	9,037	-	9,037
Investment income, net	277,985	-	277,985
Net assets released from restrictions	41,394	(41,394)	-
Total Revenue and Support	1,032,722	15,000	1,047,722
EXPENSES			
Program Services:			
Sakura Matsuri	75,587	-	75,587
National Japan Bowl	135,847	-	135,847
JASW School	104,262	-	104,262
Annual Dinner	89,123	-	89,123
Cultural Activities	43,660	-	43,660
Other Programs	58,275	-	58,275
Total Program Services	506,754	-	506,754
Supporting Services:			
Management and general	339,693	-	339,693
Fundraising	21,419	-	21,419
Total Supporting Services	361,112	-	361,112
Total Expenses	867,866	-	867,866
CHANGE IN NET ASSETS	164,856	15,000	179,856
NET ASSETS			
Beginning of year	1,347,479	-	1,347,479
End of year	\$ 1,512,335	\$ 15,000	\$ 1,527,335

The accompanying notes are an integral part of these financial statements.

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JULY 31, 2022

	Program Services						Supporting Services			TOTAL	
	Sakura Matsuri	National Japan Bowl	JASW School	Annual Dinner	Cultural Activities	Other Programs	Total Program Services	Management And General	Fundraising		Total Supporting Services
Personnel and related costs											
Salaries and wages	\$ 62,479	\$ 53,143	\$ 28,936	\$ 26,293	\$ 14,089	\$ 23,989	\$ 208,929	\$ 110,699	\$ 7,818	\$ 118,517	\$ 327,446
Employee benefits	7,395	6,289	3,425	3,112	1,668	2,839	24,728	13,101	925	14,026	38,754
Payroll taxes	5,398	4,592	2,500	2,272	1,217	2,073	18,052	9,563	676	10,239	28,291
Subtotal personnel and related costs	75,272	64,024	34,861	31,677	16,974	28,901	251,709	133,363	9,419	142,782	394,491
Accounting	-	-	-	-	-	-	-	37,317	-	37,317	37,317
Advertisement and promotions	4,196	-	-	-	-	-	4,196	-	-	-	4,196
Bank Charges	22,889	983	798	2,224	2,620	62	29,576	820	-	820	30,396
Communications	1,471	1,251	681	619	332	565	4,919	2,606	184	2,790	7,709
Consultants	60,737	-	5,500	5,310	634	1,399	73,580	2,132	-	2,132	75,712
Depreciation	-	-	-	-	-	-	-	2,123	-	2,123	2,123
Dues, subscriptions, and publications	13,978	2,356	1,326	919	2,316	1,260	22,155	3,867	273	4,140	26,295
Event venue and equipment rental	242,905	17,006	1,005	56,487	2,414	1,111	320,928	1,011	71	1,082	322,010
Information technology	10,666	4,071	2,214	4,014	1,079	5,844	27,888	8,480	599	9,079	36,967
Insurance	21,655	590	321	292	656	266	23,780	1,227	87	1,314	25,094
Legal services - donated	5,382	4,578	2,493	2,265	1,214	2,067	17,999	9,535	674	10,209	28,208
Meals and entertainment	28,155	-	213	48,007	2,681	4,305	83,361	1,468	199	1,667	85,028
Occupancy	29,993	25,511	13,891	12,622	6,764	11,516	100,297	53,141	3,753	56,894	157,191
Office supplies and expenses	57,182	8,273	2,145	7,711	920	625	76,856	1,525	1,012	2,537	79,393
Other	53,510	260	-	1,150	-	1,560	56,480	546	3,790	4,336	60,816
Other professional fees	611	-	34,272	-	-	-	34,883	-	-	-	34,883
Postage, shipping, and delivery	118	2,883	-	150	347	-	3,498	-	-	-	3,498
Scholarships	-	-	-	-	-	7,000	7,000	-	-	-	7,000
Speakers and panelists	14,082	11,450	-	-	754	6,000	32,286	-	-	-	32,286
Travel and transportation	20,322	1,135	21	263	252	214	22,207	1,306	953	2,259	24,466
Total	\$ 663,124	\$ 144,371	\$ 99,741	\$ 173,710	\$ 39,957	\$ 72,695	\$ 1,193,598	\$ 260,467	\$ 21,014	\$ 281,481	\$ 1,475,079

The accompanying notes are an integral part of these financial statements.

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JULY 31, 2021

	Program Services						Supporting Services			TOTAL	
	Sakura Matsuri	National Japan Bowl	JASW School	Annual Dinner	Cultural Activities	Other Programs	Total Program Services	Management And General	Fundraising		Total Supporting Services
Personnel and related costs											
Salaries and wages	\$ 34,551	\$ 43,219	\$ 23,777	\$ 30,291	\$ 18,638	\$ 22,073	\$ 172,549	\$ 125,283	\$ 8,601	\$ 133,884	\$ 306,433
Employee benefits	3,392	4,244	2,335	2,973	1,831	2,168	16,943	12,300	845	13,145	30,088
Payroll taxes	3,067	3,836	2,110	2,689	1,654	1,959	15,315	11,120	763	11,883	27,198
Subtotal personnel and related costs	41,010	51,299	28,222	35,953	22,123	26,200	204,807	148,703	10,209	158,912	363,719
Accounting	-	-	-	-	-	-	-	30,438	-	30,438	30,438
Advertisement and promotions	-	-	-	-	-	-	-	170	-	170	170
Bank Charges	242	969	6,482	45	4,017	99	11,854	317	-	317	12,171
Charitable contributions	-	-	-	-	-	-	-	1,005	-	1,005	1,005
Communications	764	956	526	670	412	488	3,816	2,771	190	2,961	6,777
Consultants	6,000	15,334	-	-	176	365	21,875	-	-	-	21,875
Depreciation	-	-	-	-	-	-	-	2,490	-	2,490	2,490
Dues, subscriptions, and publications	-	-	-	-	-	250	250	3,033	-	3,033	3,283
Event venue and equipment rental	3,807	12,997	1,795	13,395	2,365	8,023	42,382	1,589	106	1,695	44,077
Information technology	2,757	5,494	1,897	2,417	1,487	5,751	19,803	10,028	686	10,714	30,517
Insurance	504	630	347	442	272	322	2,517	1,828	125	1,953	4,470
Legal services - donated	-	8,615	-	-	-	-	8,615	72,118	-	72,118	80,733
Meals and entertainment	1,672	94	-	18,075	2,264	3,600	25,705	695	336	1,031	26,736
Occupancy	16,870	21,102	11,609	14,789	9,100	10,777	84,247	61,169	4,200	65,369	149,616
Office supplies and expenses	295	1,306	1,074	504	36	-	3,215	-	1,511	1,511	4,726
Other	1,155	735	175	2,674	830	-	5,569	1,618	2,990	4,608	10,177
Other professional fees	-	-	51,680	-	-	-	51,680	-	-	-	51,680
Postage, shipping, and delivery	-	3,634	14	77	-	-	3,725	-	-	-	3,725
Speakers and panelists	500	12,500	-	-	568	2,400	15,968	-	-	-	15,968
Travel and transportation	11	182	441	82	10	-	726	1,721	1,066	2,787	3,513
Total	\$ 75,587	\$ 135,847	\$ 104,262	\$ 89,123	\$ 43,660	\$ 58,275	\$ 506,754	\$ 339,693	\$ 21,419	\$ 361,112	\$ 867,866

The accompanying notes are an integral part of these financial statements.

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
STATEMENTS OF CASH FLOW
YEARS ENDED JULY 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 50,736	\$ 179,856
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	2,123	2,490
Forgiveness of debt - PPP loan	(70,729)	(71,200)
Investment income, net	191,912	(277,985)
Decrease (increase) in Assets		
Accounts receivable	(42,869)	18,877
Prepaid expenses	(3,384)	5,032
Inventory	(58,828)	-
Increase (decrease) in liabilities		
Accounts payable	(20,111)	6,099
Accrued expenses	53,292	261
Deferred revenue	(49,556)	(11,432)
Deferred rent	701	4,339
Net Cash Provided by (Used for) Operating Activities	53,287	(143,663)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	54,281	121,480
Net Cash Provided by Investing Activities	54,281	121,480
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from PPP loan	-	70,729
Net Cash Provided by Financing Activities	-	70,729
NET CHANGE IN CASH AND CASH EQUIVALENTS	107,568	48,546
CASH AND CASH EQUIVALENTS, beginning of year	169,609	121,063
CASH AND CASH EQUIVALENTS, end of year	\$ 277,177	\$ 169,609

The accompanying notes are an integral part of these financial statements.

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2022 AND 2021

NOTE A – NATURE OF THE ORGANIZATION

The Japan-America Society of Washington, Inc. (referred to as "the Society") is a non-profit corporation organized under the District of Columbia Non-Profit Corporation Act of 1957. The Society's purpose is to promote friendship and understanding between the people of the United States and Japan.

Program Services

The Society carries out various program activities designed to promote friendship and understanding between the people of the United States and Japan.

The Society has the following program services

The Sakura Matsuri - Japanese Street Festival

Sakura Matsuri is generally considered the largest celebration of Japanese culture in the United States and the grand finale of the National Cherry Blossom Festival in Washington, D.C. Performers and vendors share Japanese culture and traditions with the festival attendees.

National Japan Bowl®

The Society organizes the National Japan Bowl each spring and supports other Japan Bowls across the country to recognize and encourage high school students who have chosen Japanese as a foreign language.

Japanese Language School

The Society operates the oldest and largest Japanese language school for adults in the Washington, D.C. area. The program includes different levels from beginning to advanced preparatory classes in the summer and fall for the Japanese Language Proficiency Test, and culture classes.

US-Japan Capital Gala

The Society's Annual US-Japan Capital Gala and Silent Auction supports the Society's many educational and cultural activities and provides an opportunity to gather and honor some of United States of America's and Japan's most distinguished leaders.

Cultural Activities and Other Programs

Throughout the year, the Society offers a variety of Japanese and American activities, including cultural events, social gatherings, a book club, and public speaking.

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2022 AND 2021
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Society prepares its financial statements on the accrual basis of accounting. Therefore, revenue and related assets are recognized when earned and expenses and related liabilities are recognized as the obligation is incurred.

Adoption of New Accounting Pronouncement

In September 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard requires updated presentation and enhanced disclosure related to contributed nonfinancial assets received. This enhanced disclosure includes disaggregation of significant categories of contributed nonfinancial assets and additional qualitative information regarding the use of these contributed nonfinancial assets. ASU 2020-07 has been implemented in the accompanying financial statements on a retrospective basis, however, there is no effect on net assets in connection with the implementation of ASU 2020-07 as the update only increased presentation and disclosure requirements for the prior year and did not impact amounts recorded.

Financial Statement Presentation

Financial statement presentation follows Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 958, *Not-for-Profit-Entities*. In accordance with the topic, the Society is required to report information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Society and changes therein, are classified and reported as follows:

Net Assets without Donor Restrictions – Net assets not subject to donor-imposed restrictions or stipulations.

Net Assets with Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met by either actions of the Society and/or the passage of time, or that must be maintained in perpetuity by the Society. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statements of activities as net assets released from restrictions.

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2022 AND 2021
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Cash and Cash Equivalents

The Society considers all highly liquid investments with a maturity of three months or less to be cash equivalents. Cash and cash equivalents include any cash on hand, checking account balances, and money market accounts. The Society maintains its cash in bank deposit accounts which may, at times, exceed federally insured limits. The Society believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments

The Society's investments consist principally of investments in equities and fixed income mutual funds that are held for investment purposes. Investments are reported at fair value based on quoted market prices, if available. Unrealized gains and losses are included in the change in net assets. Dividends are recorded on the ex-dividend date. Interest is recognized when earned. Purchases and sales of investments are reflected on a trade-date basis. Net appreciation or depreciation in fair value of investments is recognized in the statements of activities in the period in which the changes occur.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. Annually, management determines if an allowance for doubtful accounts is necessary based upon a review of outstanding receivables, historical collection of information and existing economic conditions. Accounts deemed uncollectible are charged off. As of July 31, 2022 and 2021, management had determined that all receivables are collectible within one year or less; therefore an allowance for doubtful accounts has not been established. Accounts receivable as of August 1, 2020, totaled \$36,877.

Property and Equipment

The Society capitalizes property and equipment acquisitions greater than \$1,000 at cost or estimated fair value at the time of donation and depreciates these items using the straight-line method of depreciation over their estimated useful lives, which range from three to five years. Expenditures for repairs and maintenance that do not extend the useful life of an asset are expensed as incurred.

Inventory

Inventories include t-shirts to be sold at the Society's events and from their website. Inventory is stated at the lower-of-cost or market value determined by the first-in, first-out method.

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2022 AND 2021
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Collections

The Society does not depreciate its collections received as donations, which are held for exhibit in the Society's office and not for financial gain.

Deferred Revenue

The Society recognizes revenue when earned in accordance with the accrual basis of accounting. Accordingly, deferred revenue consists principally of amounts for language courses, the annual dinner, and membership dues received in advance of the applicable program activity. Deferred revenue as of August 1, 2020, totaled \$119,259.

Revenue Recognition

Registrations, Language School, and Sponsorships

The Society recognizes registrations, language school tuition, and sponsorships revenue at a point in time in the period when such events take place. Registration, tuition and sponsorships are based on published fixed rates. Amounts collected in advance of the event result in a deferred revenue balance.

Member Dues

Member dues are received from individual and corporate members. The Society recognizes membership revenue by allocating the membership price to the related performance obligations and recognizing the related revenue as these obligations are accomplished.

Contributions

The Society recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Contributions received with donor stipulations are recorded as contributions with donor restrictions based on the donor's intent. Unless otherwise stated by the donor, individual donations are recorded as contributions without donor restrictions. Contributions with donor restrictions that are met in the same reporting period as the contribution is received are reported as contributions without donor restrictions support. Cash received in excess of revenue recognized is recorded as deferred revenue on the statements of financial position.

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2022 AND 2021
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

In-Kind Contributions

The Society receives donated time from volunteers in support of its programs and operations. Trustees of the Board provide legal and compliance expertise to the Society without charge for the Society's program activities and related management decisions. The time donated for programs has not been reflected in these financial statements unless they meet the criteria for recognition under generally accepted accounting principles, whereby contributed services create or enhance non-financial assets or required specialized skills that would typically need to be purchased if not provided by donation.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Society. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, consultants, communications, insurance, and office supplies and expenses. The basis of the allocation is direct salary costs, which have been allocated to program and supporting functions based on documentation of employee time and effort. Expenses directly identifiable to specific programs and supporting activities are allocated accordingly.

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 revenue and expenses during the reporting period. Actual results could differ from these estimates.

NOTE C – INCOME TAXES

The Society is a 501(c)(3) entity exempt from federal income tax under Section 501(a) of the Internal Revenue Code. The Society is, however, subject to tax on business income unrelated to their exempt purpose.

The Society believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements or that would have an effect on its tax-exempt status. There were no unrecognized tax benefits or liabilities that needed to be recorded.

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2022 AND 2021
(continued)

NOTE C – INCOME TAXES - continued

The Society’s information returns are subject to examination by the Internal Revenue Service for a period of three years from the date they were filed, except under certain circumstances. The Society’s information returns for the years ended July 31, 2019 through 2021, are open for a tax examination by the Internal Revenue Service, although no request has been made as of the date of these financial statements.

NOTE D – AVAILABLE RESOURCES AND LIQUIDITY

The Society regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Society’s cash flows have seasonal variations that correspond to the timing of major events. Typically, the pattern is intensive spending during the planning phase of events and a reduction in cash on hand, followed by a replenishment of cash at the end of events. The Society manages its liquidity to meet general expenditures, liabilities, and other obligations as they become due.

The Society maintains adequate cash reserves for general operations and a board-designated fund for the purpose of providing scholarships, supporting arts programs, and the Japan Bowl program. Upon Board approval, the board-designated funds can be drawn upon to supplement operational funds. Financial assets available for general operating expenditure are without donor restriction. In addition to financial assets available to meet general expenditures, the Society operates with a budget plan to result in a positive change in net assets and anticipates collecting sufficient revenue to cover general expenditures.

The following table reflects the Society’s financial assets as of July 31, 2022 and 2021, reduced by amounts that are not available to meet general expenditures within one year of the statements of financial position date because of contractual restrictions or internal board designations:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 277,177	\$ 169,609
Investments	1,295,363	1,541,556
Accounts receivable	<u>60,869</u>	<u>18,000</u>
 Total financial assets	 1,633,409	 1,729,165
 Less: board designated net assets - reserves	 (1,295,363)	 (1,512,335)
Less: net assets with donor restrictions - purpose	<u>(14,090)</u>	<u>(15,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 323,956</u>	<u>\$ 201,830</u>

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NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of July 31:

	2022	2021
Office furniture and computers	\$ 41,302	\$ 41,302
Less: accumulated depreciation	(37,287)	(35,164)
Property and Equipment, Net	\$ 4,015	\$ 6,138

Depreciation expense for the years ended July 31, 2022 and 2021, was \$2,123 and \$2,490, respectively.

NOTE F – COLLECTIONS

Collections consisted of the following as of July 31:

	2022	2021
Artwork	\$ 4,877	\$ 4,877
Library	4,662	4,662
Collections	\$ 9,539	\$ 9,539

NOTE G – INVESTMENTS AND FAIR VALUE MEASUREMENT

FASB ASC Topic 820, *Fair Value Measurement*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Level 1 of the fair value hierarchy under FASB ASC Topic 820 is described as inputs to the valuation methodology that are unadjusted quoted prices for identical assets or liabilities in an active market that the Society has the ability to access.

Level 1 – Inputs are based on unadjusted quoted prices for identical assets traded in an active market that the Society has the ability to access.

Level 2 – Inputs are based on quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, or model based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data.

Level 3 – Inputs are unobservable and significant to the overall fair value measurement.

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NOTE G – INVESTMENTS AND FAIR VALUE MEASUREMENT - continued

All of the Society’s investments for the years ended July 31, 2022 and 2021, are in mutual funds. The Society’s investments in mutual funds are based on observable market quotations and are considered Level 1 items.

The preceding valuation methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Society’s management 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.

Investment securities are exposed to various risks, such as interest rate, 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 change could materially affect the amounts reported in the statements of financial position.

The following table presents the Society’s fair value hierarchy for financial instruments measured at fair value on a recurring basis as of July 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market	\$ 19	\$ -	\$ -	\$ 19
Mutual Funds:				
Equities	766,083	-	-	766,083
Fixed income	529,261	-	-	529,261
Total	<u>\$ 1,295,363</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,295,363</u>

The following table presents the Society’s fair value hierarchy for financial instruments measured at fair value on a recurring basis as of July 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds:				
Equities	\$ 936,612	\$ -	\$ -	\$ 936,612
Fixed income	604,944	-	-	604,944
Total	<u>\$ 1,541,556</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,541,556</u>

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NOTE H – PPP LOAN

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) was signed into law. The CARES Act, among other things, appropriated funds for the Small Business Administration’s Paycheck Protection Program (“PPP”) loans that were forgivable in certain situations to promote continued employment.

On May 7, 2020, the Society secured a \$71,200 loan with PNC Bank (the “Lender”) under the PPP loan program that authorized forgivable loans to small businesses. The loan could be used to cover certain expenses during the COVID-19 crisis. The loan amounts would be forgiven as long as the loan proceeds were used to cover payroll costs, rent, certain mortgage interest and utility costs over a period specified in the loan document after the loan was made. If not used for the described purpose, the loan would have been due on May 7, 2022, along with interest calculated at a rate of 1% per annum.

The Society met the requirements to achieve loan forgiveness and the loan was forgiven by the Small Business Administration on April 14, 2021. Therefore, the related loan forgiveness is reflected as revenue in the accompanying statements of activities for the year ended July 31, 2021.

On February 3, 2021, the Society secured a second PPP loan of \$70,729 with PNC Bank and as of July 31, 2021. The Society met the requirements to achieve loan forgiveness and the second loan was forgiven by the Small Business Administration on February 18, 2022. Therefore, the related loan forgiveness is reflected as contributions in the accompanying statements of activities for the year ended July 31, 2022.

NOTE I – LEASE COMMITMENTS

In September 2019, the Society entered into a five year lease agreement through September 30, 2024, for office space located in Washington, DC. The lease requires a total monthly payment of \$11,882 with escalations at each anniversary date. Occupancy expense incurred by the Society on the operating lease totaled \$157,191 and \$149,616, respectively, for the years ended July 31, 2022 and 2021, including other operating expenses.

Future minimum lease payments due under the lease are as follows for the years ended July 31:

2023	\$ 152,919
2024	156,742
2025	<u>26,230</u>
Total	<u><u>\$ 335,891</u></u>

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NOTE J – RETIREMENT PLAN

The Society has a contributory tax-deferred annuity retirement plan under the Internal Revenue Code Section 403(b). Employees who have completed one year of service and have worked over 1,000 hours per year are eligible to receive discretionary contributions from the Society. In addition, employees may make elective contributions. The Society paid \$12,332 and \$11,444 into the retirement plan for the years ended July 31, 2022 and 2021, respectively.

NOTE K – IN-KIND CONTRIBUTIONS

Contributed services that require specialized skills and that the Society would otherwise need to purchase are recorded at estimated fair value. Unless otherwise noted, in-kind contributions did not have donor-imposed restrictions. For the years ended July 31, 2022 and 2021, the Society received donated legal services of \$28,208 and \$80,733, respectively. The values of donated legal services represent totals of approximately 31 hours and 63 hours of contributed services for the years ended July 31, 2022 and 2021, respectively, and are reported at fair value in the financial statements based on current rates for similar legal services. The donated legal services are used for program services, fundraising and management and general purposes and are allocated in the accompanying statements of functional expenses.

NOTE L – NET ASSETS WITH DONOR RESTRICTIONS

The Society had the following donor restricted net assets as of July 31:

	2022	2021
SMILES donations	\$ 3,090	\$ 4,000
Scholarships	11,000	11,000
Total Donor Restricted Net Assets	\$ 14,090	\$ 15,000

NOTE M – BOARD DESIGNATED NET ASSETS

Board designated net assets are net assets without donor restrictions that have been earmarked by the Board of Trustees for future reserves. As of July 31, 2022 and 2021, board designated net assets totaled \$1,295,363 and \$1,512,335, respectively.

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NOTE N – COMMITMENTS AND CONTINGENCIES

The Society has been named in a lawsuit whereby the plaintiff alleges that the Society is at fault for injuries that the plaintiff sustained while attending the 2019 Sakura Matsuri. The Society and its counsel believe there is a 35% chance that the plaintiff will prevail in the lawsuit; however, the amount or range of potential loss are not reasonably estimable as of the date the financial statements were available to be issued. The Society has notified its general commercial liability insurer about the claim/suit, and management believes the coverage limits of the Society's policy are likely sufficient to pay the amount of any resulting award.

NOTE O – SUBSEQUENT EVENTS

In preparing these financial statements, the Society's management has evaluated events and transactions for potential recognition or disclosure through March 23, 2023, the date the financial statements were available to be issued. There were no subsequent events or transactions that were discovered during the evaluation that required further recognition or disclosure.