

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.

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

JULY 31, 2023 AND 2022

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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, 2023 and 2022, 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, 2023 and 2022, 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.

The Japan - America Society of Washington, Inc.
Independent Auditor's Report
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Emphasis of Matter

As discussed in Note B to the financial statements, during the year ended July 31, 2023, The Japan – America Society of Washington, Inc. adopted new accounting guidance, Accounting Standards Update ("ASU") 2016-02, Topic 842, *Leases*, as amended. Our opinion is not modified with respect to this matter.



Washington, DC
June 26, 2024

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
STATEMENTS OF FINANCIAL POSITION
JULY 31, 2023 AND 2022

	2023	2022
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 166,254	\$ 277,177
Accounts receivable	83,050	60,869
Prepaid expenses	3,713	13,505
Total Current Assets	253,017	351,551
PROPERTY AND EQUIPMENT, NET	12,615	4,015
INVESTMENTS	1,318,185	1,295,363
OTHER ASSETS		
Inventory	48,094	58,828
Operating lease, right-of-use asset, net	172,022	-
Collections (donated)	9,539	9,539
Total Other Assets	229,655	68,367
TOTAL ASSETS	\$ 1,813,472	\$ 1,719,296
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 60,832	\$ 6,277
Accrued expenses	27,471	65,546
Deferred revenue	57,943	58,271
Operation lease liability, current portion	153,924	-
Total Current Liabilities	300,170	130,094
NON-CURRENT LIABILITIES		
Deferred rent	-	11,131
Operating lease liability, net of current portion	26,199	-
Total Non-Current Liabilities	26,199	11,131
Total Liabilities	326,369	141,225
NET ASSETS		
Without donor restrictions:		
Undesignated	154,828	268,618
Board designated	1,318,185	1,295,363
Total Without Donor Restrictions	1,473,013	1,563,981
With donor restrictions	14,090	14,090
Total Net Assets	1,487,103	1,578,071
TOTAL LIABILITIES AND NET ASSETS	\$ 1,813,472	\$ 1,719,296

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, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Registrations	\$ 915,542	\$ -	\$ 915,542
Language school	191,674	-	191,674
Sponsorships	172,369	-	172,369
In-kind contributions	37,887	-	37,887
Contributions	60,097	45,872	105,969
Member dues	122,113	-	122,113
Miscellaneous revenue	4,631	-	4,631
Investment income, net	74,689	-	74,689
Net assets released from restrictions	45,872	(45,872)	-
Total Revenue and Support	1,624,874	-	1,624,874
EXPENSES			
Program Services:			
Sakura Matsuri	660,349	-	660,349
National Japan Bowl	252,063	-	252,063
JASW School	139,720	-	139,720
Annual Dinner	146,437	-	146,437
Cultural Activities	77,230	-	77,230
Other Programs	92,438	-	92,438
Total Program Services	1,368,237	-	1,368,237
Supporting Services:			
Management and general	314,036	-	314,036
Fundraising	33,569	-	33,569
Total Supporting Services	347,605	-	347,605
Total Expenses	1,715,842	-	1,715,842
CHANGE IN NET ASSETS	(90,968)	-	(90,968)
NET ASSETS			
Beginning of year	1,563,981	14,090	1,578,071
End of year	\$ 1,473,013	\$ 14,090	\$ 1,487,103

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
Forgiveness of debt - PPP loan	70,729	-	70,729
Contributions	72,005	87,936	159,941
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	\$ 14,090	\$ 1,578,071

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, 2023

	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	\$ 68,535	\$ 69,420	\$ 42,457	\$ 23,080	\$ 30,119	\$ 38,200	\$ 271,811	\$ 133,237	\$ 10,263	\$ 143,500	\$ 415,311
Employee benefits	9,344	9,464	5,788	3,147	4,106	5,208	37,057	18,163	1,399	19,562	56,619
Payroll taxes	5,807	5,882	3,597	1,955	2,552	3,237	23,030	11,288	870	12,158	35,188
Subtotal personnel and related costs	83,686	84,766	51,842	28,182	36,777	46,645	331,898	162,688	12,532	175,220	507,118
Accounting	-	-	-	-	-	-	-	39,526	-	39,526	39,526
Advertisement and promotions	2,298	6,625	187	-	-	-	9,110	-	-	-	9,110
Bank charges	22,197	491	639	1,095	10	6	24,438	12,742	208	12,950	37,388
Communications	1,165	1,180	722	392	512	649	4,620	2,265	174	2,439	7,059
Consultants	70,264	-	6,974	1,250	-	-	78,488	2,600	-	2,600	81,088
Depreciation	-	-	-	-	-	-	-	2,979	-	2,979	2,979
Dues, subscriptions, and publications	5,296	15,419	1,826	459	598	828	24,426	2,647	204	2,851	27,277
Event venue and equipment rental	220,774	71,639	227	94,135	1,083	204	388,062	712	55	767	388,829
Information technology	23,530	4,411	3,308	1,399	1,825	2,800	37,273	8,235	622	8,857	46,130
Insurance	37,420	-	-	9	-	-	37,429	521	-	521	37,950
Legal services - donated	6,252	6,333	3,873	2,106	2,748	3,485	24,797	12,154	936	13,090	37,887
Meals and entertainment	11,201	677	108	545	17,992	2,840	33,363	8,094	563	8,657	42,020
Occupancy	26,105	26,442	16,172	8,791	11,472	14,550	103,532	50,749	3,909	54,658	158,190
Office supplies and expenses	107,685	15,018	3,084	6,258	1,689	1,364	135,098	4,349	1,220	5,569	140,667
Other	14,505	608	50	-	412	-	15,575	682	-	682	16,257
Other professional fees	3,926	-	50,541	-	-	-	54,467	-	-	-	54,467
Postage, shipping, and delivery	154	41	-	60	-	-	255	-	-	-	255
Scholarships	-	-	-	-	-	19,000	19,000	-	-	-	19,000
Speakers and panelists	6,600	14,550	-	-	995	-	22,145	-	-	-	22,145
Travel and transportation	17,291	3,863	167	1,756	1,117	67	24,261	3,093	13,146	16,239	40,500
Total	\$ 660,349	\$ 252,063	\$ 139,720	\$ 146,437	\$ 77,230	\$ 92,438	\$ 1,368,237	\$ 314,036	\$ 33,569	\$ 347,605	\$ 1,715,842

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.
STATEMENTS OF CASH FLOW
YEARS ENDED JULY 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (90,968)	\$ 50,736
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	2,979	2,123
Carrying amount of operation lease, right-of-use asset	(314,750)	-
Amortization of operating lease, right-of-use asset	142,728	-
Forgiveness of debt - PPP loan	-	(70,729)
Investment (income) loss, net	(74,689)	191,912
Decrease (increase) in Assets		
Accounts receivable	(22,181)	(42,869)
Prepaid expenses	9,792	(3,384)
Inventory	10,734	(58,828)
Increase (decrease) in liabilities		
Accounts payable	54,555	(20,111)
Accrued expenses	(38,075)	53,292
Deferred revenue	(328)	(49,556)
Deferred rent	(11,131)	701
Operating lease liability	180,123	-
Net Cash (Used for) Provided by Operating Activities	(151,211)	53,287
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	51,867	54,281
Purchases of property and equipment	(11,579)	-
Net Cash Provided by Investing Activities	40,288	54,281
NET CHANGE IN CASH AND CASH EQUIVALENTS	(110,923)	107,568
CASH AND CASH EQUIVALENTS, beginning of year	277,177	169,609
CASH AND CASH EQUIVALENTS, end of year	\$ 166,254	\$ 277,177

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, 2023 AND 2022

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, which are held 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, 2023 AND 2022
(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 February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases* (Topic 842), as amended. FASB Accounting Standards Codification (“ASC”) 842 supersedes the lease requirements in FASB ASC 840. This guidance is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than twelve months. Key provisions in this guidance include additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. The Society adopted FASB ASC Topic 842, with an initial application of August 1, 2022, by applying the modified retrospective transition approach and using the additional (and optional) transition method provided by ASU No. 2018-11, *Leases* (Topic 842): *Targeted Improvements*. The Society did not restate prior comparative periods as presented under ASC Topic 843, and instead evaluated whether a cumulative effect adjustment to net assets as of August 1, 2022, was necessary for the cumulative impact of the adoption of FASB ASC Topic 842. As a result of the adoption of ASU 2018-11, no adjustment to beginning net assets was considered necessary. The most significant effect of adopting FASB ASC Topic 842 was the recognition of \$314,750 of operating lease, right-of-use (“ROU”) asset and a total of \$325,881 of current and long-term operating lease liabilities on the statement of financial position as of August 1, 2022.

As part of the transition, the Society implemented new controls and key system functionality to enable the preparation of financial information on adoption and elected to apply the following practical expedients:

- a) No reassessment of whether any expired or existing contracts contain a lease.
- b) No reassessment of initial direct costs for any existing leases as of the effective date.
- c) In calculating the right-of-use assets and lease liability, the Society has elected to combine lease and non-lease components.
- d) As an accounting policy, the Society has elected to apply the short-term lease exception to all leases having initial terms of 12 months or less and recognizes occupancy expense on a straight-line basis over the lease term.
- e) As an accounting policy, the Society has also elected to use a risk-free rate as the discount rate for all of its leases.

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2023 AND 2022
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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 equities and fixed income mutual funds that are held for long-term 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 as investment income (loss), net, 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.

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2023 AND 2022
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Accounts Receivable (continued)

As of July 31, 2023 and 2022, 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, 2021, totaled \$18,000.

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.

Operating lease, Right-of-Use ("ROU") Assets

ROU assets are measured at the commencement date at the amount of the initially measured liability plus any lease payments made to the lessor before or after commencement date, minus any lease incentives received, plus any initial direct costs. Unless impaired, ROU assets are subsequently measured throughout the lease term at the amount of the lease liability (that is the present value of the remaining lease payments), plus unamortized initial direct costs, and the addition or subtraction of any prepaid lease payments (accrued lease payments, less the unamortized balance of lease incentives received). Operating lease payments are recognized on a straight-line basis over the lease term.

Operating Lease Liability

The Society accounts for leases in accordance with FASB ASC Topic 842. The Society is a lessee in an operating lease for office space. Lease liabilities are increased by interest and reduced by payments each period, and the right-of-use asset is amortized over the lease term. For operating leases, interest on the lease liability and the amortization of the right-of-use asset result in straight-line occupancy expense over the lease term. Variable lease expenses, if any, are recognized when incurred. A lease liability is measured based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or rate and are measured using the index or rate at the commencement date.

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2023 AND 2022
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Deferred Rent

Before the adoption of FASB ASC Topic 842, *Leases*, the Society recognized rent expense on a straight-line basis over the term of the lease. Deferred rent is recorded as the difference between rent expense on a straight-line basis and cash outlays.

Collections

The Society does not depreciate its collections of art and library items 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, 2021, totaled \$107,827.

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.

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, 2023 AND 2022
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue Recognition (continued)

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.

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, communications, 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.

Reclassifications

For the year ended July 31, 2022, the forgiveness of debt – PPP loan that was included as part of contributions, was broken out into a separate line item on the statement of activities in order to conform to the current year's presentation. This reclassification had no effect on the previously reported net assets or change in net assets.

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2023 AND 2022
(continued)

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 its 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 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, 2020 through 2022, 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 the 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 expenditures are without donor restrictions. In addition to financial assets available to meet general expenditures, the Society operates with a budget plan that results in a positive change in net assets; and anticipates collecting sufficient revenue to cover general expenditures.

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2023 AND 2022
(continued)

NOTE D – AVAILABLE RESOURCES AND LIQUIDITY – continued

The following table reflects the Society’s financial assets as of July 31, 2023 and 2022, 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:

	2023	2022
Cash and cash equivalents	\$ 166,254	\$ 277,177
Investments	1,318,185	1,295,363
Accounts receivable	83,050	60,869
Total financial assets	1,567,489	1,633,409
Less: board designated net assets - reserves	(1,318,185)	(1,295,363)
Less: net assets with donor restrictions - purpose	(14,090)	(14,090)
Financial assets available to meet cash needs for general expenditures within one year	\$ 235,214	\$ 323,956

NOTE E – PROPERTY AND EQUIPMENT

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

	2023	2022
Office furniture and computers	\$ 52,881	\$ 41,302
Less: accumulated depreciation	(40,266)	(37,287)
Property and Equipment, Net	\$ 12,615	\$ 4,015

Depreciation expense for the years ended July 31, 2023 and 2022, was \$2,979 and \$2,123, respectively.

NOTE F – COLLECTIONS

Collections consisted of the following as of July 31:

	2023	2022
Artwork	\$ 4,877	\$ 4,877
Library	4,662	4,662
Collections	\$ 9,539	\$ 9,539

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2023 AND 2022
(continued)

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 – 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.

All of the Society’s investments for the years ended July 31, 2023 and 2022, 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, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market	\$ 30	\$ -	\$ -	\$ 30
Mutual Funds:				
Equities	507,572	-	-	507,572
Fixed income	810,583	-	-	810,583
Total	<u>\$ 1,318,185</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,318,185</u>

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2023 AND 2022
(continued)

NOTE G – INVESTMENTS AND FAIR VALUE MEASUREMENT – continued

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:

	Level 1	Level 2	Level 3	Total
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>

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 February 3, 2021, the Society secured a \$70,729 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 February 18, 2022. Therefore, the related loan forgiveness is reflected as revenue in the accompanying statement of activities for the year ended July 31, 2022.

NOTE I – OPERATING LEASE

As disclosed in Note B, the Society adopted FASB ASC Topic 842. The Society has an operating lease for building space. For the year ended July 31, 2022, operating leases are included in non-current assets, and current and long-term liabilities on the statements of financial position.

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 subject to escalations on each anniversary date.

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2023 AND 2022
(continued)

NOTE I – OPERATING LEASE – continued

The discount rate is the rate implicit in the lease if it is readily determinable. The implicit rate of the Society’s lease was not readily determinable. Therefore, the Society has elected to use the risk-free rate, which was 2.9% as of August 1, 2022; the initial application date in which the Society adopted FASB ASC Topic 842.

The balance of the ROU operating asset is as follows:

	7/31/2023	8/1/2022
Operating lease, right-of-use asset	\$ 314,750	\$ 314,750
Amortization of operating lease, right-of-use asset	(142,728)	-
Total Operating Lease, Right-of-Use Asset, Net	\$ 172,022	\$ 314,750

The following are the future maturities of the operating lease liability for the years ending July 31:

2024	\$ 156,742
2025	26,230
Total lease payments	182,972
Less: interest	(2,849)
Present Value of Operating Lease Liability	\$ 180,123

Occupancy expense incurred by the Society on the operating lease totaled \$158,190 and \$157,191, respectively, for the years ended July 31, 2023 and 2022, including other operating expenses.

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 at least one year of service and have worked more than 1,000 hours per year are eligible to receive discretionary contributions from the Society. In addition, employees may make elective contributions up to the maximum amount permissible by law. The Society paid \$12,332 and \$11,444 into the retirement plan for the years ended July 31, 2023 and 2022, respectively.

THE JAPAN-AMERICA SOCIETY OF WASHINGTON, INC.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2023 AND 2022
(continued)

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, 2023 and 2022, the Society received donated legal services of \$37,887 and \$28,208, respectively. The values of donated legal services represent totals of approximately 46 hours and 31 hours of contributed services for the years ended July 31, 2023 and 2022, respectively; and are reported at fair value in the financial statements based on current rates for similar legal services. The donated legal services were 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:

	2023	2022
SMILES donations	\$ 3,090	\$ 3,090
Scholarships	11,000	11,000
Total Donor Restricted Net Assets	\$ 14,090	\$ 14,090

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, 2023 and 2022, board designated net assets totaled \$1,318,185 and \$1,295,363 respectively.

NOTE N – SUBSEQUENT EVENTS

In preparing these financial statements, the Society’s management has evaluated events and transactions for potential recognition or disclosure through June 26, 2024, 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.