

Japanese American Citizens League

Financial Statements

December 31, 2017
(With Comparative Totals for 2016)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Japanese American Citizens League
San Francisco, California

We have audited the accompanying financial statements of Japanese American Citizens League (a nonprofit corporation) (the "JACL"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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 (the "U.S."); 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the U.S. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit 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 entity'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 entity'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 Japanese American Citizens League as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the U.S.

Report on Summarized Comparative Information

We have previously audited Japanese American Citizens League's 2016 financial statements, and our report dated September 25, 2017 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Ramon, California

June 1, 2018

Japanese American Citizens League
Statement of Financial Position
December 31, 2017
(With Comparative Totals for 2016)

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 475,958	\$ 202,481
Accounts and other receivables, net	103,965	81,788
Prepaid expenses and other current assets	68,924	58,829
Total current assets	648,847	343,098
Other assets		
Property and equipment, net	190,790	215,301
Cash and cash equivalents held for long-term purposes	385,719	291,882
Long-term investments	11,580,654	10,490,880
Total other assets	12,157,163	10,998,063
Total assets	\$ 12,806,010	\$ 11,341,161
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 166,712	\$ 201,547
Deferred revenue	72,779	51,520
Current portion of accumulated post-retirement benefit obligation	17,426	15,250
Total current liabilities	256,917	268,317
Accumulated post-retirement benefit obligation, net of current portion	387,685	369,435
Total liabilities	644,602	637,752
Net assets		
Unrestricted		
Designated	1,578,594	1,374,318
Undesignated	308,422	-
Total unrestricted	1,887,016	1,374,318
Temporarily restricted	3,510,080	2,619,141
Permanently restricted	6,764,312	6,709,950
Total net assets	12,161,408	10,703,409
Total liabilities and net assets	\$ 12,806,010	\$ 11,341,161

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

Japanese American Citizens League
Statement of Activities
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Revenues, gains and other support					
Public support	\$ 608,541	\$ 134,405	\$ -	\$ 742,946	\$ 270,118
Membership income	541,241	-	-	541,241	559,130
Investment income	299,621	93,798	13,215	406,634	388,892
Net realized and unrealized gains on investments	168,509	922,208	41,147	1,131,864	379,745
Newspaper revenue	126,379	-	-	126,379	113,802
Grants	-	198,806	-	198,806	318,774
Fundraising campaigns	74,858	161,852	-	236,710	255,365
Conference revenue	98,475	-	-	98,475	63,566
Other income	108,172	-	-	108,172	90,817
Net assets released from restrictions	<u>620,130</u>	<u>(620,130)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>2,645,926</u>	<u>890,939</u>	<u>54,362</u>	<u>3,591,227</u>	<u>2,440,209</u>
Functional expenses					
Program services	1,526,860	-	-	1,526,860	1,719,473
Management and general	316,013	-	-	316,013	421,307
Fundraising	<u>290,355</u>	<u>-</u>	<u>-</u>	<u>290,355</u>	<u>274,826</u>
Total functional expenses	<u>2,133,228</u>	<u>-</u>	<u>-</u>	<u>2,133,228</u>	<u>2,415,606</u>
Change in net assets	512,698	890,939	54,362	1,457,999	24,603
Net assets, beginning of year	<u>1,374,318</u>	<u>2,619,141</u>	<u>6,709,950</u>	<u>10,703,409</u>	<u>10,678,806</u>
Net assets, end of year	<u>\$ 1,887,016</u>	<u>\$ 3,510,080</u>	<u>\$ 6,764,312</u>	<u>\$12,161,408</u>	<u>\$ 10,703,409</u>

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

Japanese American Citizens League
Statement of Functional Expenses
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	Program Services	Management and General	Fundraising	2017 Total	2016 Total
Salaries	\$ 420,463	\$ 117,356	\$ 107,832	\$ 645,651	\$ 684,334
Payroll taxes	34,926	9,748	8,957	53,631	58,895
Employee benefits	52,227	14,577	13,394	80,198	51,964
Post-retirement benefits	13,302	3,713	3,411	20,426	-
Contract services	132,355	36,943	33,943	203,241	281,171
Depreciation	18,255	5,095	4,682	28,032	27,314
Awards	1,360	380	349	2,089	2,200
Dues and subscriptions	1,647	459	422	2,528	4,786
Equipment	1,675	468	430	2,573	6,455
Postage	9,221	2,573	2,364	14,158	25,160
Printing and copying	26,857	7,496	6,887	41,240	33,192
Office supplies	3,361	938	862	5,161	6,870
Telephone	16,477	4,599	4,225	25,301	24,633
Books and publications	-	-	-	-	1,189
Licenses and fees	310	86	79	475	-
Allocations to districts	22,000	-	-	22,000	22,000
Refunds	106,281	-	-	106,281	131,308
Meetings and conferences	90,800	25,344	23,286	139,430	121,990
Travel	72,007	20,098	18,467	110,572	87,497
National board	13,946	3,893	3,577	21,416	38,469
Commissions	14,818	-	-	14,818	18,557
Composition and presswork	12,800	-	-	12,800	21,364
Circulation and mailing	33,752	-	-	33,752	43,837
Maintenance	16,327	4,557	4,187	25,071	17,696
Occupancy costs	112,270	31,336	28,792	172,398	175,520
Utilities	5,523	1,542	1,417	8,482	10,385
Contributions	6,610	1,845	1,695	10,150	6,501
Insurance	53,398	14,904	13,694	81,996	85,298
Miscellaneous	27,303	7,621	7,002	41,926	33,953
Scholarship and student aid	205,025	-	-	205,025	318,197
Bad debt expense	1,564	437	401	2,402	74,796
Staff development	-	5	-	5	75
	<u>\$ 1,526,860</u>	<u>\$ 316,013</u>	<u>\$ 290,355</u>	<u>\$ 2,133,228</u>	<u>\$ 2,415,606</u>

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

Japanese American Citizens League
Statement of Cash Flows
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 1,457,999	\$ 24,603
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	28,032	27,314
Net realized and unrealized gains on investments	(1,131,864)	(379,745)
Contributions of permanently restricted net assets	-	(1,050)
Changes in operating assets and liabilities		
Accounts and other receivables, net	(22,177)	79,598
Prepaid expenses and other current assets	(10,095)	18,794
Accounts payable and accrued liabilities	(34,835)	113,719
Deferred revenue	21,259	1,768
Post-retirement benefit obligation	20,426	(27,786)
Net cash provided by (used in) operating activities	<u>328,745</u>	<u>(142,785)</u>
Cash flows from investing activities		
Purchases of investments	(1,505,857)	(3,305,400)
Sales or maturities of investments	1,547,947	3,315,041
Acquisition of property and equipment	(3,521)	(1,378)
Net cash provided by investing activities	<u>38,569</u>	<u>8,263</u>
Cash flows from financing activities		
Contributions of permanently restricted net assets	-	1,050
Net cash provided by financing activities	<u>-</u>	<u>1,050</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	367,314	(133,472)
Cash, cash equivalents and restricted cash, beginning of year	<u>494,363</u>	<u>627,835</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 861,677</u>	<u>\$ 494,363</u>
Cash, cash equivalents and cash, cash equivalents held for long-term purposes consisted of the following:		
Cash and cash equivalents	\$ 475,958	\$ 202,481
Cash and cash equivalents held for long-term purposes	<u>385,719</u>	<u>291,882</u>
	<u>\$ 861,677</u>	<u>\$ 494,363</u>

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

Japanese American Citizens League
Notes to Financial Statements
December 31, 2017

1. NATURE OF OPERATIONS

The Japanese American Citizens League ("JACL") is a membership organization whose mission is to educate and bring about a better understanding with respect to the human and civil rights of Americans of Japanese ancestry and others and to promote and preserve the cultural heritage and values of Japanese Americans.

The financial statements of JACL include the accounts of the national organization which includes national headquarters, regional offices and a newspaper. The local chapters and district councils ("affiliates") are not included in these financial statements as JACL does not exercise control over such entities. Total expenses paid to or on behalf of affiliates during 2017 was \$63,650. Revenues recognized from affiliates during 2017 were \$95,151.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements are presented on the accrual basis of accounting.

Cash equivalents

JACL considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Allowance for doubtful accounts

JACL provides for possible losses from uncollectible contributions and other receivables. The allowance for doubtful accounts is based on historical experience and an evaluation of the outstanding receivables at the end of the year. Receivables are written off after management has exhausted all collection efforts. Bad debt recoveries are included in income when realized. The allowance for bad debts was \$7,500 as of December 31, 2017.

Basis of presentation

The activities of JACL are reflected as:

- *Unrestricted net assets* - Unrestricted net assets represent unrestricted resources available to support JACL's activities and temporarily restricted resources which become available for use by JACL in accordance with the intention of the donors.

Japanese American Citizens League
Notes to Financial Statements
December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation (continued)

- *Temporarily restricted net assets* - Temporarily restricted net assets represent contributions that are limited as to use by JACL in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of JACL according to the intention of the donor. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets and reported as unrestricted net assets. If expenses are incurred for purposes for which both unrestricted and temporarily restricted net assets are available, a donor-imposed restriction is deemed to have been fulfilled to the extent of the expense incurred.
- *Permanently restricted net assets* - Permanently restricted net assets represent contributions to be held in perpetuity as directed by the donor. A portion of the income from these investments is available to support activities of JACL as designated by such donors. The remaining portion is contributed back to the specific endowment account.

Contributions and contributions receivable

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions.

Contributions receivable, which consist of unconditional promises to give, are recognized as contributions in the period in which the promise is made. Long-term contributions, if any, are recorded at the present value of estimated future cash flows using a discount rate consistent with the organization's long term investment return objectives. Amortization of the discount is included in contribution revenues. Conditional promises to give are recognized when the conditions on which they depend are substantially met. An allowance for doubtful contributions receivable, if necessary, is provided based upon management's judgment including such factors as prior collection history, type of contribution, and current aging of contributions receivable. At December 31, 2017 there were no contributions receivable.

Property and equipment

Property and equipment is stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets of 45 years for the building and ranging from 5 to 25 years for other property and equipment. JACL's capitalization policy is to capitalize all purchases greater than \$500 with an estimated useful life in excess of one year. Contributed property and equipment are recorded at the estimated fair value of the property at the date of donation. Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered, JACL's management, using its best estimates and projections, reviews for impairment the carrying value of long-lived identifiable assets to be held and used in the future. Any impairment losses identified are recognized when determined.

Japanese American Citizens League
Notes to Financial Statements
December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. JACL determines the fair values of its assets and liabilities based on the fair value hierarchy that includes three levels of inputs that may be used to measure fair value (Level 1, Level 2 and Level 3).

- *Level 1* - Quoted prices (unadjusted) in active markets for identical assets or liabilities that JACL has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- *Level 2* - Quoted prices (unadjusted) in active markets for identical assets or liabilities that JACL has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- *Level 3* - Unobservable inputs for the asset or liability. Unobservable inputs reflect JACL's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include JACL's own data.

The following methods and assumptions were used to estimate the fair value of financial assets and liabilities:

- *Investments (Level 1)* - Investment securities traded on security exchanges are valued at closing market prices on the date closest to December 31 (Level 1).
- *Contributions and other receivables (Level 3)* - Contributions receivable are valued based on unobservable inputs that are developed based on the best information available in the circumstances including expected investment returns, collection period, etc. Contributions receivable are not measured at fair value on a recurring basis subsequent to initial recognition.

Revenue recognition and deferred revenue

Membership revenues have elements of both a contribution and an exchange transaction. The contribution revenue portion is recognized upon receipt or when unconditionally promised. An amount equal to the fair value of benefits received by each member is recognized over the period to which the dues relate. Amounts to be recognized in future periods are recorded as deferred revenue.

Japanese American Citizens League
Notes to Financial Statements
December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition and deferred revenue (continued)

JACL reports gifts of cash and other assets as restricted support if such gifts are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

JACL is the beneficiary of various wills and trust agreements. The total realizable amounts from such future benefits are not readily determinable. JACL's share of such legacies is recorded when JACL obtains an irrevocable right to such assets and the future proceeds are measurable.

Reclassifications

Certain reclassifications have been made to the 2016 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Tax exempt status

JACL is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and has been granted tax-exempt status by the Internal Revenue Service and the California Franchise Tax Board.

JACL has evaluated its current tax positions and has concluded that as of December 31, 2017, JACL does not have any significant uncertain tax positions.

Concentrations of credit risk

Financial instruments which potentially subject JACL to credit risk consist primarily of cash, cash equivalents, receivables and investments. JACL maintains cash and cash equivalents with major financial institutions. Cash equivalents include investments in money market funds. At times, such amounts may exceed FDIC limits. JACL believes its investments have been placed with high-quality counterparties. JACL closely monitors these investments and has not historically experienced significant credit losses.

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. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Japanese American Citizens League
Notes to Financial Statements
December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional expenses allocation

The costs of providing various programs, management and general and fundraising, have been summarized on a functional basis in the statement of functional expenses. Costs applicable to both programs and activities have been allocated among the programs and supporting services based upon payroll costs and management's judgment and analysis.

Comparative financial information

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with JACL's financial statements for the year ended December 31, 2016 from which the summarized information was derived.

Concentrations of revenue

Approximately 83% of public support revenues came from four donors for the year ended December 31, 2017. Approximately 79% of grants came from 3 sources for the year ended December 31, 2017. Approximately 38% of fundraising campaign revenues came from 3 sources for the year ended December 31, 2017.

Subsequent events

JACL has evaluated subsequent events through June 1, 2018, the date the financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of JACL's financial statements.

3. LONG-TERM INVESTMENTS

Long-term Investments consist of the following:

Corporate bonds	\$ 788,979
Mutual funds	8,356,509
Corporate equities	2,338,490
International securities	<u>96,676</u>
	<u>\$ 11,580,654</u>

JACL's investments consist primarily of amounts restricted for long-term purposes, the income from which is to be utilized and held by JACL in accordance with donor imposed restrictions.

Japanese American Citizens League
Notes to Financial Statements
December 31, 2017

4. FAIR VALUE DISCLOSURES

The following table sets forth by level, within the fair value hierarchy, JACL's assets at fair value as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Investments	\$ 11,580,654	\$ -	\$ -	\$ 11,580,654

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land	\$ 17,927
Building	637,924
Equipment	166,041
	821,892
Accumulated depreciation	(631,102)
	\$ 190,790

For the year ended December 31, 2017, depreciation expense totaled \$28,032.

6. RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets were available for the following purposes:

Legacy	\$ 3,012,542
Leadership development	242,874
Scholarships & student aid	123,911
Newspaper	97,623
Other	33,130
	\$ 3,510,080

Net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restriction, by the passage of time, or by the occurrence of other specific events as follows:

Legacy	\$ 369,139
Leadership development	97,973
Scholarships & student aid	82,500
Newspaper	31,562
Other	38,956
	\$ 620,130

Japanese American Citizens League
Notes to Financial Statements
December 31, 2017

6. RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS
(continued)

Permanently restricted net assets are donor-restricted for the following purposes:

Legacy fund	\$ 5,213,831
Scholarship fund	1,342,325
Masaoka fellows fund	177,125
Student aid fund	16,435
Ways and means fund	12,533
Plant	2,063
	\$ 6,764,312

7. ENDOWMENT

The JACL's endowment consists of approximately six individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America ("GAAP"), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the JACL considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

Japanese American Citizens League
Notes to Financial Statements
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7. ENDOWMENT (continued)

Interpretation of relevant law (continued)

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the JACL
- (7) The investment policies of the JACL

Return objectives and risk parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 7.5 percent annually. Actual returns in any given year may vary from this amount.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the JACL to retain as a fund of perpetual duration. There were no material deficiencies as of December 31, 2017.

Spending policy

JACL has a policy of appropriating for distribution each year 4 percent of its endowment fund's average fair value over the prior 24 months through the month of January of the calendar year-end preceding the year in which the distribution is planned. In establishing this policy, the JACL considered the long-term expected return on its endowment. Accordingly, over the long term, the JACL expects the current spending policy to allow its endowment to grow at an average of 3.5 percent annually. This is consistent with the JACL's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

In 2017, JACL appropriated for distribution 5 percent of the Legacy Fund's average fair value over the prior 24 months from the month of January 2016.

Japanese American Citizens League
Notes to Financial Statements
December 31, 2017

7. ENDOWMENT (continued)

Endowment composition

Endowment net asset composition by type of fund as of December 31, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,902,683	\$ 6,764,312	\$ 8,666,995
Board-designated endowment funds	<u>1,578,594</u>	<u>-</u>	<u>-</u>	<u>1,578,594</u>
	<u>\$ 1,578,594</u>	<u>\$ 1,902,683</u>	<u>\$ 6,764,312</u>	<u>\$ 10,245,589</u>

Changes in endowment net assets for the fiscal year ended December 31, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, December 31, 2016	<u>\$ 1,338,644</u>	<u>\$ 1,417,560</u>	<u>\$ 6,709,950</u>	<u>\$ 9,466,154</u>
Investment return				
Investment income	46,624	93,798	13,215	153,637
Net appreciation (realized and unrealized)	<u>133,715</u>	<u>922,208</u>	<u>41,147</u>	<u>1,097,070</u>
Total investment return	180,339	1,016,006	54,362	1,250,707
Board designation to national endowment	67,620	-	-	67,620
Appropriation of endowment assets for expenditure	<u>(8,009)</u>	<u>(530,883)</u>	<u>-</u>	<u>(538,892)</u>
	<u>239,950</u>	<u>485,123</u>	<u>54,362</u>	<u>779,435</u>
Balance, December 31, 2017	<u>\$ 1,578,594</u>	<u>\$ 1,902,683</u>	<u>\$ 6,764,312</u>	<u>\$ 10,245,589</u>

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the JACL relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The JACL targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Japanese American Citizens League
Notes to Financial Statements
December 31, 2017

8. DEFINED CONTRIBUTION PENSION PLAN

JACL participates in a defined contribution plan (the "Plan") under Section 403(b) of the Internal Revenue Code covering substantially all of its employees. The Plan provides for discretionary tax-deferred contributions to be made by both participants and JACL. JACL makes contributions to the Plan on behalf of employees based upon years of service up to a maximum of 10% of eligible compensation as defined by the Plan. For the year ended December 31, 2017, JACL's contributions to the Plan were \$33,232.

9. PENSION PLAN

JACL provides lifetime health benefits to employees hired before November 5, 2005 who retire with at least 20 years of service and who are over age 60. Total active eligible participants at December 31, 2017 amounted to two people. JACL uses a December 31 measurement date for its defined post-retirement benefit obligations.

The change in the accumulated post-retirement benefit obligation is attributed to the following components:

Beginning of year	\$ 384,685
Interest cost	14,705
Assumption change	8,452
Experience gain	(1,426)
Benefits paid	<u>(1,305)</u>
	<u>\$ 405,111</u>

The following sets forth the funded status of the plan:

Plan assets at fair value	\$ -
Accumulated benefit obligation	405,111
Funded status recognized in Statement of Financial Position	(405,111)
Employer contributions	-

The accumulated benefit obligation represents the actuarial present value of benefits attributable to service rendered to date. The accumulated post-retirement benefit obligation (APBO) includes the following:

Retired employees	\$ 139,491
Employees currently eligible to retire	<u>265,620</u>
	\$ 405,111

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9. PENSION PLAN (continued)

The net periodic post-retirement benefit cost are recognized in JACL's financial statements. The components of the net periodic post-retirement benefit cost is as follows:

Interest cost on accumulated post-retirement benefit obligation	\$ 14,705
Net amortization of transition obligation	<u>(11,814)</u>
	<u>\$ 2,891</u>

The following assumptions were used in accounting for the accumulated post-retirement benefit obligation:

Discount rate	3.40%
Health care trend rate	<u>3.90%</u>

Changes in these rates could have a significant effect on the amounts reported.

JACL expects future post-retirement benefit obligation payments for the next 10 years to be paid as follows:

<u>Year ending December 31,</u>	
2018	\$ 17,308
2019	17,969
2020	19,388
2021	20,326
2022	21,234
Thereafter	<u>117,837</u>
	<u>\$ 214,062</u>

10. COMMITMENTS AND CONTINGENCIES

JACL leases its facilities and office equipment under operating lease agreements, expiring at various times through September 2020, which currently require monthly payments ranging from approximately \$300 to \$8,200. Rent expense paid under these leases for the year ended December 31, 2017 was \$172,398.

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10. COMMITMENTS AND CONTINGENCIES (continued)

The scheduled minimum lease payments under the lease terms are as follows:

Year ending December 31,

2018	\$ 62,933
2019	18,102
2020	<u>10,957</u>
	<u>\$ 91,992</u>

11. RENTAL INCOME

JACL leases a portion of space in its office headquarters to unrelated third party entities on a month-to-month basis. For the year ended December 31, 2017, total lease and sublease income received was \$92,170.