

Japanese American Citizens League

Financial Statements

December 31, 2018
(With Comparative Totals for 2017)



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 18

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, 2018, 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; 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 United States of America. 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, 2018, 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 United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, JACL has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Emphasis of Matter

As discussed in Note 13 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited Japanese American Citizens League's 2017 financial statements, and our report dated June 1, 2018 expressed an unmodified opinion on those audited financial statements. As part of our audit of the 2018 financial statements, we also audited the adjustments to the 2017 financial statements to apply the change in accounting principle discussed above. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, adjusted for the change in accounting principle discussed above, is consistent, in all material respects, with the audited financial statements from which it has been derived. Also, in our opinion, such adjustments are appropriate and have been properly applied.



Armanino^{LLP}
San Ramon, California

April 13, 2020

Japanese American Citizens League
Statement of Financial Position
December 31, 2018
(With Comparative Totals for 2017)

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 324,936	\$ 475,958
Accounts and other receivables, net	138,394	103,965
Prepaid expenses and other current assets	<u>65,866</u>	<u>68,924</u>
Total current assets	<u>529,196</u>	<u>648,847</u>
Other assets		
Property and equipment, net	169,393	190,790
Cash held for long-term purposes	287,990	385,719
Long-term investments	<u>10,746,770</u>	<u>11,580,654</u>
Total other assets	<u>11,204,153</u>	<u>12,157,163</u>
 Total assets	 <u>\$ 11,733,349</u>	 <u>\$ 12,806,010</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 57,374	\$ 166,712
Deferred revenue	62,606	72,779
Current portion of accumulated post-retirement benefit obligation	<u>16,613</u>	<u>17,426</u>
Total current liabilities	136,593	256,917
Accumulated post-retirement benefit obligation, net of current portion	<u>323,953</u>	<u>387,685</u>
Total liabilities	<u>460,546</u>	<u>644,602</u>
Net assets		
Without donor restrictions		
Designated	1,405,361	1,578,594
Undesignated	<u>324,508</u>	<u>308,422</u>
Total without donor restrictions	1,729,869	1,887,016
With donor restrictions	<u>9,542,934</u>	<u>10,274,392</u>
Total net assets	<u>11,272,803</u>	<u>12,161,408</u>
 Total liabilities and net assets	 <u>\$ 11,733,349</u>	 <u>\$ 12,806,010</u>

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

Japanese American Citizens League
Statement of Activities
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
Revenues, gains (losses) and other support				
Public support	\$ 209,479	\$ 63,532	\$ 273,011	\$ 742,946
Membership income	549,364	-	549,364	541,241
Investment income, net	320,338	24,901	345,239	406,634
Net realized and unrealized gains (losses) on investments	(180,655)	(679,855)	(860,510)	1,131,864
Newspaper revenue	131,804	-	131,804	126,379
Grants	-	122,500	122,500	198,806
Fundraising campaigns	30,699	127,188	157,887	236,710
Conference revenue	68,780	-	68,780	98,475
Other income	65,518	-	65,518	108,172
Net assets released from restrictions	<u>389,724</u>	<u>(389,724)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and (losses), and other support	<u>1,585,051</u>	<u>(731,458)</u>	<u>853,593</u>	<u>3,591,227</u>
Functional expenses				
Program services	1,117,706	-	1,117,706	1,526,860
Management and general	320,215	-	320,215	316,013
Fundraising	<u>304,277</u>	<u>-</u>	<u>304,277</u>	<u>290,355</u>
Total functional expenses	<u>1,742,198</u>	<u>-</u>	<u>1,742,198</u>	<u>2,133,228</u>
Change in net assets	(157,147)	(731,458)	(888,605)	1,457,999
Net assets, beginning of year	<u>1,887,016</u>	<u>10,274,392</u>	<u>12,161,408</u>	<u>10,703,409</u>
Net assets, end of year	<u>\$ 1,729,869</u>	<u>\$ 9,542,934</u>	<u>\$ 11,272,803</u>	<u>\$ 12,161,408</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, 2018
(With Comparative Totals for 2017)

	Program Services	Management and General	Fundraising	2018 Total	2017 Total
Salaries	\$ 356,472	\$ 104,178	\$ 98,993	\$ 559,643	\$ 642,067
Payroll taxes	29,640	8,662	8,231	46,533	53,631
Employee benefits	7,402	2,163	2,055	11,620	104,208
Contract services	133,644	39,057	37,113	209,814	203,241
Depreciation	13,629	3,983	3,785	21,397	28,032
Awards	493	144	136	773	2,089
Dues and subscriptions	1,807	528	502	2,837	2,528
Equipment	1,133	331	315	1,779	2,573
Postage	8,453	2,470	2,347	13,270	14,158
Printing and copying	24,618	7,194	6,836	38,648	41,240
Office supplies	4,670	1,365	1,297	7,332	5,161
Telephone	11,566	3,380	3,212	18,158	25,301
Licenses and fees	199	59	55	313	475
Allocations to districts	22,000	-	-	22,000	22,000
Refunds	16,002	4,677	4,444	25,123	106,281
Meetings and conferences	100,570	29,391	27,928	157,889	139,430
Travel	55,353	16,176	15,372	86,901	110,572
National board	24,340	7,114	6,759	38,213	21,416
Commissions	-	-	-	-	14,818
Composition and presswork	12,039	3,518	3,343	18,900	12,800
Circulation and mailing	15,056	4,400	4,181	23,637	33,752
Maintenance	15,087	4,409	4,190	23,686	25,071
Occupancy costs	62,899	18,382	17,467	98,748	172,398
Utilities	6,062	1,772	1,683	9,517	8,482
Contributions	5,599	1,636	1,555	8,790	10,150
Insurance	45,399	13,268	12,607	71,274	81,996
Miscellaneous	21,245	6,208	5,900	33,353	41,931
Scholarship and student aid	122,329	35,750	33,971	192,050	205,025
Bad debt expense	-	-	-	-	2,402
	<u>\$ 1,117,706</u>	<u>\$ 320,215</u>	<u>\$ 304,277</u>	<u>\$ 1,742,198</u>	<u>\$ 2,133,228</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, 2018
(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ (888,605)	\$ 1,457,999
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	21,397	28,032
Net realized and unrealized (gains) losses on investments	860,510	(1,131,864)
Contributions restricted for long term purposes	(29,010)	-
Changes in operating assets and liabilities		
Accounts and other receivables, net	(34,429)	(22,177)
Prepaid expenses and other current assets	3,058	(10,095)
Accounts payable and accrued liabilities	(109,338)	(34,835)
Deferred revenue	(10,173)	21,259
Post-retirement benefit obligation	(64,545)	20,426
Net cash provided by (used in) operating activities	<u>(251,135)</u>	<u>328,745</u>
Cash flows from investing activities		
Purchases of investments	(2,296,528)	(1,505,857)
Sales or maturities of investments	2,269,902	1,547,947
Acquisition of property and equipment	-	(3,521)
Net cash provided by (used in) investing activities	<u>(26,626)</u>	<u>38,569</u>
Cash flows from financing activities		
Contributions restricted for long term purposes	<u>29,010</u>	<u>-</u>
Net cash provided by financing activities	<u>29,010</u>	<u>-</u>
Net increase (decrease) in cash, cash equivalents and cash, cash equivalents held for long-term purposes	(248,751)	367,314
Cash, cash equivalents and cash held for long-term purposes, beginning of year	<u>861,677</u>	<u>494,363</u>
Cash, cash equivalents and cash held for long-term purposes, end of year	<u>\$ 612,926</u>	<u>\$ 861,677</u>
Cash, cash equivalents and cash held for long-term purposes consisted of the following:		
Cash and cash equivalents	\$ 324,936	\$ 475,958
Cash held for long-term purposes	<u>287,990</u>	<u>385,719</u>
	<u>\$ 612,926</u>	<u>\$ 861,677</u>

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

Japanese American Citizens League
Notes to Financial Statements
December 31, 2018

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 2018 was \$55,392. Revenues recognized from affiliates during 2018 was \$80,945.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

JACL's financial statements are prepared on an accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). JACL reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restriction.

The activities of JACL are reflected as:

- *Net assets without donor restrictions* - Net assets available for use in general operations and not subject to donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by the Board of Directors.
- *Net assets with donor restrictions* - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Net assets with donor restrictions also include the portion of donor-restricted endowment funds that are not required to be maintained in perpetuity, until such funds are appropriated for expenditure by JACL. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor restrictions or by law. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Japanese American Citizens League
Notes to Financial Statements
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

JACL considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash on deposit exceeds federally insured limits at times. JACL believes it mitigates this risk by maintaining deposits with major financial institutions.

Accounts and other receivables and allowance for doubtful accounts

Accounts and other receivables are recorded at the invoiced amount, net of an allowance for doubtful accounts. JACL provides for possible losses from uncollectible accounts 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 doubtful accounts was \$6,792 as of December 31, 2018.

Contributions and contributions receivable

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, 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, 2018 there were no contributions receivable.

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.

Japanese American Citizens League
Notes to Financial Statements
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- 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.

Property and equipment

Property and equipment are recorded at cost when purchased or if donated, at the estimated fair value on the date of the gift.

Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

Furniture and fixtures	5 - 25 years
Building	45 years

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.

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, net assets are reclassified to net assets without donor restrictions 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.

Japanese American Citizens League
Notes to Financial Statements
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations of revenue

Approximately 51% of public support revenues came from one donor for the year ended December 31, 2018. Approximately 92% of grants came from two sources for the year ended December 31, 2018. Approximately 67% of fundraising campaign revenues came from four sources for the year ended December 31, 2018.

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.

Functional expense 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. Expenses such as payroll and benefits have been allocated among program services and supporting services based upon the employees' time spent by function. Facility related costs such as depreciation, operations and maintenance have been allocated based on estimated square footage used by various departments.

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, 2018, JACL does not have any significant uncertain tax positions.

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, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2017 from which the summarized information was derived.

3. LONG-TERM INVESTMENTS

Long-term investments consisted of the following:

Corporate bonds	\$ 762,687
Mutual funds	7,605,629
Corporate equities	2,091,706
Certificate of deposit	139,459
International securities	<u>147,289</u>
	<u><u>\$ 10,746,770</u></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.

4. FAIR VALUE DISCLOSURES

The following table sets forth by level, within the fair value hierarchy, the JACL's assets at fair value as of December 31, 2018:

	Level 1	Level 2	Level 3	Fair Value
Investments	<u>\$ 10,746,770</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,746,770</u>

Japanese American Citizens League
Notes to Financial Statements
December 31, 2018

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Land	\$ 17,927
Building	637,924
Equipment	<u>166,041</u>
	821,892
Accumulated depreciation	<u>(652,499)</u>
	<u><u>\$ 169,393</u></u>

For the year ended December 31, 2018, depreciation expense totaled \$21,397.

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Donor-restricted endowment (including accumulated earnings)	\$ 7,742,894
Legacy	1,472,552
Leadership development	298,157
Scholarships & student aid	21,728
Other	<u>7,603</u>
	<u><u>\$ 9,542,934</u></u>

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	\$ 45,300
Leadership development	251,424
Scholarships & student aid	<u>93,000</u>
	<u><u>\$ 389,724</u></u>

7. ENDOWMENT

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.

Japanese American Citizens League
Notes to Financial Statements
December 31, 2018

7. ENDOWMENT (continued)

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, JACL classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 net assets with donor restrictions is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by JACL in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

- (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 JACL
- (7) The investment policies of JACL

Return objectives and risk parameters

JACL 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. JACL 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.

Japanese American Citizens League
Notes to Financial Statements
December 31, 2018

7. ENDOWMENT (continued)

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, 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). 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.

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 JACL to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2018.

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, JACL considered the long-term expected return on its endowment. Accordingly, over the long term, JACL expects the current spending policy to allow its endowment to grow at an average of 3.5 percent annually. This is consistent with 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 2018, JACL appropriated for distribution 5 percent of the Legacy Fund's average fair value over the prior 24 months.

Endowment composition

Endowment net asset composition by type of fund as of December 31, 2018 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	\$ 1,405,361	\$ -	\$ 1,405,361
Donor restricted endowment funds	<u>-</u>	<u>7,742,894</u>	<u>7,742,894</u>
	<u>\$ 1,405,361</u>	<u>\$ 7,742,894</u>	<u>\$ 9,148,255</u>

Japanese American Citizens League
Notes to Financial Statements
December 31, 2018

7. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended December 31, 2018 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, December 31, 2017	\$ 1,578,594	\$ 8,666,995	\$ 10,245,589
Investment return			
Investment income	62,550	24,901	87,451
Net depreciation (realized and unrealized)	<u>(144,115)</u>	<u>(679,855)</u>	<u>(823,970)</u>
Total investment return	(81,565)	(654,954)	(736,519)
Board designation to national endowment	(1,000)	-	(1,000)
Contribution	-	29,010	29,010
Appropriation for endowment assets for expenditure	<u>(90,668)</u>	<u>(298,157)</u>	<u>(388,825)</u>
	<u>(173,233)</u>	<u>(924,101)</u>	<u>(1,097,334)</u>
Balance, December 31, 2018	<u>\$ 1,405,361</u>	<u>\$ 7,742,894</u>	<u>\$ 9,148,255</u>

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, 2018, JACL's contributions to the Plan were \$30,814.

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, 2018 amounted to two people. JACL uses a December 31 measurement date for its defined post-retirement benefit obligations.

Japanese American Citizens League
Notes to Financial Statements
December 31, 2018

9. PENSION PLAN (continued)

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

Beginning of year	\$	404,993
Interest cost		13,476
Assumption change		(29,089)
Experience gain		(43,429)
Benefits paid		<u>(5,385)</u>
	<u>\$</u>	<u>340,566</u>

The following sets forth the funded status of the plan:

Plan assets at fair value	\$	-
Accumulated benefit obligation		340,566
Funded status recognized in Statement of Financial Position		(340,566)
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	\$	116,705
Employees currently eligible to retire		<u>223,861</u>
	<u>\$</u>	<u>340,566</u>

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	\$	13,476
Net amortization of transition obligation		<u>(11,206)</u>
	<u>\$</u>	<u>2,270</u>

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

Discount rate		4.00 %
Health care trend rate		3.40 %

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

Japanese American Citizens League
Notes to Financial Statements
December 31, 2018

9. PENSION PLAN (continued)

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

<u>Year ending December 31,</u>	
2019	\$ 16,613
2020	17,902
2021	18,796
2022	19,645
2023	20,451
Thereafter	<u>111,477</u>
	<u><u>\$ 204,884</u></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 \$8,400. Rent expense paid under these leases for the year ended December 31, 2018 was \$98,748.

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

<u>Year ending December 31,</u>	
2019	\$ 18,102
2020	<u>10,957</u>
	<u><u>\$ 29,059</u></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. During 2013, JACL entered into a sublease agreement with an unrelated third party entity for space in its Washington DC office, which ended in February 2018. This lease was renewed March 2018, resulting in a decrease in sublease income per month. For the year ended December 31, 2018, total lease and sublease income received was \$22,260.

12. LIQUIDITY AND FUNDS AVAILABLE

As part of JACL's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations become due. To meet liquidity needs, JACL has cash and cash equivalents available. JACL's management aims to maintain a cash reserve for operating expenses of \$300,000 at all times.

Japanese American Citizens League
Notes to Financial Statements
December 31, 2018

12. LIQUIDITY AND FUNDS AVAILABLE (continued)

JACL's investments consist of donor-restricted endowments and board designated endowment funds. JACL intends to appropriate \$388,000 from the endowment during fiscal year 2019. Although JACL does not intend to spend from its board designated endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board designated endowment could be made available if necessary.

The following is a quantitative disclosure which describes financial assets that are available within one year of December 31, 2018 to fund general expenditures and other obligations as they become due:

Cash and cash equivalents	\$ 324,936
Accounts and other receivables, net	138,394
Long-term investments	<u>10,746,770</u>
	11,210,100
Donor restricted endowments, less expected appropriations	(7,414,894)
Board-designated reserves, less expected appropriations	<u>(1,345,361)</u>
	<u><u>\$ 2,449,845</u></u>

13. SUBSEQUENT EVENTS

In December 2019, an outbreak of a novel strain of coronavirus ("COVID-19") originated in Wuhan, China and has since spread to a number of other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, several states in the U.S. including California where the Foundation is headquartered, have declared a state of emergency.

The effects of the U.S. economy have not yet been fully felt nor are its economic effects measurable at this time. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of business and shelter in place orders. As a result, equity markets have declined over 30% from their historically high levels. While the business disruption is currently expected to be temporary and markets typically recover, there is considerable uncertainty around the duration of the closings and shelter in place orders and the shorter-term market volatility. It is at least reasonably possible that this matter will negatively impact JACL. However, the financial impact and duration cannot be reasonably estimated at this time, therefore, JACL has not accrued for any potential losses that may occur in the future as a result.

JACL has evaluated subsequent events through April 13, 2020, the date the financial statements were available to be issued. No other subsequent events have occurred that would have a material impact on the presentation of JACL's financial statements.