

Japanese American Citizens League

Financial Statements

December 31, 2019
(With Comparative Totals for 2018)



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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, 2019, 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, 2019, 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 the Financial Accounting Standards Board Accounting Standards Update 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. 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 2018 financial statements, and our report dated April 13, 2020 expressed an unmodified opinion on those audited financial statements. As part of our audit of the 2019 financial statements, we also audited the adjustments to the 2018 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, 2018, 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

June 24, 2021

Japanese American Citizens League
Statement of Financial Position
December 31, 2019
(With Comparative Totals for 2018)

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 231,462	\$ 324,936
Accounts and other receivables, net	160,456	138,394
Prepaid expenses and other current assets	<u>43,740</u>	<u>65,866</u>
Total current assets	<u>435,658</u>	<u>529,196</u>
Other assets		
Property and equipment, net	141,361	169,393
Cash held for long-term purposes	306,028	287,990
Long-term investments	<u>12,493,186</u>	<u>10,746,770</u>
Total other assets	<u>12,940,575</u>	<u>11,204,153</u>
 Total assets	 <u>\$ 13,376,233</u>	 <u>\$ 11,733,349</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 81,348	\$ 57,374
Deferred revenue	58,781	62,606
Current portion of accumulated post-retirement benefit obligation	<u>17,516</u>	<u>16,613</u>
Total current liabilities	157,645	136,593
Accumulated post-retirement benefit obligation, net of current portion	<u>275,403</u>	<u>323,953</u>
Total liabilities	<u>433,048</u>	<u>460,546</u>
Net assets		
Without donor restrictions		
Designated	1,576,417	1,405,361
Undesignated	<u>224,491</u>	<u>324,508</u>
Total without donor restrictions	1,800,908	1,729,869
With donor restrictions	<u>11,142,277</u>	<u>9,542,934</u>
Total net assets	<u>12,943,185</u>	<u>11,272,803</u>
 Total liabilities and net assets	 <u>\$ 13,376,233</u>	 <u>\$ 11,733,349</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, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Revenues, gains (losses) and other support				
Public support	\$ 64,844	\$ 38,630	\$ 103,474	\$ 273,011
Membership income	514,936	-	514,936	549,364
Investment income, net	347,904	100,689	448,593	345,239
Net realized and unrealized gains (losses) on investments	268,834	1,390,065	1,658,899	(860,510)
Newspaper revenue	131,467	-	131,467	131,804
Grants	10,667	137,500	148,167	122,500
Fundraising campaigns	73,974	162,700	236,674	157,887
Conference revenue	99,420	-	99,420	68,780
Other income	38,540	-	38,540	65,518
Net assets released from restrictions	<u>230,241</u>	<u>(230,241)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and (losses), and other support	<u>1,780,827</u>	<u>1,599,343</u>	<u>3,380,170</u>	<u>853,593</u>
Functional expenses				
Program services	1,081,345	-	1,081,345	1,117,706
Management and general	350,971	-	350,971	320,215
Fundraising	<u>277,472</u>	<u>-</u>	<u>277,472</u>	<u>304,277</u>
Total functional expenses	<u>1,709,788</u>	<u>-</u>	<u>1,709,788</u>	<u>1,742,198</u>
Change in net assets	71,039	1,599,343	1,670,382	(888,605)
Net assets, beginning of year	<u>1,729,869</u>	<u>9,542,934</u>	<u>11,272,803</u>	<u>12,161,408</u>
Net assets, end of year	<u>\$ 1,800,908</u>	<u>\$ 11,142,277</u>	<u>\$ 12,943,185</u>	<u>\$ 11,272,803</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, 2019
(With Comparative Totals for 2018)

	Program Services	Management and General	Fundraising	2019 Total	2018 Total
Salaries	\$ 356,872	\$ 117,304	\$ 92,737	\$ 566,913	\$ 559,643
Payroll taxes	31,725	10,636	8,409	50,770	46,533
Employee benefits	16,717	5,605	4,431	26,753	11,620
Contract services	201,798	67,655	53,486	322,939	209,814
Depreciation	17,517	5,873	4,642	28,032	21,397
Awards	594	199	157	950	773
Dues and subscriptions	1,623	544	430	2,597	2,837
Equipment	2,252	755	597	3,604	1,779
Postage	8,491	2,847	2,251	13,589	13,270
Printing and copying	15,618	5,236	4,140	24,994	38,648
Office supplies	4,411	1,479	1,168	7,058	7,332
Telephone	10,232	3,430	2,712	16,374	18,158
Licenses and fees	656	220	174	1,050	313
Allocations to districts	27,500	-	-	27,500	22,000
Refunds	14,339	4,807	3,801	22,947	25,123
Meetings and conferences	80,625	27,030	21,370	129,025	157,889
Travel	28,597	9,587	7,580	45,764	86,901
National board	25,536	8,561	6,769	40,866	38,213
Composition and presswork	8,970	3,007	2,379	14,356	18,900
Circulation and mailing	13,157	4,411	3,488	21,056	23,637
Maintenance	12,416	4,163	3,291	19,870	23,686
Occupancy costs	52,522	17,609	13,921	84,052	98,748
Utilities	6,156	2,064	1,631	9,851	9,517
Contributions	3,905	1,309	1,036	6,250	8,790
Insurance	25,001	8,382	6,627	40,010	71,274
Miscellaneous	23,944	8,027	6,345	38,316	33,353
Scholarship and student aid	90,171	30,231	23,900	144,302	192,050
	<u>\$ 1,081,345</u>	<u>\$ 350,971</u>	<u>\$ 277,472</u>	<u>\$ 1,709,788</u>	<u>\$ 1,742,198</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, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 1,670,382	\$ (888,605)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	28,032	21,397
Net realized and unrealized (gains) losses on investments	(1,658,899)	860,510
Contributions restricted for long term purposes	-	(29,010)
Changes in operating assets and liabilities		
Accounts and other receivables, net	(22,062)	(34,429)
Prepaid expenses and other current assets	22,126	3,058
Accounts payable and accrued liabilities	23,974	(109,338)
Deferred revenue	(3,825)	(10,173)
Post-retirement benefit obligation	(47,647)	(64,545)
Net cash provided by (used in) operating activities	<u>12,081</u>	<u>(251,135)</u>
Cash flows from investing activities		
Purchases of investments	(3,214,809)	(2,296,528)
Sales or maturities of investments	<u>3,127,292</u>	<u>2,269,902</u>
Net cash used in investing activities	<u>(87,517)</u>	<u>(26,626)</u>
Cash flows from financing activities		
Contributions restricted for long term purposes	-	29,010
Net cash provided by financing activities	<u>-</u>	<u>29,010</u>
Net decrease in cash, cash equivalents and cash, cash equivalents held for long-term purposes	(75,436)	(248,751)
Cash, cash equivalents and cash held for long-term purposes, beginning of year	<u>612,926</u>	<u>861,677</u>
Cash, cash equivalents and cash held for long-term purposes, end of year	<u>\$ 537,490</u>	<u>\$ 612,926</u>
Cash, cash equivalents and cash held for long-term purposes consisted of the following:		
Cash and cash equivalents	\$ 231,462	\$ 324,936
Cash held for long-term purposes	<u>306,028</u>	<u>287,990</u>
	<u>\$ 537,490</u>	<u>\$ 612,926</u>

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

Japanese American Citizens League
Notes to Financial Statements
December 31, 2019

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 2019 was \$52,361. Revenues recognized from affiliates during 2019 was \$71,249.

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 ("U.S. 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, 2019

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, 2019.

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 - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
- 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.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. JACL's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset. Inputs applicable to a particular asset type, or specific asset, may vary from period to period.

Japanese American Citizens League
Notes to Financial Statements
December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are recorded at cost if purchased, or if donated, at the estimated fair value on the date of the donation, net of accumulated depreciation. JACL generally capitalizes property and equipment with a cost greater than \$1,000 and an estimated useful life in excess of one year. Minor repairs and maintenance are charged against earnings as incurred. Major repairs and maintenance that extend the useful life of the respective asset are capitalized. Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered, JACL, using its best estimates and projections, reviews the carrying value of long-lived identifiable assets to be held and used in the future for impairment. JACL records impairment losses when determined.

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

Contributions and contributions receivable

Contributions are recorded as revenue without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions.

Contributions, including unconditional promises to give, are recognized as revenue in the period the promise is received. Conditional promises to give are not recognized until they become unconditional, which is when the donor-imposed barriers have been overcome and there is no longer a right of return or release. Contributions that are promised in one year but are not expected to be collected until after the end of the year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. 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, 2019 there were no contributions receivable.

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, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Concentrations of revenue

Approximately 89% of grants came from three sources for the year ended December 31, 2019. Approximately 52% of fundraising campaign revenues came from four sources for the year ended December 31, 2019.

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, 2019, JACL does not have any significant uncertain tax positions.

Japanese American Citizens League
Notes to Financial Statements
December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Accordingly, actual results could differ from those estimates. Uses of estimates include, but are not limited to, the accounting for the allowance for doubtful accounts, depreciation, and the allocation of expenses.

Comparative financial information

The financial statements include certain prior-year summarized comparative information in total but not by net asset classification. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with JACL's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

Change in accounting principle

In June 2018, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2018-08, Not-For-Profit Entities (Topics 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the criteria for evaluating whether a transaction is a contribution or an exchange transaction and whether a contribution is conditional or unconditional. JACL adopted ASU 2018-08 with a date of the initial application of January 1, 2019 using the prospective method. The adoption of ASU 2018-08 did not have a significant impact on JACL's financial position, result of operations, or cash flows. JACL has evaluated contributions received and contributions made and has determined that there is no change as a result of the adoption of the standard.

3. LONG-TERM INVESTMENTS

Long-term investments consisted of the following:

Corporate bonds	\$ 1,266,444
Mutual funds	8,646,675
Corporate equities	2,238,420
Certificate of deposit	139,303
International securities	<u>202,344</u>
	<u>\$ 12,493,186</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, 2019

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, 2019:

	Level 1	Level 2	Level 3	Fair Value
Investments	\$ 12,493,186	\$ -	\$ -	\$ 12,493,186

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Land	\$ 17,927
Building	637,924
Equipment	166,041
	821,892
Accumulated depreciation	(680,531)
	\$ 141,361

For the year ended December 31, 2019, depreciation expense totaled \$28,032.

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Donor-restricted endowment (including accumulated earnings)	\$ 9,143,979
Legacy	1,328,394
National program	254,564
Leadership development	230,078
Scholarships & student aid	185,262
	\$ 11,142,277

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:

National program	\$ 195,633
Legacy	34,608
	\$ 230,241

Japanese American Citizens League
Notes to Financial Statements
December 31, 2019

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.

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

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

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.

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, 2019.

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 2019, JACL appropriated for distribution 4 percent of the Legacy Fund's average fair value over the prior 24 months.

Japanese American Citizens League
Notes to Financial Statements
December 31, 2019

7. ENDOWMENT (continued)

Endowment composition

Endowment net asset composition by type of fund as of December 31, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	\$ 1,576,417	\$ -	\$ 1,576,417
Donor restricted endowment funds	<u>-</u>	<u>9,143,979</u>	<u>9,143,979</u>
	<u>\$ 1,576,417</u>	<u>\$ 9,143,979</u>	<u>\$ 10,720,396</u>

Changes in endowment net assets for the fiscal year ended December 31, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, December 31, 2018	<u>\$ 1,405,361</u>	<u>\$ 7,742,894</u>	<u>\$ 9,148,255</u>
Investment return			
Investment income	57,630	100,689	158,319
Net depreciation (realized and unrealized)	<u>218,781</u>	<u>1,390,065</u>	<u>1,608,846</u>
Total investment return	276,411	1,490,754	1,767,165
Board designation to national endowment	(95,667)	-	(95,667)
Contribution	-	2,150	2,150
Appropriation for endowment assets for expenditure	<u>(9,688)</u>	<u>(91,819)</u>	<u>(101,507)</u>
	<u>171,056</u>	<u>1,401,085</u>	<u>1,572,141</u>
Balance, December 31, 2019	<u>\$ 1,576,417</u>	<u>\$ 9,143,979</u>	<u>\$ 10,720,396</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, 2019, JACL's contributions to the Plan were \$26,480.

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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, 2019 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	\$ 340,566
Interest cost	13,290
Assumption change	20,622
Experience gain	(76,431)
Benefits paid	<u>(5,128)</u>
	<u>\$ 292,919</u>

The following sets forth the funded status of the plan:

Plan assets at fair value	\$ -
Accumulated benefit obligation	292,919
Funded status recognized in Statement of Financial Position	(292,919)
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	\$ 105,509
Employees currently eligible to retire	<u>187,410</u>
	<u>\$ 292,919</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	\$ 13,290
Net amortization of gains	<u>(16,188)</u>
	<u>\$ (2,898)</u>

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9. PENSION PLAN (continued)

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

Discount rate	2.90 %
Health care trend rate	2.40 %

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:

Year ending December 31,

2020	\$ 17,516
2021	17,627
2022	18,038
2023	18,431
2024	18,712
Thereafter	<u>93,843</u>
	<u>\$ 184,167</u>

10. COMMITMENTS AND CONTINGENCIES

JACL leases its facilities and office equipment under operating lease agreements, expiring at various times through February 2024, which currently require monthly payments ranging from approximately \$300 to \$3,000. Rent expense paid under these leases for the year ended December 31, 2019 was \$84,052.

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

Year ending December 31,

2020	\$ 54,452
2021	35,914
2022	36,810
2023	37,730
2024	<u>6,314</u>
	<u>\$ 171,220</u>

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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, 2019, total lease and sublease income received was \$24,505.

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.

JACL's investments consist of donor-restricted endowments and board designated endowment funds. JACL intends to appropriate \$102,000 from the endowment during fiscal year 2020. 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, 2019 to fund general expenditures and other obligations as they become due:

Financial assets:	
Cash and cash equivalents	\$ 231,462
Accounts and other receivables, net	160,456
Long-term investments	<u>12,493,186</u>
	<u>12,885,104</u>
Less: amounts unavailable for general expenditures within one year:	
Donor restricted endowments, net of cash held for long-term purposes	(8,837,951)
Board-designated reserves	(1,576,417)
Other donor restrictions	<u>(1,998,298)</u>
	<u>(12,412,666)</u>
	<u>\$ 472,438</u>

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13. SUBSEQUENT EVENTS

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 COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. In response, the U.S. Government enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which includes significant provisions to provide relief and assistance to affected organizations. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders and the ultimate impact of the CARES Act and other governmental initiatives. 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.

JACL has evaluated subsequent events through June 24, 2021, 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.