

JAPANESE CULTURAL CENTER OF HAWAI'I

FINANCIAL STATEMENTS

**As of and for the Year Ended June 30, 2019
With Prior Year Comparative Information
And Independent Auditor's Report**



CW Associates

A Hawaii Certified Public Accounting Corporation

JAPANESE CULTURAL CENTER OF HAWAII

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(With Prior Year Comparative Information)**

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CW Associates

A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITOR'S REPORT

Japanese Cultural Center of Hawai'i:

Report on the Financial Statements

We have audited the accompanying financial statements of the Japanese Cultural Center of Hawai'i (JCCH), a nonprofit Hawaii corporation, which comprise the statement of financial position as of June 30, 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 of 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 on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of JCCH as of June 30, 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.

Emphasis of Matter

As discussed in Note B to the financial statements, during the year ended June 30, 2019, JCCH adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Prior Year Comparative Information

We have previously audited JCCH's financial statements as of and for the year ended June 30, 2018, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 20, 2018. In our opinion, the accompanying prior year comparative information presented herein is consistent, in all material respects, with the audited financial statements from which it has been derived.

CW ASSOCIATES, CPAs

Honolulu, Hawaii
February 5, 2020

JAPANESE CULTURAL CENTER OF HAWAII

STATEMENT OF FINANCIAL POSITION

As of June 30, 2019

(With Prior Year Comparative Information)

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (including interest bearing accounts)	\$ 1,588,898	\$ 661,783
Accounts receivable – net	176,816	181,820
Investments, at fair value	2,692,866	2,277,752
Prepaid expenses and other assets	44,485	29,061
Total current assets	<u>4,503,065</u>	<u>3,150,416</u>
NONCURRENT ASSETS		
Property and equipment – net	10,073,201	10,507,593
Security deposits and facility reserves	128,317	229,191
Assets restricted as to use	873,637	825,322
Other assets	25,000	25,000
Total noncurrent assets	<u>11,100,155</u>	<u>11,587,106</u>
COLLECTIONS (Note B)		
TOTAL ASSETS	<u>\$15,603,220</u>	<u>\$14,737,522</u>

(Continued)

JAPANESE CULTURAL CENTER OF HAWAII
STATEMENT OF FINANCIAL POSITION (Continued)

As of June 30, 2019
(With Prior Year Comparative Information)

	<u>2019</u>	<u>2018</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 250,199	\$ 197,798
Deferred revenue	71,094	101,061
Note payable – current	62,964	60,917
Capital lease payable – current	45,607	7,645
Total current liabilities	<u>429,864</u>	<u>367,421</u>
NONCURRENT LIABILITIES		
Note payable – noncurrent	32,072	95,166
Capital lease payable – noncurrent	1,368	9,365
Rental deposits	15,603	16,359
Total noncurrent liabilities	<u>49,043</u>	<u>120,890</u>
TOTAL LIABILITIES	<u>478,907</u>	<u>488,311</u>
NET ASSETS		
Net assets without donor restrictions		
Undesignated	12,920,158	12,912,226
Board designated	1,321,881	421,881
Total net assets without donor restrictions	<u>14,242,039</u>	<u>13,334,107</u>
Net assets with donor restrictions		
Donor restricted for time and programs	575,974	608,804
Donor restricted endowments	306,300	306,300
Total net assets with donor restrictions	<u>882,274</u>	<u>915,104</u>
Total net assets	<u>15,124,313</u>	<u>14,249,211</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,603,220</u>	<u>\$ 14,737,522</u>

See accompanying notes to the financial statements.

JAPANESE CULTURAL CENTER OF HAWAII

STATEMENT OF ACTIVITIES

**For the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

	<u>2019</u>	<u>2018</u>
CHANGES IN NET ASSETS		
WITHOUT DONOR RESTRICTIONS		
Revenue and support		
Rental income	\$ 1,310,951	\$ 1,175,347
Bequest	1,252,000	-
Fundraising – net	242,098	245,704
Grants and contracts	227,229	256,958
Contributions without donor restrictions	168,930	221,374
Gift shop and gallery revenue	156,491	172,402
Net realized and unrealized gains on investments	130,945	132,799
Membership dues	114,080	116,447
Program fees	91,603	101,795
Interest and dividends	86,937	76,727
Net assets released from donor restrictions	56,421	115,225
Other revenue	<u>2,835</u>	<u>3,142</u>
Total revenue and support	<u>3,840,520</u>	<u>2,617,920</u>
Expenses		
Program services		
Property	1,877,217	1,716,522
Programs and events	<u>578,034</u>	<u>712,886</u>
Total program services	<u>2,455,251</u>	<u>2,429,408</u>
Supporting services		
Management and general	318,939	343,666
Fundraising	<u>158,398</u>	<u>146,926</u>
Total supporting services	<u>477,337</u>	<u>490,592</u>
Total expenses	<u>2,932,588</u>	<u>2,920,000</u>
Increase (decrease) in net assets without donor restrictions	<u>907,932</u>	<u>(302,080)</u>
CHANGES IN NET ASSETS		
WITH DONOR RESTRICTIONS		
Contributions with donor restrictions for time and programs	19,498	54,795
Investment income with donor restrictions for endowments	4,093	3,393
Contributions with donor restrictions for endowments	-	300
Net assets released from donor restrictions	<u>(56,421)</u>	<u>(115,225)</u>
Decrease in net assets with donor restrictions	<u>(32,830)</u>	<u>(56,737)</u>
INCREASE (DECREASE) IN NET ASSETS	875,102	(358,817)
NET ASSETS – Beginning of year	<u>14,249,211</u>	<u>14,608,028</u>
NET ASSETS – End of year	<u>\$ 15,124,313</u>	<u>\$ 14,249,211</u>

See accompanying notes to the financial statements.

JAPANESE CULTURAL CENTER OF HAWAII
STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019
(With Prior Year Comparative Information)

	Program Services		Management		Supporting Services		2018 Total
	Property	Programs and Events	Total Program Services	General	Fund-Raising	Total Supporting Services	
Salaries and wages	\$ 49,864	\$ 262,509	\$ 312,373	\$ 207,753	\$ 90,503	\$ 298,256	\$ 533,823
Employee benefits	412	48,121	48,533	33,425	11,703	45,128	98,862
Payroll taxes	4,694	22,730	27,424	18,080	8,037	26,117	44,273
Total salaries and related expenses	54,970	333,360	388,330	259,258	110,243	369,501	676,958
Depreciation and amortization	726,211	-	726,211	-	-	-	693,243
Utilities	365,767	-	365,767	-	-	-	320,816
Repairs and maintenance	317,485	-	317,485	-	-	-	335,314
Property and excise taxes	207,449	5,859	213,308	6	14,164	14,170	202,321
Program events	-	165,867	165,867	-	-	-	363,046
Special events	-	-	-	-	105,411	105,411	125,503
Bad debt	98,900	-	98,900	-	-	-	-
Professional fees	40,692	-	40,692	19,788	-	19,788	89,479
Insurance	41,060	-	41,060	-	-	-	43,236
Technology	-	28,190	28,190	-	9,022	9,022	39,862
Office supplies and expenses	-	12,635	12,635	10,738	5,016	15,754	19,976
Investment broker fees	-	5,137	5,137	21,642	-	21,642	21,271
Gift shop	-	25,962	25,962	-	-	-	35,771
Security	24,683	-	24,683	-	-	-	35,582
Membership	-	-	-	-	12,197	12,197	21,866
Miscellaneous	-	23	23	2,753	7,521	10,274	8,459
Interest	-	-	-	4,754	-	4,754	7,059
Gallery	-	1,001	1,001	-	-	-	3,288
Advertising	-	-	-	-	235	235	-
Training and travel	-	-	-	-	-	-	2,453
Total	1,877,217	578,034	2,455,251	318,939	263,809	582,748	3,045,503
Direct cost of special events reported net with fundraising revenue in statement of activities	-	-	-	-	(105,411)	(105,411)	(125,503)
Total expenses	\$ 1,877,217	\$ 578,034	\$ 2,455,251	\$ 318,939	\$ 158,398	\$ 477,337	\$ 2,920,000

See accompanying notes to the financial statements.

JAPANESE CULTURAL CENTER OF HAWAI'I

STATEMENT OF CASH FLOWS

**For the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 875,102	\$ (358,817)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	726,211	693,243
Net realized and unrealized gains on investments	(130,945)	(132,799)
Investment income and contributions for endowments	(4,093)	(3,693)
(Increase) decrease in		
Accounts receivable – net	5,004	57,979
Prepaid expenses and other assets	(15,424)	5,734
Security deposits and facility reserves	100,874	49,947
Increase (decrease) in		
Accounts payable and accrued liabilities	52,401	(4,761)
Deferred revenue	(29,967)	9,018
Rental deposits	(756)	-
Net cash provided by operating activities	<u>1,578,407</u>	<u>315,851</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(171,167)	(113,744)
Purchases of investments	(435,668)	(271,360)
Sales of investments	108,615	317,522
Change in assets restricted as to use	(5,431)	54,110
Net cash used in investing activities	<u>(503,651)</u>	<u>(13,472)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Investment income and contributions for endowments	4,093	3,693
Repayments of note payable	(61,047)	(58,972)
Capital lease payments	(90,687)	(7,310)
Net cash used in financing activities	<u>(147,641)</u>	<u>(62,589)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	927,115	239,790
CASH AND CASH EQUIVALENTS – Beginning of year	<u>661,783</u>	<u>421,993</u>
CASH AND CASH EQUIVALENTS – End of year	<u>\$1,588,898</u>	<u>\$ 661,783</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 4,038	\$ 6,116
Equipment acquired through a capital lease	\$ 120,652	\$ -

See accompanying notes to the financial statements.

JAPANESE CULTURAL CENTER OF HAWAI'I

NOTES TO THE FINANCIAL STATEMENTS

**As of and for the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE A – ORGANIZATION AND ACTIVITY

The Japanese Cultural Center of Hawai'i (JCCH), a nonprofit Hawaii corporation, was incorporated in the State of Hawaii in May 1987 for the purpose of preserving and promoting the Japanese culture in Hawaii and to create a unified bridge of understanding and respect among cultures.

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Revenue is recognized when earned rather than when received and expenses are recognized when the related liability is incurred rather than when paid. JCCH reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Revenue from grants and contracts is recognized to the extent of expenditures made in accordance with the related agreements. Support is recognized when pledged and is considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is recognized when pledged as an increase in net assets with donor restrictions. When a restriction is satisfied or expires, or a donor removes the restriction, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Revenue from rental income, gift shop sales, program fees, membership dues, and gallery visits are recognized when the required services are performed. JCCH allocates its expenses on a functional basis among its various programs and supporting services based on estimates of management. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service using natural expense classifications. Other expenses that are common to several functions are allocated based on the time spent by personnel and/or as a proportionate share of direct expenses.

Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills that are performed by people with those skills and would otherwise be purchased by JCCH. A number of unpaid volunteers have made contributions of their time to JCCH. The value of this time is not reflected in these financial statements because it does not meet the criteria for recognition.

Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates, and it is reasonably possible that such estimates may change within the near term.

JAPANESE CULTURAL CENTER HAWAII

NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of and for the Year Ended June 30, 2019
(With Prior Year Comparative Information)

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk

Financial instruments that potentially subject JCCH to credit risk include cash and cash equivalents, accounts receivable, and investments. Cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$1,107,700 and \$352,100 at June 30, 2019 and 2018, respectively. JCCH has unsecured accounts receivable due from grantors, donors, tenants, and others. Receivables are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual accounts.

Investments

Investments are stated at fair value using quoted market prices. Net realized and unrealized gains and losses, determined using the specific identification method, are included in changes in net assets without donor restrictions and with donor restrictions. Interest and dividends and gains and losses on the investments are recorded as changes in net assets without donor restrictions unless restricted by the donor or by law. Investments are held in segregated accounts that are fully insured by federal and private insurance, on a per-account basis, as represented by the custodian. Future changes in market prices may make such investments less valuable.

Inventory

Inventory, consisting of products and goods held for sale in the gift shop, are stated at the lower of cost or net realizable value. Inventory of \$34,577 and \$23,060 as of June 30, 2019 and 2018, respectively, is recorded in prepaid expenses and other assets in the statements of financial position.

Property and Equipment

Property and equipment are stated at cost or, if contributed, at the estimated fair market value at the date of contribution. Depreciation is computed using the straight-line method over estimated useful lives of five to 39 years for building and improvements and three to ten years for furniture and equipment. Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Expenditures in excess of \$500 are capitalized. Maintenance and repairs are expensed as incurred.

Collections

JCCH's collections include art objects, books, photographs, manuscripts, and other items. JCCH does not capitalize its collections, which consist of items that help to document the history and culture of Japanese Americans in Hawaii because the items have no alternative uses.

JAPANESE CULTURAL CENTER HAWAII

NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of and for the Year Ended June 30, 2019
(With Prior Year Comparative Information)

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Leases that transfer substantially all of the risks and benefits of ownership are capital leases. Other leases are operating leases. Capital leases are included in property and equipment at the lower of the present value of minimum lease payments or fair value at the inception of the lease and amortized using the straight-line method over the shorter of the lease term or the useful life of the asset. The related capital lease obligation is recognized at its net present value. Operating leases are expensed when the lease payments are due.

Advertising

JCCH expenses its advertising costs. Advertising costs were \$235 and \$0 for the years ended June 30, 2019 and 2018, respectively.

Hawaii General Excise Tax

The State of Hawaii imposes a general excise tax of 4.00% on certain gross receipts of JCCH within Hawaii, plus an additional 0.50% on such gross receipts within the City and County of Honolulu. Hawaii general excise tax expensed included in revenue and expenses amounted to \$79,099 and \$58,723 for the years ended June 30, 2019 and 2018, respectively.

Income Taxes

JCCH is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Accordingly, qualifying contributions to JCCH are tax deductible.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by JCCH and to recognize a tax liability if JCCH has taken a tax position that is likely to fail upon examination by taxing authorities. Management has evaluated JCCH's tax positions as of June 30, 2019 and 2018, and for the years then ended, by reviewing its income tax returns and conferring with its tax advisors, and determined that JCCH had no uncertain tax positions required to be reported in accordance with such generally accepted accounting principles. JCCH is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

JAPANESE CULTURAL CENTER HAWAII

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under this ASU, there are two classes of net assets – net assets with donor restrictions and net assets without donor restrictions. This ASU also requires reporting of the underwater amounts for donor-restricted endowments with enhanced disclosures; allows for the presentation of cash flows using the indirect or direct method without a reconciliation of the direct method to the indirect method; requires qualitative information on how the organization manages its liquid assets and associated liquidity risks; requires information on the financial statement or in the notes to the financial statements on the availability of the organization's assets to meet cash needs for general expenditures within one year; and requires reporting of expenses by function and nature along with an analysis of such expenses. In the absence of explicit donor restrictions, this ASU requires the use of the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus, eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset). This ASU is effective for fiscal years beginning after December 31, 2017. Upon adoption, this ASU is to be applied retrospectively. JCCH implemented this ASU during the year ended June 30, 2019. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions.

NOTE C – LIQUIDITY

JCCH monitors the liquidity required to meet its cash needs for general expenditures. For purposes of analyzing resources available to meet general expenditures 12 months from the statement of financial position date, JCCH considers all expenditures related to its ongoing activities. In addition to financial assets available to meet general expenditures, JCCH anticipates collecting sufficient revenue to cover general operating expenditures.

JAPANESE CULTURAL CENTER HAWAII

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE C – LIQUIDITY (Continued)

The following reflects JCCH’s financial assets as of June 30, 2019 and 2018, reduced by amounts not available for use within one year of the statement of financial position date for general operations because of contractual or donor-imposed restrictions:

	<u>2019</u>	<u>2018</u>
Cash (including interest-bearing accounts)	\$ 1,588,898	\$ 661,783
Accounts receivable – net	176,816	181,820
Investments, at fair value	2,692,866	2,277,752
Assets restricted as to use	<u>873,637</u>	<u>825,322</u>
Total financial assets	5,332,217	3,946,677
Net assets with donor restrictions for time and programs	(575,974)	(608,804)
Net assets with donor restrictions for endowments	<u>(306,300)</u>	<u>(306,300)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,449,943</u>	<u>\$ 3,031,573</u>

NOTE D – ACCOUNTS RECEIVABLE

At June 30, 2019 and 2018, accounts receivable consisted of the following:

	<u>2019</u>	<u>2018</u>
Accounts receivable	\$ 254,732	\$ 117,288
Allowance for doubtful accounts – accounts receivable	<u>(98,900)</u>	<u>-</u>
Total	<u>155,832</u>	<u>117,288</u>
Pledges receivable	-	40,000
Allowance for doubtful accounts – pledges receivable	<u>-</u>	<u>-</u>
Total	<u>-</u>	<u>40,000</u>
Grants receivable	20,984	24,532
Allowance for doubtful accounts – grants receivable	<u>-</u>	<u>-</u>
Total	<u>20,984</u>	<u>24,532</u>
Accounts receivable – net	<u>\$ 176,816</u>	<u>\$ 181,820</u>

At June 30, 2019 and 2018, accounts receivable includes \$237,110 and \$97,314 for rent due to JCCH and \$17,622 and \$19,974 for GALA table sales and other miscellaneous amounts due to JCCH, respectively.

JAPANESE CULTURAL CENTER HAWAII

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE E – PROPERTY AND EQUIPMENT

At June 30, 2019 and 2018, property and equipment consisted of the following:

	<u>2019</u>	<u>2018</u>
Building and improvements	\$ 20,371,182	\$ 20,201,907
Furniture and equipment	<u>1,646,540</u>	<u>1,532,372</u>
Total	22,017,722	21,734,279
Accumulated depreciation and amortization	<u>(15,220,652)</u>	<u>(14,494,441)</u>
	6,797,070	7,239,838
Land	<u>3,276,131</u>	<u>3,267,755</u>
Property and equipment – net	<u>\$ 10,073,201</u>	<u>\$ 10,507,593</u>

NOTE F – INVESTMENTS

At June 30, 2019 and 2018, investments, including amounts in assets restricted as to use, consisted of the following:

	<u>2019</u>	<u>2018</u>
Investments without donor restrictions		
Exchange traded funds	\$ 1,889,924	\$ 1,522,639
Mutual funds	<u>802,942</u>	<u>755,113</u>
Total investments without donor restrictions	<u>2,692,866</u>	<u>2,277,752</u>
Investments restricted as to use		
Exchange traded funds	809,346	768,510
Mutual funds	<u>15,360</u>	<u>13,312</u>
Total investments restricted as to use	<u>824,706</u>	<u>781,822</u>
Total investments	<u>\$ 3,517,572</u>	<u>\$ 3,059,574</u>

In addition, at June 30, 2019 and 2018, assets restricted as to use included cash of \$48,931 and \$43,500, respectively.

JAPANESE CULTURAL CENTER HAWAII

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE F – INVESTMENTS (Continued)

Investment income for the years ended June 30, 2019 and 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
Investment income without donor restrictions		
Dividend income	\$ 86,937	\$ 76,698
Realized gains	2,878	43,712
Unrealized gains	128,067	89,087
Interest income	-	29
Total investment income without donor restrictions	<u>217,882</u>	<u>209,526</u>
Investment income with donor restrictions for endowments		
Dividend income	<u>4,093</u>	<u>3,393</u>
Total investment income with donor restrictions for endowments	<u>4,093</u>	<u>3,393</u>
Total investment income	<u>\$ 221,975</u>	<u>\$ 212,919</u>

NOTE G – FAIR VALUE MEASUREMENTS

The established framework for measuring fair value provides a hierarchy that prioritizes the inputs to the valuation methodologies used to measure fair value. There are three levels of the fair value hierarchy. Level 1 inputs consist of unadjusted quoted prices for identical assets or liabilities in active markets that an entity has the ability to access. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs are unobservable and significant to the fair value measurement. The fair value measurement level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation methodologies used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

At June 30, 2019 and 2018, the fair value measurements reportable by JCCH consist of investments in exchange traded funds and mutual funds valued at quoted market prices, which are Level 1 valuation inputs. There were no Level 2 and 3 investments as of June 30, 2019 and 2018. The method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

JAPANESE CULTURAL CENTER HAWAII

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE G – FAIR VALUE MEASUREMENTS (Continued)

The following sets forth by level, within the fair value hierarchy, investments at fair value as of June 30, 2019 and 2018:

	Level 1	
	2019	2018
Exchange traded funds		
Large cap index funds	\$ 1,149,169	\$ 987,144
Bond funds	1,002,635	868,441
International funds	283,442	213,414
Small cap index funds	112,051	112,076
Mid cap index funds	60,221	45,968
Other	91,752	64,106
Total exchange traded funds	2,699,270	2,291,149
Mutual funds		
Bond funds	338,857	312,369
Large cap index funds	247,111	230,979
International funds	163,279	161,159
Mid cap index funds	60,635	55,712
Other	8,420	8,206
Total mutual funds	818,302	768,425
 Total investments, at fair value	 \$ 3,517,572	 \$ 3,059,574

NOTE H – NOTE PAYABLE

In December 2015, JCCH obtained a five-year loan from Central Pacific Bank (Bank) to finance the Manoa Grand Ballroom renovation. The note payable to the Bank is collateralized by substantially all of the assets of JCCH.

JAPANESE CULTURAL CENTER HAWAII

NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of and for the Year Ended June 30, 2019
(With Prior Year Comparative Information)

NOTE H – NOTE PAYABLE (Continued)

At June 30, 2019 and 2018, note payable consisted of the following:

	<u>2019</u>	<u>2018</u>
Note payable to Central Pacific Bank in monthly installments of \$5,424 through December 2020, including interest at 3.25%	\$ 95,036	\$ 156,083
Note payable – current	<u>(62,964)</u>	<u>(60,917)</u>
Note payable – noncurrent	<u>\$ 32,072</u>	<u>\$ 95,166</u>

At June 30, 2019, scheduled maturities of the note payable approximated the following:

Fiscal Years Ending June 30th	
2020	\$ 62,964
2021	<u>32,072</u>
Total note payable	<u>\$ 95,036</u>

NOTE I – BOARD DESIGNATED NET ASSETS

At June 30, 2019 and 2018, the Board of Directors of JCCH designated \$1,321,881 and \$421,881, respectively, of JCCH's net assets without donor restrictions for certain programs. Such designations may be changed by the Board of Directors of JCCH at any time.

JAPANESE CULTURAL CENTER HAWAII

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE J – NET ASSETS RESTRICTED FOR TIME AND PROGRAMS

At June 30, 2019 and 2018, net assets restricted for time and programs consisted of the following:

	<u>2019</u>	<u>2018</u>
Donor restricted for time and programs		
Capital campaign	\$ 407,565	\$ 407,565
Gallery exhibits	83,397	83,652
Resource Center	55,727	87,358
Programs	13,512	17,141
Education	8,287	9,695
Endowment interest for programs	<u>7,486</u>	<u>3,393</u>
 Total donor restricted for time and programs	 <u>\$ 575,974</u>	 <u>\$ 608,804</u>

NOTE K – NET ASSETS RESTRICTED FOR ENDOWMENTS

At June 30, 2019 and 2018, net assets restricted for endowments consisted of the following:

	<u>2019</u>	<u>2018</u>
Donor restricted for endowments		
Hilo Nihonjin Gakko	\$ 165,000	\$ 165,000
Resource Center Permanent Endowment	125,000	125,000
Clarence and Janet Kanja Permanent Endowment	11,300	11,300
Hikari Matsuda Endowment	<u>5,000</u>	<u>5,000</u>
 Total donor restricted for endowments	 <u>\$ 306,300</u>	 <u>\$ 306,300</u>

JCCH is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) adopted by the State of Hawaii in July 2009. It is the policy of JCCH to preserve the original gift of donor-restricted endowment funds as net assets with donor restrictions for endowments, absent explicit donor stipulations to the contrary. Unless otherwise stated, other donor-restricted gifts are classified as net assets with donor restrictions for programs.

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 JCCH to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States, deficiencies of this nature are reported in net assets without donor restrictions (none for the years ended June 30, 2019 and 2018).

JAPANESE CULTURAL CENTER HAWAII

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE K – NET ASSETS RESTRICTED FOR ENDOWMENTS (Continued)

JCCH maintains an investment policy that clearly defines its investment objectives, guidelines, standards, and procedures for the investment funds it holds, including endowments. JCCH’s investment objective is to create additional funding through investments for the exclusive purpose of fulfilling its mission. All endowment funds are invested in exchange traded funds and mutual funds. Interest and dividend income is restricted as to use based on donor stipulations. All decisions for the investing of funds and usage of investment income are determined by the Board of Directors of JCCH.

The composition of net assets with donor restrictions for endowment funds as of June 30, 2019 and 2018 and the changes in these net assets for the years then ended were as follows:

	Restricted for Time and <u>Programs</u>	Restricted for <u>Endowments</u>	<u>Total</u>
Balance at June 30, 2017	\$8,729	\$306,000	\$314,729
Contributions	-	300	300
Release from restriction by donor	(8,729)	-	(8,729)
Interest and dividends	<u>3,393</u>	<u>-</u>	<u>3,393</u>
Balance at June 30, 2018	3,393	306,300	309,693
Contributions	-	-	-
Release from restriction by donor	-	-	-
Interest and dividends	<u>4,093</u>	<u>-</u>	<u>4,093</u>
Balance at June 30, 2019	<u>\$7,486</u>	<u>\$306,300</u>	<u>\$313,786</u>

NOTE L – LEASES

JCCH leases office space, as lessor, under operating leases expiring at various dates through 2047, with a renegotiation every five years after July 2022. At June 30, 2019, the future minimum lease rental income approximates the following:

Fiscal Years Ending June 30th	
2020	\$ 480,400
2021	\$ 437,300
2022	\$ 395,800
2023	\$ 29,800

JAPANESE CULTURAL CENTER HAWAII

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE L – LEASES (Continued)

JCCH leases equipment, as lessee, under capital leases expiring in August 2020 and September 2020. At June 30, 2019 and 2018, property and equipment included equipment under capital leases were \$157,550 and \$36,897, respectively, with accumulated amortization of \$73,533 and \$20,908, respectively.

At June 30, 2019, future minimum capital lease rent payments, and the present value of the obligation under the capital leases, approximated the following:

	<u>Capital Leases</u>
Fiscal Years Ending June 30th	
2020	\$47,630
2021	<u>1,400</u>
Total minimum lease payments	49,030
Amounts representing interest imputed at 4.5%	<u>(2,055)</u>
Present value of obligation under capital leases	46,975
Capital lease payable – current	<u>45,607</u>
Capital lease payable – noncurrent	<u>\$ 1,368</u>

NOTE M – FUNDRAISING

For the years ended June 30, 2019 and 2018, fundraising consisted of the following:

	<u>2019</u>	<u>2018</u>
Special events revenue	\$ 347,509	\$ 371,207
Special events expenses	<u>(105,411)</u>	<u>(125,503)</u>
Fundraising – net	<u>\$ 242,098</u>	<u>\$ 245,704</u>

JAPANESE CULTURAL CENTER HAWAII

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE N – RETIREMENT SAVINGS PLAN

JCCH sponsors a retirement savings plan covering substantially all employees who meet certain eligibility criteria. Participating employees may make voluntary contributions up to the maximum amount allowed under Internal Revenue Code Section 401(k). JCCH may make contributions to the plan in amounts determined by the Board of Directors up to 3% of the employee's pre-tax compensation. For the years ended June 30, 2019 and 2018, JCCH contributions under this plan amounted to \$10,681 and \$772, respectively.

NOTE O – CONTINGENCIES

JCCH may be subject to legal proceedings, claims, or litigation arising in the ordinary course of business for which it seeks the advice of legal counsel. Management estimates, on the advice of legal counsel, that the cost to resolve such matters, if any, would not be material to the financial statements. However, it is reasonably possible that such estimates may change within the near term.

Amounts received for grants and contracts may be subject to audit and adjustment by various agencies. Any disallowed claim, including amounts already collected, may constitute a liability. Management expects such amounts, if any, to not be material to the financial statements. The loss of revenue and support derived from grants and contracts could have an adverse effect on JCCH.

JCCH operates in the State of Hawaii. Local, national and international events can have severe, adverse effects on economic conditions in Hawaii. The effects, if any, on the financial statements of the JCCH from such changes in economic conditions are not presently determinable.

NOTE P – FINANCIAL STATEMENT PRESENTATION

The financial statements include certain prior year comparative information. Such information does not include sufficient detail to constitute a complete presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with JCCH's financial statements as of and for the year ended June 30, 2018, from which the information was derived.

Certain amounts in the prior year comparative information have been reclassified to conform to the current year presentation. Such reclassifications had no impact on the previously reported changes in net assets.

NOTE Q – SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 5, 2020, which is the date the financial statements were available to be issued, and determined JCCH did not have any subsequent events requiring adjustment to the financial statements or disclosure in the notes to the financial statements.