

JAPANESE CULTURAL CENTER OF HAWAI'I

**FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2020
With Prior Year Comparative Information
And Independent Accountant's Review 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 ACCOUNTANT'S REVIEW REPORT

Japanese Cultural Center of Hawai'i:

Report on the Financial Statements

We have reviewed 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, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants (AICPA). Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter with Respect to Change of Accounting Methods

As discussed in Note B to the financial statements, during the year ended June 30, 2020, JCCH adopted Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* and ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our conclusion 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, 2019, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 5, 2020. We are not aware of any material modifications that should be made to the summarized comparative information presented herein as of and for the year ended June 30, 2019 for it to be consistent with the audited financial statements from which it has been derived.

CW ASSOCIATES, CPAs

Honolulu, Hawaii
March 31, 2021

JAPANESE CULTURAL CENTER OF HAWAII

STATEMENT OF FINANCIAL POSITION

As of June 30, 2020
(With Prior Year Comparative Information)

| | 2020 <u>(Reviewed)</u> | 2019 <u>(Audited)</u> |
|---|---------------------------|--------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents (including interest bearing accounts) | \$ 1,631,604 | \$ 1,588,898 |
| Accounts and grants receivable – net | 275,036 | 176,816 |
| Investments, at fair value | 2,705,915 | 2,692,866 |
| Prepaid expenses and other assets | 43,334 | 44,485 |
| Total current assets | <u>4,655,889</u> | <u>4,503,065</u> |
| NONCURRENT ASSETS | | |
| Property and equipment – net | 9,516,201 | 10,073,201 |
| Security deposits and facility reserves | 60,303 | 128,317 |
| Cash equivalents restricted as to use | 59,636 | 48,931 |
| Investments restricted as to use | 850,593 | 824,706 |
| Other assets | 25,000 | 25,000 |
| Total noncurrent assets | <u>10,511,733</u> | <u>11,100,155</u> |
| COLLECTIONS (Note B) | <u>-</u> | <u>-</u> |
| TOTAL ASSETS | <u>\$ 15,167,622</u> | <u>\$ 15,603,220</u> |

(Continued)

JAPANESE CULTURAL CENTER OF HAWAI'I
STATEMENT OF FINANCIAL POSITION (Continued)

As of June 30, 2020
(With Prior Year Comparative Information)

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| | <u>(Reviewed)</u> | <u>(Audited)</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 318,922 | \$ 250,199 |
| Deferred revenue | 50,854 | 71,094 |
| SBA PPP loan – current | 62,848 | - |
| Note payable – current | 48,032 | 62,964 |
| Capital lease payable – current | 14,368 | 45,607 |
| Total current liabilities | <u>495,024</u> | <u>429,864</u> |
| NONCURRENT LIABILITIES | | |
| SBA PPP loan – noncurrent | 79,152 | - |
| Note payable – noncurrent | - | 32,072 |
| Capital lease payable – noncurrent | - | 1,368 |
| Rental deposits | 15,603 | 15,603 |
| Total noncurrent liabilities | <u>94,755</u> | <u>49,043</u> |
| TOTAL LIABILITIES | <u>589,779</u> | <u>478,907</u> |
| NET ASSETS | | |
| Net assets without donor restrictions | | |
| Undesignated | 12,382,224 | 12,920,158 |
| Board designated | 1,321,881 | 1,321,881 |
| Total net assets without donor restrictions | <u>13,704,105</u> | <u>14,242,039</u> |
| Net assets with donor restrictions | | |
| Donor restricted for time and programs | 567,438 | 575,974 |
| Donor restricted for endowments | 306,300 | 306,300 |
| Total net assets with donor restrictions | <u>873,738</u> | <u>882,274</u> |
| Total net assets | <u>14,577,843</u> | <u>15,124,313</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 15,167,622</u> | <u>\$ 15,603,220</u> |

See accompanying notes to the financial statements
and independent accountant's review report.

JAPANESE CULTURAL CENTER OF HAWAI'I

STATEMENT OF ACTIVITIES

**For the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

| | <u>2020</u> <u>(Reviewed)</u> | <u>2019</u> <u>(Audited)</u> |
|--|----------------------------------|---------------------------------|
| CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS | | |
| Revenue and support | | |
| Rental income | \$ 1,074,768 | \$ 1,310,951 |
| Bequest | 288,093 | 1,252,000 |
| Contributions without donor restrictions | 178,009 | 168,930 |
| Grants and contracts | 153,599 | 227,229 |
| Gift shop and gallery revenue | 133,353 | 156,491 |
| Membership dues | 96,479 | 114,080 |
| Dividend income | 91,951 | 86,937 |
| Program fees | 86,037 | 91,603 |
| Net realized and unrealized gains on investments | 51,203 | 130,945 |
| Fundraising – net | 29,757 | 242,098 |
| Net assets released from donor restrictions | 23,231 | 56,421 |
| Other revenue | 21,406 | 2,835 |
| Total revenue and support | <u>2,227,886</u> | <u>3,840,520</u> |
| Expenses | | |
| Program services | | |
| Property | 1,738,012 | 1,877,217 |
| Programs and events | 574,768 | 578,034 |
| Total program services | <u>2,312,780</u> | <u>2,455,251</u> |
| Supporting services | | |
| Management and general | 279,485 | 318,939 |
| Fundraising | 173,555 | 158,398 |
| Total supporting services | <u>453,040</u> | <u>477,337</u> |
| Total expenses | <u>2,765,820</u> | <u>2,932,588</u> |
| Increase (decrease) in net assets without donor restrictions | <u>(537,934)</u> | <u>907,932</u> |
| CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS | | |
| Contributions with donor restrictions for time and programs | 10,000 | 19,498 |
| Investment income with donor restrictions for endowments | 4,695 | 4,093 |
| Net assets released from donor restrictions | <u>(23,231)</u> | <u>(56,421)</u> |
| Decrease in net assets with donor restrictions | <u>(8,536)</u> | <u>(32,830)</u> |
| INCREASE (DECREASE) IN NET ASSETS | (546,470) | 875,102 |
| NET ASSETS – Beginning of year | <u>15,124,313</u> | <u>14,249,211</u> |
| NET ASSETS – End of year | <u>\$14,577,843</u> | <u>\$15,124,313</u> |

See accompanying notes to the financial statements
and independent accountant's review report.

JAPANESE CULTURAL CENTER OF HAWAII

STATEMENT OF FUNCTIONAL EXPENSES

**For the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

| | Program Services | | | Supporting Services | | | | |
|--|---------------------|---------------------------|------------------------------|------------------------------|-------------------|---------------------------------|-----------------------------|----------------------------|
| | Property | Programs and Events | Total Program Services | Management and General | Fund- Raising | Total Supporting Services | 2020 Total (Reviewed) | 2019 Total (Audited) |
| Salaries and wages | \$ 25,286 | \$ 253,957 | \$ 279,243 | \$ 177,720 | \$ 112,374 | \$ 290,094 | \$ 569,337 | \$ 610,629 |
| Employee benefits | 2,222 | 49,454 | 51,676 | 27,465 | 14,418 | 41,883 | 93,559 | 93,661 |
| Payroll taxes | 2,117 | 22,563 | 24,680 | 15,213 | 10,069 | 25,282 | 49,962 | 53,541 |
| Total salaries and related expenses | <u>29,625</u> | <u>325,974</u> | <u>355,599</u> | <u>220,398</u> | <u>136,861</u> | <u>357,259</u> | <u>712,858</u> | <u>757,831</u> |
| Depreciation and amortization | 726,737 | - | 726,737 | - | - | - | 726,737 | 726,211 |
| Utilities | 371,470 | - | 371,470 | - | - | - | 371,470 | 365,767 |
| Repairs and maintenance | 295,585 | - | 295,585 | - | - | - | 295,585 | 317,485 |
| Property and excise taxes | 198,253 | 5,060 | 203,313 | - | 140 | 140 | 203,453 | 227,478 |
| Program events | - | 172,760 | 172,760 | - | - | - | 172,760 | 165,867 |
| Bad debt | - | - | - | - | - | - | - | 98,900 |
| Professional fees | 41,119 | - | 41,119 | 20,508 | - | 20,508 | 61,627 | 60,480 |
| Technology | - | 34,468 | 34,468 | 1,430 | 11,163 | 12,593 | 47,061 | 37,212 |
| Insurance | 44,684 | - | 44,684 | - | - | - | 44,684 | 41,060 |
| Investment broker fees | - | 5,706 | 5,706 | 25,096 | - | 25,096 | 30,802 | 26,779 |
| Security | 30,539 | - | 30,539 | - | - | - | 30,539 | 24,683 |
| Gift shop | - | 27,760 | 27,760 | - | - | - | 27,760 | 25,962 |
| Membership | - | - | - | - | 17,555 | 17,555 | 17,555 | 12,197 |
| Office supplies and expenses | - | 2,466 | 2,466 | 7,836 | 2,071 | 9,907 | 12,373 | 28,389 |
| Miscellaneous | - | 339 | 339 | 2,022 | 5,765 | 7,787 | 8,126 | 10,532 |
| Special events | - | - | - | - | 6,247 | 6,247 | 6,247 | 105,411 |
| Interest | - | - | - | 2,195 | - | 2,195 | 2,195 | 4,754 |
| Gallery | - | 235 | 235 | - | - | - | 235 | 1,001 |
| Total | <u>1,738,012</u> | <u>574,768</u> | <u>2,312,780</u> | <u>279,485</u> | <u>179,802</u> | <u>459,287</u> | <u>2,772,067</u> | <u>3,037,999</u> |
| Direct cost of special events reported net with fundraising revenue in statement of activities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(6,247)</u> | <u>(6,247)</u> | <u>(6,247)</u> | <u>(105,411)</u> |
| Total expenses | <u>\$ 1,738,012</u> | <u>\$ 574,768</u> | <u>\$ 2,312,780</u> | <u>\$ 279,485</u> | <u>\$ 173,555</u> | <u>\$ 453,040</u> | <u>\$ 2,765,820</u> | <u>\$ 2,932,588</u> |

See accompanying notes to the financial statements
and independent accountant's review report.

JAPANESE CULTURAL CENTER OF HAWAI'I

STATEMENT OF CASH FLOWS

**For the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|------------------|
| | <u>(Reviewed)</u> | <u>(Audited)</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase (decrease) in net assets | \$ (546,470) | \$ 875,102 |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 726,737 | 726,211 |
| Net realized and unrealized gains on investments | (51,203) | (130,945) |
| Investment income with donor restrictions for endowments | (4,695) | (4,093) |
| (Increase) decrease in | | |
| Accounts and grants receivable – net | (98,220) | 5,004 |
| Prepaid expenses and other assets | 1,151 | (15,424) |
| Increase (decrease) in | | |
| Accounts payable and accrued liabilities | 68,723 | 52,401 |
| Deferred revenue | <u>(20,240)</u> | <u>(29,967)</u> |
| Net cash provided by operating activities | <u>75,783</u> | <u>1,478,289</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (169,737) | (171,167) |
| Purchases of investments | (125,389) | (435,668) |
| Sales of investments | <u>137,656</u> | <u>108,615</u> |
| Net cash used in investing activities | <u>(157,470)</u> | <u>(498,220)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Additions to SBA PPP loan | 142,000 | - |
| Investment income with donor restrictions for endowments | 4,695 | 4,093 |
| Repayments of note payable | (47,004) | (61,047) |
| Security deposits and facility reserves | 68,014 | 100,874 |
| Rental deposits | - | (756) |
| Capital lease payments | <u>(32,607)</u> | <u>(90,687)</u> |
| Net cash provided (used) in financing activities | <u>135,098</u> | <u>(47,523)</u> |

(Continued)

JAPANESE CULTURAL CENTER OF HAWAII

STATEMENT OF CASH FLOWS (Continued)

**For the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

| | 2020 <u>(Reviewed)</u> | 2019 <u>(Audited)</u> |
|--|---------------------------|--------------------------|
| NET INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH EQUIVALENTS | \$ 53,411 | \$ 932,546 |
| CASH AND CASH EQUIVALENTS AND RESTRICTED CASH EQUIVALENTS – Beginning of year | <u>1,637,829</u> | <u>705,283</u> |
| CASH AND CASH EQUIVALENTS AND RESTRICTED CASH EQUIVALENTS – End of year | <u>\$1,691,240</u> | <u>\$1,637,829</u> |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Cash paid during the year for interest | \$ 1,812 | \$ 4,038 |
| Equipment acquired through a capital lease | \$ - | \$ 120,652 |

See accompanying notes to the financial statements
and independent accountant's review report

JAPANESE CULTURAL CENTER OF HAWAII

NOTES TO THE FINANCIAL STATEMENTS

**As of and for the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE A – ORGANIZATION AND ACTIVITY

The Japanese Cultural Center of Hawaii (JCCH), a nonprofit Hawaii corporation, was incorporated in the State of Hawaii in May 1987. JCCH was established 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 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). 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. Contributions are recorded as net assets without donor restriction or with donor restriction depending on the existence and/or nature of any donor restrictions. Support is reported when pledged and is considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is reported when pledged as an increase in net assets with donor restrictions. When a purpose or time restriction is satisfied or expires, net assets with donor restrictions are released to net assets without donor restrictions.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, it is reasonably possible that such estimates may change within the near term, and such differences could be material to the financial statements.

Concentrations of Credit Risk

Financial instruments that potentially subject JCCH to credit risk include cash and cash equivalents, accounts and grants receivable, investments, and assets restricted as to use. Cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$1,093,300 and \$1,107,700 at June 30, 2020 and 2019, respectively. Management evaluates the credit standings of these financial institutions to ensure that all funds are adequately protected. JCCH has unsecured accounts receivable due from grantors, donors, tenants, and others. Receivables are determined to be collectible or uncollectible based on assessments by management of the facts and circumstances, including historical experience, an assessment of economic conditions, and a review of subsequent collections, related to the individual accounts. Investments and assets restricted as to use 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.

JAPANESE CULTURAL CENTER HAWAII

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are stated at fair value. 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 investments are recorded as changes in net assets without donor restrictions unless restricted by the donor or by law.

Fair Value Measurements

U.S. GAAP 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.

The method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

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 \$35,413 and \$34,577 as of June 30, 2020 and 2019, respectively, is included 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 10 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.

JAPANESE CULTURAL CENTER HAWAII

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Collections

JCCH's collections include art objects, books, photographs, manuscripts, and other items. The collections are continuously cataloged, preserved, and cared for. 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.

Revenue and Expense Recognition

Revenue is recognized when the required goods and services are provided to the customer. Amounts received prior to the provision of the goods and services are reported as deferred revenue. Expenses, including advertising costs of \$0 and \$235 for the years ended June 30, 2020 and 2019, respectively, are recorded when the related liability is incurred. 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. JCCH allocates its expenses on a functional basis among its various programs and supporting services based on estimates of management.

Grants and Contracts

JCCH's revenue from grants and contracts is based on agreements with the National Park Service, the State of Hawaii, and other entities such as private foundations. JCCH recognizes grants and contracts as either contributions or exchange transactions depending on whether the transaction is reciprocal or nonreciprocal. The majority of JCCH's grants and contracts are cost-reimbursable grants and contracts, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenditures. Amounts received are recognized as revenue when JCCH has incurred expenditures in compliance with the grant or contract provisions. Amounts received prior to incurring the qualifying expenditures are reported as refundable advances in the statements of financial position (none in 2020 and 2019). Qualifying expenditures that have been incurred, but for which reimbursement has not yet been received, are reported in the statements of financial position as grants receivable (\$40,000 in 2020 and \$20,984 in 2019). Amounts received from such grants and contracts for which the conditions and any restrictions are met in the same reporting period are reported as net assets without donor restrictions.

JCCH received cost-reimbursable grants and contracts of approximately \$1,300 that have not been recognized as of June 30, 2020 because the qualifying expenditures have not yet been incurred.

JAPANESE CULTURAL CENTER HAWAI'I

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

JCCH recognizes contributions when cash or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. Contributions for which the restrictions are met in the same reporting period are reported as contributions without donor restrictions.

Donated Services

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 volunteers have made contributions of their time to JCCH. The value of this time is not reflected in these financial statements because it did not meet the criteria for recognition.

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.

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 included in revenue and expenses amounted to \$50,911 and \$79,099 for the years ended June 30, 2020 and 2019, 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.

U.S. GAAP requires management to evaluate tax positions taken by JCCH and to recognize a tax liability in the financial statements 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, 2020 and 2019, and for the years then ended, and determined that JCCH had no uncertain tax positions required to be reported in accordance with U.S. GAAP. 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, 2020
(With Prior Year Comparative Information)**

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides a framework for determining when a transaction should be accounted for as a contribution or as an exchange transaction. This ASU also requires an entity to determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. JCCH implemented this ASU during the year ended June 30, 2020 using the modified prospective transition method. The cumulative effect of implementing this ASU was not significant to JCCH's financial statements as of July 1, 2019 and for the year ended June 30, 2020.

In November 2016, FASB issued ASU No. 2016-08, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU requires that the statement of cash flows includes all cash and cash equivalents, whether the cash is unrestricted or restricted. JCCH implemented this ASU during the year ended June 30, 2020. The implementation of this ASU during the year ended June 30, 2020 resulted in the inclusion of restricted cash in the accompanying statements of cash flows.

NOTE C – LIQUIDITY

JCCH monitors the liquidity required to meet its operating needs and other contractual commitments. JCCH has various sources of liquidity available for use including cash, accounts receivables, and investments. JCCH incurred a substantial decrease in net assets during and for the year ended June 30, 2020. Management is addressing this matter by seeking out new projects, developing new funding sources, working to maximize rental income, and bolstering its membership.

At June 30, 2020 and 2019, JCCH's financial assets and the amounts of those assets that are readily available within one year of the statement of financial position date to meet general expenditures were as follows:

| | 2020 (Reviewed) | 2019 (Audited) |
|---|---------------------|---------------------|
| Cash (including interest-bearing accounts) | \$ 1,631,604 | \$ 1,588,898 |
| Accounts receivable – net | 275,036 | 176,816 |
| Investments, at fair value | 2,705,915 | 2,692,866 |
| Investments restricted as to use | 850,593 | 824,706 |
| Total financial assets | <u>5,463,148</u> | <u>5,283,286</u> |
| Net assets with donor restrictions for time and programs | (567,438) | (575,974) |
| 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>\$ 4,589,410</u> | <u>\$ 4,401,012</u> |

JAPANESE CULTURAL CENTER HAWAII

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE D – ACCOUNTS AND GRANTS RECEIVABLE

At June 30, 2020 and 2019, accounts and grants receivable consisted of the following:

| | <u>2020</u> <u>(Reviewed)</u> | <u>2019</u> <u>(Audited)</u> |
|---|----------------------------------|---------------------------------|
| Accounts receivable | \$235,036 | \$254,732 |
| Allowance for doubtful accounts – accounts receivable | - | (98,900) |
| Total accounts receivable – net | <u>235,036</u> | <u>155,832</u> |
| Grants receivable | 40,000 | 20,984 |
| Allowance for doubtful accounts – grants receivable | - | - |
| Total grants receivable – net | <u>40,000</u> | <u>20,984</u> |
| Accounts and grants receivable – net | <u>\$275,036</u> | <u>\$176,816</u> |

At June 30, 2020 and 2019, accounts receivable includes \$234,383 and \$237,110 for rent due to JCCH and \$653 and \$17,622 for GALA table sales and other miscellaneous amounts due to JCCH, respectively.

NOTE E – PROPERTY AND EQUIPMENT

At June 30, 2020 and 2019, property and equipment consisted of the following:

| | <u>2020</u> <u>(Reviewed)</u> | <u>2019</u> <u>(Audited)</u> |
|---|----------------------------------|---------------------------------|
| Building and improvements | \$20,450,681 | \$20,371,182 |
| Furniture and equipment | 1,736,778 | 1,646,540 |
| Total | <u>22,187,459</u> | <u>22,017,722</u> |
| Accumulated depreciation and amortization | <u>(15,947,389)</u> | <u>(15,220,652)</u> |
| Land | <u>6,240,070</u> | <u>6,797,070</u> |
| | <u>3,276,131</u> | <u>3,276,131</u> |
| Property and equipment – net | <u>\$ 9,516,201</u> | <u>\$10,073,201</u> |

JAPANESE CULTURAL CENTER HAWAI'I

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE F – INVESTMENTS

At June 30, 2020 and 2019, investments, including amounts in assets restricted as to use, consisted of the following:

| | 2020 <u>(Reviewed)</u> | 2019 <u>(Audited)</u> |
|--|---------------------------|--------------------------|
| Investments without donor restrictions | | |
| Exchange traded funds | \$ 1,924,322 | \$ 1,889,924 |
| Mutual funds | <u>781,593</u> | <u>802,942</u> |
| Total investments without donor restrictions | <u>2,705,915</u> | <u>2,692,866</u> |
| Investments restricted as to use | | |
| Exchange traded funds | 837,101 | 809,346 |
| Mutual funds | <u>13,492</u> | <u>15,360</u> |
| Total investments restricted as to use | <u>850,593</u> | <u>824,706</u> |
| Total investments | <u>\$ 3,556,508</u> | <u>\$ 3,517,572</u> |

Investment income for the years ended June 30, 2020 and 2019, consisted of the following:

| | 2020 <u>(Reviewed)</u> | 2019 <u>(Audited)</u> |
|--|---------------------------|--------------------------|
| Investment income without donor restrictions | | |
| Dividend income | \$ 91,951 | \$ 86,937 |
| Realized gains | 9,665 | 2,878 |
| Unrealized gains | <u>41,538</u> | <u>128,067</u> |
| Interest income | - | - |
| Total investment income without donor restrictions | <u>143,154</u> | <u>217,882</u> |
| Investment income with donor restrictions for endowments | | |
| Dividend income | <u>4,695</u> | <u>4,093</u> |
| Total investment income with donor restrictions for endowments | <u>4,695</u> | <u>4,093</u> |
| Total investment income | <u>\$ 147,849</u> | <u>\$ 221,975</u> |

NOTE G – FAIR VALUE MEASUREMENTS

At June 30, 2020 and 2019, 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, 2020 and 2019.

JAPANESE CULTURAL CENTER HAWAII

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2020
(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, 2020 and 2019:

| | Level 1 | |
|--------------------------------------|-------------------------|-------------------------|
| | 2020 (Reviewed) | 2019 (Audited) |
| Exchange traded funds | | |
| Large cap index funds | \$ 1,202,476 | \$ 1,149,169 |
| Bond funds | 1,048,497 | 1,002,635 |
| International funds | 269,981 | 283,442 |
| Small cap index funds | 101,965 | 112,051 |
| Mid cap index funds | 55,124 | 60,221 |
| Other | 83,380 | 91,752 |
| Total exchange traded funds | <u>2,761,423</u> | <u>2,699,270</u> |
| Mutual funds | | |
| Bond funds | 315,727 | 338,857 |
| Large cap index funds | 246,775 | 247,111 |
| International funds | 165,768 | 163,279 |
| Mid cap index funds | 56,953 | 60,635 |
| Other | 9,862 | 8,420 |
| Total mutual funds | <u>795,085</u> | <u>818,302</u> |
| Total investments, at fair value | <u>\$ 3,556,508</u> | <u>\$ 3,517,572</u> |

NOTE H – CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents. Cash and highly liquid financial instruments restricted for endowments or other long-term purposes are excluded from this definition. The following reconciliation of cash and cash equivalents, and restricted cash equivalents included in assets restricted as to use are reported within the statements of financial position and agree to the sum of the corresponding amounts within the statements of cash flows:

| | 2020 (Reviewed) | 2019 (Audited) |
|---|-------------------------|-------------------------|
| Cash and cash equivalents (including interest bearing accounts) | \$ 1,631,604 | \$ 1,588,898 |
| Cash equivalents restricted as to use | <u>59,636</u> | <u>48,931</u> |
| Total cash and cash equivalents and restricted cash equivalents | <u>\$ 1,691,240</u> | <u>\$ 1,637,829</u> |

JAPANESE CULTURAL CENTER HAWAII

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE I – SBA PPP LOAN

In April 2020, JCCH applied for and received a \$142,000 Paycheck Protection Program (PPP) loan from Central Pacific Bank. The U.S. Small Business Administration (SBA) established the PPP loan program in response to the COVID-19 pandemic to fund an entity's payroll and other applicable costs. All or a portion of the loan, which matures two years from the date of funding and bears interest at 1%, may be forgiven if JCCH meets the compliance requirements established by the SBA and other federal agencies. At June 30, 2020, the PPP loan balance outstanding was \$142,000.

The federal Consolidated Appropriations Act, 2021, which was enacted on December 27, 2020, provides for a PPP loan second draw and other additional fiscal relief for entities impacted by the COVID-19 pandemic. JCCH is currently evaluating its eligibility and need for such additional fiscal relief.

NOTE J – 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. In April 2020, the loan was modified to defer loan payments from April through June 2020. The deferred monthly payments were recovered by a larger balloon payment at loan maturity.

At June 30, 2020 and 2019, the note payable consisted of the following:

| | 2020 <u>(Reviewed)</u> | 2019 <u>(Audited)</u> |
|---|---------------------------|--------------------------|
| Note payable to the Bank in monthly installments of \$5,424 through December 2020, including interest at 3.25%. | \$ 48,032 | \$ 95,036 |
| Note payable – current | <u>(48,032)</u> | <u>(62,964)</u> |
| Note payable – noncurrent | <u>\$ -</u> | <u>\$ 32,072</u> |

NOTE K – BOARD DESIGNATED NET ASSETS

At June 30, 2020 and 2019, the Board of Directors of JCCH designated \$1,321,881 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, 2020
(With Prior Year Comparative Information)**

NOTE L – NET ASSETS RESTRICTED FOR TIME AND PROGRAMS

At June 30, 2020 and 2019, net assets restricted for time and programs consisted of the following:

| | 2020 <u>(Reviewed)</u> | 2019 <u>(Audited)</u> |
|---|---------------------------|--------------------------|
| Capital campaign | \$ 407,565 | \$ 407,565 |
| Gallery exhibits | 83,397 | 83,397 |
| Resource Center | 51,417 | 55,727 |
| Endowment interest for programs | 12,181 | 7,486 |
| Programs | 7,500 | 13,512 |
| Education | 5,378 | 8,287 |
| Total net assets restricted for time and programs | <u>\$ 567,438</u> | <u>\$ 575,974</u> |

NOTE M – NET ASSETS RESTRICTED FOR ENDOWMENTS

At June 30, 2020 and 2019, net assets restricted for endowments consisted of the following:

| | 2020 <u>(Reviewed)</u> | 2019 <u>(Audited)</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 | 5,000 | 5,000 |
| Total donor restricted for endowments | <u>\$ 306,300</u> | <u>\$ 306,300</u> |
| Total net assets with donor restrictions | <u>\$ 873,738</u> | <u>\$ 882,274</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.

JAPANESE CULTURAL CENTER HAWAII

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE M – NET ASSETS RESTRICTED FOR ENDOWMENTS (Continued)

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 U.S. GAAP, deficiencies of this nature are reported in net assets without donor restrictions (none for the years ended June 30, 2020 and 2019).

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.

The composition of net assets with donor restrictions for endowment funds as of June 30, 2020 and 2019 and the changes in these net assets for the years then ended were as follows:

| | <u>Restricted for Time and Programs</u> | <u>Restricted for Endowments</u> | <u>Total</u> |
|---|---|--|----------------------|
| Balance at June 30, 2018 (Audited) | \$ 3,393 | \$306,300 | \$309,693 |
| Dividends | <u>4,093</u> | <u>-</u> | <u>4,093</u> |
| Balance at June 30, 2019 (Audited) | 7,486 | 306,300 | 313,786 |
| Dividends | <u>4,695</u> | <u>-</u> | <u>4,695</u> |
| Balance at June 30, 2020 (Reviewed) | <u>\$ 12,181</u> | <u>\$306,300</u> | <u>\$318,481</u> |

NOTE N – LEASES

JCCH leases office space and rooftop space, as lessor, under operating leases expiring at various dates through December 2046, with a renegotiation every five years after July 2022. At June 30, 2020, the future minimum lease rental income approximates the following:

| | |
|-------------------------------|------------|
| Fiscal Years Ending June 30th | |
| 2021 | \$ 228,000 |
| 2022 | \$ 190,000 |
| 2023 | \$ 123,000 |
| 2024 | \$ 123,000 |
| 2025 | \$ 53,000 |
| Thereafter (cumulative) | \$ 427,000 |

JAPANESE CULTURAL CENTER HAWAI'I

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE N – LEASES (Continued)

JCCH leases equipment, as lessee, under capital leases expiring in August 2020 and September 2020. At June 30, 2020 and 2019, property and equipment included equipment under capital leases of \$157,550, with accumulated amortization of \$141,238 and \$73,533, respectively.

At June 30, 2020, future minimum capital lease rent payments, and the present value of the obligation under the capital leases, approximated the following:

| | |
|--|-----------------|
| Fiscal Years Ending June 30th | |
| 2021 | <u>\$14,813</u> |
| Total minimum lease payments | 14,813 |
| Amounts representing interest imputed at 4.5% | <u>(445)</u> |
| Present value of obligation under capital leases | 14,368 |
| Capital lease payable – current | <u>(14,368)</u> |
| Capital lease payable – noncurrent | <u>\$ -</u> |

NOTE O – FUNDRAISING

For the years ended June 30, 2020 and 2019, fundraising consisted of the following:

| | <u>2020</u> <u>(Reviewed)</u> | <u>2019</u> <u>(Audited)</u> |
|-------------------------|----------------------------------|---------------------------------|
| Special events revenue | \$ 36,004 | \$ 347,509 |
| Special events expenses | <u>(6,247)</u> | <u>(105,411)</u> |
| Fundraising – net | <u>\$ 29,757</u> | <u>\$ 242,098</u> |

JAPANESE CULTURAL CENTER HAWAII

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE P – 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, 2020 and 2019, JCCH contributions under this plan amounted to \$4,604 and \$10,681, respectively.

NOTE Q – COMMITMENTS AND 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 (such as the COVID-19 pandemic) can have severe, adverse effects on economic conditions in Hawaii. These financial statements do not include the adjustments that would result if JCCH were to account for future losses or asset impairments, as the effects on the financial statements of JCCH from such changes in economic conditions that are not presently determinable.

The COVID-19 pandemic has caused business disruption from government-mandated and voluntary closings or reductions in services for all industries. While the disruption is currently expected to be temporary, there is considerable uncertainty as to the duration of the negative economic impact from such disruption. JCCH expects that this matter will continue to negatively impact its operating results; however, the related financial impact cannot be reasonably estimated at this time.

NOTE R – 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 U.S. GAAP. Accordingly, such information should be read in conjunction with JCCH's financial statements as of and for the year ended June 30, 2019, 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.

JAPANESE CULTURAL CENTER HAWAII

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE S – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 31, 2021, 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, except as noted below and in Note I.

In October 2020, JCCH received a \$150,000 Economic Injury Disaster Loan (EIDL) from the SBA. The SBA established the EIDL loan program in response to the COVID-19 pandemic to fund an entity's working capital and normal operating expenses. The EIDL loan matures 30 years from the date of the note and bears interest at 2.75%. Payments may be deferred for up to one year while interest still accrues. There are no prepayment penalties or fees.
