

Japanese American Citizens League

Financial Statements

December 31, 2014



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 19



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 non-profit corporation), which comprise the statement of financial position as of December 31, 2014, 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, 2014, 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.

Report on Summarized Comparative Information

We have previously audited the Japanese American Citizens League's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 20, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.


Armanino^{LLP}
San Francisco, California

September 21, 2015

JAPANESE AMERICAN CITIZENS LEAGUE
Statement of Financial Position
December 31, 2014
(With Comparative Totals for 2013)

ASSETS

	2014	2013
Current assets		
Cash and cash equivalents	\$ 302,896	\$ 249,618
Contributions and other receivables, net of allowance for doubtful accounts of \$7,500 in 2014	167,695	138,359
Prepaid expenses and other current assets	154,433	92,054
Total current assets	625,024	480,031
Property and equipment, net	187,055	176,432
Cash and cash equivalents held for long-term purposes	231,268	880,288
Long-term investments	11,023,080	10,478,042
Total assets	\$ 12,066,427	\$ 12,014,793

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued liabilities	\$ 223,317	\$ 232,386
Deferred revenue	57,635	63,316
Current portion of accumulated post-retirement benefit obligation	29,435	21,631
Total current liabilities	310,387	317,333
Accumulated post-retirement benefit obligation, net of current portion	498,621	483,999
Total liabilities	809,008	801,332
Net assets		
Unrestricted		
Designated	1,322,476	1,275,847
Undesignated	582,447	883,609
Total unrestricted	1,904,923	2,159,456
Temporarily restricted	2,721,752	2,433,572
Permanently restricted	6,630,744	6,620,433
Total net assets	11,257,419	11,213,461
Total liabilities and net assets	\$ 12,066,427	\$ 12,014,793

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

JAPANESE AMERICAN CITIZENS LEAGUE
Statement of Activities
For The Year Ended December 31, 2014
(With Comparative Totals for 2013)

	2014			Total	2013
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues, gains and other support					
Public support - contributions	\$ 324,774	\$ 346,465	\$ 3,875	\$ 675,114	\$ 396,928
Membership income	597,985	-	-	597,985	655,351
Investment income, net	219,653	219,982	6,785	446,420	366,922
Net realized and unrealized gains on investments	38,025	177,802	8,651	224,478	1,017,612
Newspaper revenue	121,671	-	-	121,671	166,078
Book sales	268	-	-	268	211
Grants	-	253,330	-	253,330	170,214
Fundraising campaigns	133,396	-	-	133,396	133,128
Conference revenue	98,544	-	-	98,544	87,445
Other revenue	130,086	-	-	130,086	108,152
Net assets released from restrictions	718,399	(718,399)	-	-	-
Total revenues, gains and other support	<u>2,382,801</u>	<u>279,180</u>	<u>19,311</u>	<u>2,681,292</u>	<u>3,102,041</u>
Expenses					
Program	1,953,574	-	-	1,953,574	1,592,620
General and administrative	398,500	-	-	398,500	362,591
Fundraising	285,260	-	-	285,260	287,704
Total expenses	<u>2,637,334</u>	<u>-</u>	<u>-</u>	<u>2,637,334</u>	<u>2,242,915</u>
Change in net assets	<u>(254,533)</u>	<u>279,180</u>	<u>19,311</u>	<u>43,958</u>	<u>859,126</u>
Net assets at beginning of year	<u>2,159,456</u>	<u>2,433,572</u>	<u>6,620,433</u>	<u>11,213,461</u>	<u>10,354,335</u>
Change in donor restriction	<u>-</u>	<u>9,000</u>	<u>(9,000)</u>	<u>-</u>	<u>-</u>
Net assets at end of year	<u>\$ 1,904,923</u>	<u>\$ 2,721,752</u>	<u>\$ 6,630,744</u>	<u>\$ 11,257,419</u>	<u>\$ 11,213,461</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, 2014
(With Comparative Totals for 2013)

	Program Services	Supporting Services		2014 Total	2013 Total
		General and Administrative	Fundraising		
Salaries	\$ 517,164	\$ 137,639	\$ 99,865	\$ 754,668	\$ 733,861
Payroll taxes	43,190	11,817	8,578	63,585	59,363
Employee benefits	91,889	25,163	18,250	135,302	120,293
Post-retirement benefits	16,495	3,458	2,473	22,426	(232,926)
Contract services	166,308	45,541	33,031	244,880	276,587
Depreciation	19,950	3,029	2,197	25,176	17,208
Awards	1,324	363	263	1,950	10,909
Dues, subscriptions and periodicals	1,546	423	307	2,276	8,320
Non-capitalizable equipment	6,021	1,649	1,196	8,866	10,418
Postage and delivery	18,609	5,096	3,696	27,401	21,293
Printing and copying	32,157	8,806	6,387	47,350	49,724
Office supplies	10,287	2,817	2,043	15,147	19,323
Telephone	18,360	5,028	3,646	27,034	28,541
Books and publications	2,019	553	401	2,973	604
Allocations to districts	10,314	-	-	10,314	29,737
Refunds	124,262	-	-	124,262	86,618
Meetings and conferences	172,106	47,129	34,182	253,417	230,008
Travel	103,474	28,335	20,551	152,360	155,150
National board	6,743	1,846	1,339	9,928	28,766
Commissions	16,331	-	-	16,331	27,386
Advertising	4,357	-	-	4,357	897
Composition and presswork	35,054	-	-	35,054	40,093
Circulation and mailing	50,190	-	-	50,190	49,286
Maintenance	11,091	3,037	2,203	16,331	18,649
Occupancy costs	120,200	34,068	24,923	179,191	133,506
Utilities	7,587	2,078	1,507	11,172	11,066
Contributions	7,538	2,064	1,497	11,099	5,910
Insurance	56,537	15,482	11,229	83,248	57,414
Miscellaneous	27,690	7,579	5,496	40,765	43,996
Bad debt	43,854	-	-	43,854	18,525
Scholarships and student aid	210,927	-	-	210,927	174,875
Staff development	-	4,420	-	4,420	7,515
Personnel recruitment cost	-	1,080	-	1,080	-
	<u>\$ 1,953,574</u>	<u>\$ 398,500</u>	<u>\$ 285,260</u>	<u>\$ 2,637,334</u>	<u>\$ 2,242,915</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, 2014

(With Comparative Totals for 2013)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets	\$ 43,958	\$ 859,126
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	25,176	17,208
Net realized and unrealized gains on investments	(224,478)	(1,017,612)
Permanently restricted endowment contributions	-	(18,000)
Changes in operating assets and liabilities		
Contributions and other receivables, net	(33,211)	131,149
Prepaid expenses and other current assets	(62,379)	(5,961)
Accounts payable and accrued liabilities	(9,069)	19,555
Deferred revenue	(5,681)	(1,591)
Post-retirement benefit obligation	22,426	(232,926)
Net cash used in operating activities	<u>(243,258)</u>	<u>(249,052)</u>
Cash flows from investing activities		
Purchases of investments	(4,197,880)	(4,517,672)
Sales or maturities of investments	3,877,320	4,339,231
Cash and cash equivalents held for long-term purposes, net	649,020	288,124
Acquisition of property and equipment	(35,799)	(17,959)
Net cash provided by investing activities	<u>292,661</u>	<u>91,724</u>
Cash flows from financing activities		
Contributions of permanently restricted net assets	<u>3,875</u>	<u>18,000</u>
Net change in cash and cash equivalents	53,278	(139,328)
Cash and cash equivalents, beginning of year	<u>249,618</u>	<u>388,946</u>
Cash and cash equivalents, end of year	<u>\$ 302,896</u>	<u>\$ 249,618</u>

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

JAPANESE AMERICAN CITIZENS LEAGUE
Notes to Financial Statements
December 31, 2014

1. Organization and Significant Accounting Policies

Organization

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 2014 was \$64,256. Revenues recognized from affiliates during 2014 were \$56,962.

Basis of accounting

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

Cash equivalents

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

Allowance for doubtful accounts

JACL provides for possible losses from uncollectible contributions and other receivables. The allowance for doubtful accounts is based on historical experience and an evaluation of the outstanding receivables at the end of the year. Receivables are written off after management has exhausted all collection efforts. Bad debt recoveries are included in income when realized. The allowance for bad debts was \$7,500 as of December 31, 2014.

Basis of presentation

The activities of JACL are reflected as:

Unrestricted net assets

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

JAPANESE AMERICAN CITIZENS LEAGUE
Notes to Financial Statements
December 31, 2014

1. Organization and Significant Accounting Policies (continued)

Temporarily restricted net assets

Temporarily restricted net assets represent contributions that are limited as to use by JACL in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of JACL according to the intention of the donor. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets and reported as unrestricted net assets. If expenses are incurred for purposes for which both unrestricted and temporarily restricted net assets are available, a donor-imposed restriction is deemed to have been fulfilled to the extent of the expense incurred.

Permanently restricted

Permanently restricted net assets represent contributions to be held in perpetuity as directed by the donor. A portion of the income from these investments is available to support activities of JACL as designated by such donors. The remaining portion is contributed back to the specific endowment account.

Contributions and contributions receivable

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

Contributions receivable, which consist of unconditional promises to give, are recognized as contributions in the period in which the promise is made. Long-term contributions are recorded at the present value of estimated future cash flows using a discount rate consistent with the organization's long term investment return objectives. Amortization of the discount is included in contribution revenues. Conditional promises to give are recognized when the conditions on which they depend are substantially met. An allowance for doubtful contributions receivable, if necessary, is provided based upon management's judgment including such factors as prior collection history, type of contribution, and current aging of contributions receivable. At December 31, 2014 there were contributions receivable of approximately \$66,400 that are expected to be collected within the next year. Management has determined that no allowance for doubtful accounts is required against this receivable.

JAPANESE AMERICAN CITIZENS LEAGUE
Notes to Financial Statements
December 31, 2014

1. Organization and Significant Accounting Policies (continued)

Property and equipment

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

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. The 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 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the 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 are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the 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 the JACL's own data.

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

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

JAPANESE AMERICAN CITIZENS LEAGUE
Notes to Financial Statements
December 31, 2014

1. Organization and Significant Accounting Policies (continued)

Revenue recognition

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

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

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

Tax exempt status

JACL is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and had 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, 2014, JACL does not have any significant uncertain tax positions.

Concentrations of credit risk

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

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

JAPANESE AMERICAN CITIZENS LEAGUE
Notes to Financial Statements
December 31, 2014

1. Organization and Significant Accounting Policies (continued)

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. Costs applicable to both programs and activities have been allocated among the programs and supporting services based upon payroll costs and management's judgment and analysis.

Comparative financial information

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with JACL's financial statements for the year ended December 31, 2013 from which the summarized information was derived.

2. Investments

Investments at December 31, 2014 consisted of the following:

Corporate bonds	\$ 986,696
Mutual funds	6,857,201
Corporate equities	2,967,266
International securities	<u>211,917</u>
Total	<u>\$11,023,080</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.

The following schedule summarizes the components of the total return from investments for the year ended December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Dividend and interest income	\$219,653	\$ 219,982	\$ 6,785	\$446,420
Net realized and unrealized gains	<u>38,025</u>	<u>177,802</u>	<u>8,651</u>	<u>224,478</u>
Total investment return	<u>\$257,678</u>	<u>\$ 397,784</u>	<u>\$15,436</u>	<u>\$670,898</u>

JAPANESE AMERICAN CITIZENS LEAGUE
Notes to Financial Statements
December 31, 2014

3. Fair Value Disclosures

The following are the major categories of assets measured at fair value on a recurring basis at December 31, 2014:

	Level 1: Quoted Prices in Active Markets For Identical <u>Assets</u>	Level 2: Significant Other Observable <u>Inputs</u>	Level 3: Significant Unobservable <u>Inputs</u>	Total at December 31, 2014
Investments	<u>\$11,023,080</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$11,023,080</u>

4. Property and Equipment

At December 31, 2014, property and equipment consisted of the following:

Land	\$ 17,927
Building and improvements	552,608
Equipment	<u>172,297</u>
	742,832
Less accumulated depreciation	<u>(555,777)</u>
Property and equipment, net	<u>\$187,055</u>

For the year ended December 31, 2014, depreciation expense totaled \$25,176.

5. Restricted Net Assets and Net Assets Released From Restrictions

Temporarily restricted net assets were available for the following purposes at December 31, 2014:

Legacy	\$2,365,518
Leadership development	323,748
Curriculum guide	24,928
Other	<u>7,558</u>
Total temporarily restricted net assets	<u>\$2,721,752</u>

JAPANESE AMERICAN CITIZENS LEAGUE
Notes to Financial Statements
December 31, 2014

5. Restricted Net Assets and Net Assets Released From Restrictions (continued)

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 for the year ended December 31, 2014:

Leadership development	\$548,341
Legacy	73,338
Scholarships	65,000
Plant	<u>31,720</u>
Net assets released from restrictions	<u>\$718,399</u>

Permanently restricted net assets at December 31, 2014 are donor-restricted for the following purposes:

Legacy fund	\$5,105,363
Scholarship fund	1,318,724
Masaoka Fellows fund	175,625
Student aid fund	16,435
Ways and means fund	12,533
Plant	<u>2,064</u>
Total permanently restricted net assets	<u>\$6,630,744</u>

6. Endowment

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

Interpretation of relevant law

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

JAPANESE AMERICAN CITIZENS LEAGUE
Notes to Financial Statements
December 31, 2014

6. Endowment (continued)

Interpretation of relevant law (continued)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization 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 the Organization
- (7) The investment policies of the Organization.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2014.

Return objectives and risk parameters

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

JAPANESE AMERICAN CITIZENS LEAGUE
Notes to Financial Statements
December 31, 2014

6. Endowment (continued)

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization 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.

Spending policy and how the investment objectives relate to spending policy

The Organization has a policy of appropriating for distribution each year 4 percent of its endowment fund's average fair value over the prior 24 months through the month of January of the calendar year-end preceding the year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at an average of 3.5 percent annually. This is consistent with the Organization'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.

Endowment net asset composition by type of fund as of December 31, 2014 is as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$1,777,100	\$6,630,744	\$8,407,844
Board-designated endowment funds	<u>1,322,476</u>	<u>-</u>	<u>-</u>	<u>1,322,476</u>
Total funds	<u>\$1,322,476</u>	<u>\$1,777,100</u>	<u>\$6,630,744</u>	<u>\$9,730,320</u>

JAPANESE AMERICAN CITIZENS LEAGUE
Notes to Financial Statements
December 31, 2014

6. Endowment (continued)

Spending policy and how the investment objectives relate to spending policy (continued)

Changes in endowment net assets for the fiscal year ended December 31, 2014:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$1,275,847	\$1,725,249	\$6,620,433	\$9,621,529
Investment return				
Investment income	40,089	219,982	6,785	266,856
Net appreciation (realized and unrealized)	<u>12,642</u>	<u>177,802</u>	<u>8,651</u>	<u>199,095</u>
Total investment return	52,731	397,784	15,436	465,951
Contributions	-	-	3,875	3,875
Transfer due to donor repurpose	-	-	(9,000)	(9,000)
Appropriation of endowment assets for expenditure	<u>(6,102)</u>	<u>(345,933)</u>	<u>-</u>	<u>(352,035)</u>
Endowment net assets, end of year	<u>\$1,322,476</u>	<u>\$1,777,100</u>	<u>\$6,630,744</u>	<u>\$9,730,320</u>

7. 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, 2014, JACL's contributions to the Plan were \$45,713.

8. Post-retirement Benefits

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, 2014 amounted to five people. JACL uses a December 31 measurement date for its defined post-retirement benefit obligations.

JAPANESE AMERICAN CITIZENS LEAGUE
Notes to Financial Statements
December 31, 2014

8. Post-retirement Benefits (continued)

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

Beginning of year	\$505,630
Service cost	10,537
Interest cost	23,751
Assumption change	64,891
Experience gain	(76,753)
Benefits paid	<u>-</u>
Accumulated post-retirement benefit obligation	<u>\$528,056</u>

The following sets forth the funded status of the plan as of December 31, 2014,

Plan assets at fair value	\$ -
Projected benefit obligation	<u>528,056</u>
Funded status recognized in Statement of Financial Position	<u>\$(528,056)</u>
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 as of December 31, 2014:

Accumulated post-retirement benefit obligation	
Retired employees	\$ -
Employees currently eligible to retire	439,505
Employees not yet eligible to retire	<u>88,551</u>
Accumulated post-retirement benefit obligation	<u>\$528,056</u>

Included in amounts not recognized in net periodic benefit cost as of December 31, 2014 are the net gain of \$63,927 and net transition obligation of \$3. The plan did not have any net prior service costs as of December 31, 2014.

JAPANESE AMERICAN CITIZENS LEAGUE
Notes to Financial Statements
December 31, 2014

8. Post-retirement Benefits (continued)

The net periodic post-retirement benefit cost are recognized in JACL's financial statements. The components of the net periodic post-retirement benefit cost for the year ended December 31, 2014 is as follows:

Service cost - post-retirement benefits earned during the period	\$10,537
Interest cost on accumulated post-retirement benefit obligation	23,751
Net amortization of transition obligation	2,774
Less: benefits paid	<u>-</u>
Net periodic post-retirement benefit cost	<u>\$37,062</u>

For the year ended December 31, 2014, the following assumptions were used in accounting for the accumulated post-retirement benefit obligation:

Discount rate	3.70%
Health care trend rate	4.9%

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:

2015	\$ 29,435
2016	\$ 14,457
2017	\$ 22,352
2018	\$ 23,789
2019	\$ 25,296
2020 - 2024	\$149,222

9. Commitments

JACL leases its facilities and office equipment under operating lease agreements, expiring at various times through September 2018, which currently require monthly payments ranging from approximately \$1,200 to \$8,000. Some of these leases stipulate scheduled rent increases over the life of the lease resulting in uneven cash flows. Rent expense paid under these leases for the year ended December 31, 2014 was \$179,191.

JAPANESE AMERICAN CITIZENS LEAGUE
Notes to Financial Statements
December 31, 2014

9. Commitments (continued)

Future minimum annual lease payments required under these agreements are as follows:

2015	\$147,660
2016	97,288
2017	99,720
2018	<u>16,722</u>
Total	<u>\$361,390</u>

10. Rental Income

JACL sublets 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 ending October 2017 with an unrelated third party entity for space in its Washington DC office. The Washington DC lease will require monthly payments ranging from \$4,900 to \$5,400. For the year ended December 31, 2014, total sublease income received was approximately \$72,000.

11. Subsequent Events

JACL has evaluated subsequent events through September 21, 2015, the date the financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of JACL's financial statements.