

# **JAPANESE CULTURAL CENTER OF HAWAI'I**

**FINANCIAL STATEMENTS  
As of and for the Year Ended June 30, 2018  
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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**As of and for the Year Ended June 30, 2018  
(With Prior Year Comparative Information)**

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## 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, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Prior Year Comparative Information

We have previously audited JCCH's financial statements as of and for the year ended June 30, 2017, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 7, 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  
November 20, 2018



**JAPANESE CULTURAL CENTER OF HAWAII**

**STATEMENT OF FINANCIAL POSITION**

**As of June 30, 2018**

**(With Prior Year Comparative Information)**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (including interest bearing accounts)	\$ 661,783	\$ 421,993
Accounts receivable – net	181,820	239,799
Investments, at fair value	2,277,752	2,292,915
Prepaid expenses and other assets	29,061	34,795
Total current assets	<u>3,150,416</u>	<u>2,989,502</u>
<b>NONCURRENT ASSETS</b>		
Property and equipment – net	10,507,593	11,087,092
Security deposits and facility reserves	229,191	279,138
Assets restricted as to use	825,322	777,632
Other assets	25,000	25,000
Total noncurrent assets	<u>11,587,106</u>	<u>12,168,862</u>
<b>COLLECTIONS (Note B)</b>		
<b>TOTAL ASSETS</b>	<u>\$14,737,522</u>	<u>\$15,158,364</u>

(Continued)

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

**As of June 30, 2018**  
**(With Prior Year Comparative Information)**

	<u>2018</u>	<u>2017</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 197,798	\$ 202,559
Deferred revenue	101,061	92,043
Note payable – current	60,917	58,972
Capital lease payable – current	7,645	6,405
Total current liabilities	<u>367,421</u>	<u>359,979</u>
<b>NONCURRENT LIABILITIES</b>		
Note payable – noncurrent	95,166	156,083
Capital lease payable – noncurrent	9,365	17,915
Rental deposits	16,359	16,359
Total noncurrent liabilities	<u>120,890</u>	<u>190,357</u>
<b>TOTAL LIABILITIES</b>	<u>488,311</u>	<u>550,336</u>
<b>NET ASSETS</b>		
Unrestricted		
Undesignated	12,912,226	13,222,306
Board designated	421,881	413,881
Total unrestricted net assets	<u>13,334,107</u>	<u>13,636,187</u>
Temporarily restricted	608,804	665,841
Permanently restricted	306,300	306,000
Total net assets	<u>14,249,211</u>	<u>14,608,028</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 14,737,522</u>	<u>\$ 15,158,364</u>

See accompanying notes to the financial statements.

**JAPANESE CULTURAL CENTER OF HAWAII**

**STATEMENT OF ACTIVITIES**

**For the Year Ended June 30, 2018  
(With Prior Year Comparative Information)**

	<u>2018</u>	<u>2017</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
Revenue and support		
Rental income	\$ 1,175,347	\$ 1,087,230
Grants and contracts	256,958	54,966
Fundraising – net	245,704	138,273
Unrestricted contributions	221,374	179,123
Gift shop and gallery revenue	172,402	160,785
Net realized and unrealized gains on investments	132,799	211,446
Membership dues	116,447	134,589
Net assets released from restriction	115,225	107,567
Program fees	101,795	104,255
Interest and dividends	76,727	65,103
Gain on sale of property and equipment	-	16,802
Other revenue	3,142	2,853
Total revenue and support	<u>2,617,920</u>	<u>2,262,992</u>
Expenses		
Program services		
Property	1,716,522	1,508,987
Programs and events	712,886	568,007
Total program services	<u>2,429,408</u>	<u>2,076,994</u>
Supporting services		
Management and general	343,666	348,446
Fundraising	146,926	189,116
Total supporting services	<u>490,592</u>	<u>537,562</u>
Total expenses	<u>2,920,000</u>	<u>2,614,556</u>
Decrease in unrestricted net assets	<u>(302,080)</u>	<u>(351,564)</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Temporarily restricted contributions	54,795	60,390
Investment income	3,393	2,951
Net assets released from restriction	<u>(115,225)</u>	<u>(107,567)</u>
Decrease in temporarily restricted net assets	<u>(57,037)</u>	<u>(44,226)</u>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>		
Permanently restricted contributions	300	1,000
Increase in permanently restricted net assets	<u>300</u>	<u>1,000</u>
DECREASE IN NET ASSETS	(358,817)	(394,790)
NET ASSETS – Beginning of year	<u>14,608,028</u>	<u>15,002,818</u>
NET ASSETS – End of year	<u>\$ 14,249,211</u>	<u>\$ 14,608,028</u>

See accompanying notes to the financial statements.



**JAPANESE CULTURAL CENTER OF HAWAII**

**STATEMENT OF CASH FLOWS**

**For the Year Ended June 30, 2018  
(With Prior Year Comparative Information)**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Decrease in net assets	\$ (358,817)	\$ (394,790)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	693,243	664,189
Net realized and unrealized gains on investments	(132,799)	(211,446)
Gain on disposal of property and equipment	-	(16,802)
Restricted contributions received	(58,488)	(64,341)
(Increase) decrease in:		
Accounts receivable – net	57,979	44,718
Prepaid expenses and other assets	5,734	13,361
Security deposits and facility reserves	49,947	(166,639)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(4,761)	63,704
Deferred revenue	9,018	32,886
Net cash provided by (used in) operating activities	<u>261,056</u>	<u>(35,160)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(113,744)	(134,328)
Sale of property	-	185,000
Purchases of investments	(271,360)	(1,126,626)
Sales of investments	317,522	1,082,528
Change in assets restricted as to use	54,110	(58,424)
Net cash used in investing activities	<u>(13,472)</u>	<u>(51,850)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Restricted contributions received	58,488	64,341
Repayments of note payable	(58,972)	(56,325)
Capital lease payments	(7,310)	(6,991)
Net cash provided by (used in) financing activities	<u>(7,794)</u>	<u>1,025</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	239,790	(85,985)
<b>CASH AND CASH EQUIVALENTS – Beginning of year</b>	<u>421,993</u>	<u>507,978</u>
<b>CASH AND CASH EQUIVALENTS – End of year</b>	<u>\$ 661,783</u>	<u>\$ 421,993</u>

See accompanying notes to the financial statements.



## JAPANESE CULTURAL CENTER OF HAWAII

### NOTES TO THE FINANCIAL STATEMENTS

**As of and for the Year Ended June 30, 2018  
(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 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 on the accrual basis of accounting. Under the accrual basis of accounting, 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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. 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 temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a restriction is satisfied or expires, or a donor removes the restriction, restricted net assets are reclassified to unrestricted net assets.

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. Various bases are used to allocate other expenses that are common to several functions.

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 HAWAI'I

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2018  
(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, certificates of deposit, investments, and accounts receivable. Cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$352,100 and \$148,200 at June 30, 2018 and 2017, 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 unrestricted and restricted investment income. 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. Investment income and gains and losses on the investments are recorded as changes in unrestricted net assets unless restricted by the donor or by law. 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 market. Inventory of \$23,060 and \$16,382 as of June 30, 2018 and 2017, respectively, is recorded in prepaid expenses and other assets in the statement 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 buildings 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 HAWAI'I

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended June 30, 2018  
(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 \$0 and \$8,228 for the years ended June 30, 2018 and 2017, 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 included in revenue and expense amounted to \$58,723 and \$53,535 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, 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.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was signed into law. The law includes significant changes to the United States of America income tax system, including changes to unrelated business income tax and limitations on the deductibility of certain expenses. Accounting principles generally accepted in the United States of America require the effect of a change in tax law to be recognized when enacted. The new tax law is not expected to have a significant financial impact on JCCH as it is not subject to federal income tax, except on unrelated business income.

**JAPANESE CULTURAL CENTER HAWAI'I**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**As of and for the Year Ended June 30, 2018  
(With Prior Year Comparative Information)**

**NOTE C – ACCOUNTS RECEIVABLE**

At June 30, 2018 and 2017, accounts receivable consisted of the following:

	<u>2018</u>	<u>2017</u>
Accounts receivable	\$117,288	\$119,866
Allowance for doubtful accounts – accounts receivable	-	-
Total	<u>117,288</u>	<u>119,866</u>
Pledges receivable	40,000	60,000
Allowance for doubtful accounts – pledges receivable	-	-
Total	<u>40,000</u>	<u>60,000</u>
Grants receivable	24,532	59,933
Allowance for doubtful accounts – grants receivable	-	-
Total	<u>24,532</u>	<u>59,933</u>
 Accounts receivable – net	 <u>\$181,820</u>	 <u>\$239,799</u>

At June 30, 2018 and 2017, accounts receivable – net includes \$97,314 and \$114,063 for rent due to JCCH and \$19,974 and \$5,803 for GALA table sales and other miscellaneous amounts due to JCCH, respectively.

Payments of \$20,000 per year will be received on the \$40,000 pledge receivable balance at June 30, 2018 through the year ending June 30, 2020.

**NOTE D – PROPERTY AND EQUIPMENT**

At June 30, 2018 and 2017, property and equipment consisted of the following:

	<u>2018</u>	<u>2017</u>
Building and improvements	\$20,201,907	\$20,201,907
Furniture and equipment	<u>1,532,372</u>	<u>1,418,628</u>
Total	21,734,279	21,620,535
Accumulated depreciation and amortization	<u>(14,494,441)</u>	<u>(13,801,198)</u>
	7,239,838	7,819,337
Land	<u>3,267,755</u>	<u>3,267,755</u>
 Property and equipment – net	 <u>\$10,507,593</u>	 <u>\$11,087,092</u>



**JAPANESE CULTURAL CENTER HAWAI'I**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**As of and for the Year Ended June 30, 2018  
(With Prior Year Comparative Information)**

**NOTE E – INVESTMENTS**

At June 30, 2018 and 2017, investments, including amounts in assets restricted as to use, consisted of the following:

	<u>2018</u>	<u>2017</u>
Unrestricted investments		
Exchange traded funds	\$1,522,639	\$1,551,300
Mutual funds	<u>755,113</u>	<u>741,615</u>
Total unrestricted investments	<u>2,277,752</u>	<u>2,292,915</u>
Restricted as to use investments		
Exchange traded funds	768,510	666,277
Mutual funds	<u>13,312</u>	<u>13,745</u>
Total restricted as to use investments	<u>781,822</u>	<u>680,022</u>
 Total investments	 <u>\$3,059,574</u>	 <u>\$2,972,937</u>

In addition, at June 30, 2018 and 2017, assets restricted as to use included cash of \$43,500 and \$97,610, respectively.

Investment income for the years ended June 30, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Unrestricted investment income		
Dividend income	\$ 76,698	\$ 64,983
Realized gains	43,712	263,069
Unrealized gains (losses)	89,087	(51,623)
Interest income	<u>29</u>	<u>120</u>
Total unrestricted investment income	<u>209,526</u>	<u>276,549</u>
Temporarily restricted investment income		
Dividend income	<u>3,393</u>	<u>2,951</u>
Total temporarily restricted investment income	<u>3,393</u>	<u>2,951</u>
 Total investment income	 <u>\$212,919</u>	 <u>\$279,500</u>

**JAPANESE CULTURAL CENTER HAWAII**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**As of and for the Year Ended June 30, 2018  
(With Prior Year Comparative Information)**

**NOTE F – 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, 2018 and 2017, 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, 2018 and 2017. The method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

The following sets forth by level, within the fair value hierarchy, investments at fair value as of June 30, 2018 and 2017:

	Level 1	
	2018	2017
Exchange traded funds		
Large cap index funds	\$ 987,144	\$ 950,067
Bond funds	868,441	785,931
International funds	213,414	243,769
Small cap index funds	112,076	109,813
Mid cap index funds	45,968	49,750
Other	64,106	78,247
Total exchange traded funds	2,291,149	2,217,577
Mutual funds		
Bond funds	312,369	346,976
Large cap index funds	230,979	181,699
International funds	161,159	154,579
Mid cap index funds	55,712	64,724
Other	8,206	7,382
Total mutual funds	768,425	755,360
Total investments at fair value	\$3,059,574	\$2,972,937

## JAPANESE CULTURAL CENTER HAWAII

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of and for the Year Ended June 30, 2018  
(With Prior Year Comparative Information)

#### NOTE G – 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. Cash paid for interest amounted to \$6,116 and \$8,736 for the years ended June 30, 2018 and 2017, respectively.

At June 30, 2018 and 2017, note payable consisted of the following:

	<u>2018</u>	<u>2017</u>
Note payable to Central Pacific Bank in monthly installments of \$5,424 through December 2020, including interest at 3.25%	\$ 156,083	\$ 215,055
Note payable – current	<u>(60,917)</u>	<u>(58,972)</u>
Note payable – noncurrent	<u>\$ 95,166</u>	<u>\$ 156,083</u>

At June 30, 2018, scheduled maturities of the note payable approximated the following:

Fiscal Years Ending June 30th:	
2019	\$ 60,917
2020	63,000
2021	<u>32,166</u>
Total note payable	<u>\$ 156,083</u>

#### NOTE H – BOARD DESIGNATED NET ASSETS

At June 30, 2018 and 2017, the Board of Directors of JCCH designated \$421,881 and \$413,881, respectively, of JCCH's unrestricted net assets to certain programs. Such designations may be changed by the Board of Directors of JCCH at any time.



**JAPANESE CULTURAL CENTER HAWAI'I**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**As of and for the Year Ended June 30, 2018  
(With Prior Year Comparative Information)**

**NOTE I – TEMPORARILY RESTRICTED NET ASSETS**

At June 30, 2018 and 2017, temporarily restricted net assets consisted of the following:

	<u>2018</u>	<u>2017</u>
Temporarily restricted for:		
Capital campaign	\$407,565	\$407,565
Resource Center	87,358	104,835
Gallery exhibits	83,652	91,470
Programs	17,141	40,980
Education	9,695	12,262
Endowment interest for programs	<u>3,393</u>	<u>8,729</u>
 Total temporarily restricted net assets	 <u>\$608,804</u>	 <u>\$665,841</u>

**NOTE J – PERMANENTLY RESTRICTED NET ASSETS**

At June 30, 2018 and 2017, permanently restricted net assets consisted of the following:

	<u>2018</u>	<u>2017</u>
Permanently restricted for:		
Hilo Nihonjin Gakko	\$165,000	\$165,000
Resource Center Permanent Endowment	125,000	125,000
Clarence and Janet Kanja Permanent Endowment	11,300	11,000
Hikari Matsuda Endowment	<u>5,000</u>	<u>5,000</u>
 Total permanently restricted net assets	 <u>\$306,300</u>	 <u>\$306,000</u>

JCCH is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). It is the policy of JCCH to preserve the original gift of donor-restricted endowment funds as permanently restricted net assets, absent explicit donor stipulations to the contrary. Unless otherwise stated, other donor-restricted gifts are classified as temporarily restricted net assets.

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 unrestricted net assets (none for the years ended June 30, 2018 and 2017).

**JAPANESE CULTURAL CENTER HAWAII**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**As of and for the Year Ended June 30, 2018  
(With Prior Year Comparative Information)**

**NOTE J – PERMANENTLY RESTRICTED NET ASSETS (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.

Changes in endowment and other permanently restricted net assets for the years ended June 30, 2018 and 2017 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Balance at June 30, 2016	\$ 11,239	\$ 305,000	\$ 316,239
Contributions	-	1,000	1,000
Release from restriction by donor	(5,461)	-	(5,461)
Interest and dividends	2,951	-	2,951
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	3,393	-	3,393
Balance at June 30, 2018	\$ 3,393	\$ 306,300	\$ 309,693

**NOTE K – LEASES**

JCCH leases office space, as lessor, under operating leases expiring at various dates through 2047, with a renegotiation every five year period after 2022. At June 30, 2018, the future minimum lease rental income approximates the following:

Fiscal Years Ending June 30th:	
2019	\$ 519,300
2020	\$ 455,100
2021	\$ 418,400
2022	\$ 388,200
2023	\$ 30,000

JCCH leases equipment, as lessee, under a capital lease that expires in August 2020. At June 30, 2018 and 2017, property and equipment included equipment under capital lease of \$36,897 with accumulated amortization of \$20,908 and \$13,529, respectively, related to the capital lease.

**JAPANESE CULTURAL CENTER HAWAI'I**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**As of and for the Year Ended June 30, 2018  
(With Prior Year Comparative Information)**

NOTE K – LEASES (Continued)

At June 30, 2018, 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:	
2019	\$ 8,250
2020	8,250
2021	<u>1,400</u>
Total minimum lease payments	17,900
Amounts representing interest imputed at 4.5%	<u>(890)</u>
Present value of obligation under capital leases	17,010
Capital lease payable – current	<u>7,645</u>
Capital lease payable – noncurrent	<u>\$ 9,365</u>

NOTE L – FUNDRAISING

For the years ended June 30, 2018 and 2017, fundraising consisted of the following:

	<u>2018</u>	<u>2017</u>
Special events revenue	\$ 371,207	\$ 216,387
Special events expenses	<u>(125,503)</u>	<u>(78,114)</u>
Fundraising – net	<u>\$ 245,704</u>	<u>\$ 138,273</u>

**JAPANESE CULTURAL CENTER HAWAI'I**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**As of and for the Year Ended June 30, 2018  
(With Prior Year Comparative Information)**

**NOTE M – 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, 2018 and 2017, JCCH contributions under this plan amounted to \$772 and \$13,175, respectively.

In December 2017, JCCH outsourced the management of its payroll and employee benefits, including the retirement savings plan, to a local professional employer organization.

**NOTE N – 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 be immaterial 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. 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 O – 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, 2017, from which the information was derived.

**NOTE P – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through November 20, 2018, 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.