

SASAKAWA PEACE FOUNDATION USA, INC.
FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2016 AND 2015

**SASAKAWA PEACE FOUNDATION USA, INC.
FOR THE YEARS ENDED MARCH 31, 2016 AND 2015**

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Sasakawa Peace Foundation USA, Inc.

We have reviewed the accompanying financial statements of Sasakawa Peace Foundation USA, Inc. (a not-for-profit organization) (the "Foundation"), which comprise the statement of financial position as of March 31, 2016, and the related statement of activities 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 Foundation 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 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.

Prior Period Financial Statements

The financial statements of Sasakawa Peace Foundation USA, Inc. as of and for the year ended March 31, 2015, were reviewed by other accountants and their report thereon dated August 11, 2015, stated that based on their procedures, they are not aware of any material modifications that should be made to those financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.



CERTIFIED PUBLIC ACCOUNTANTS

Bethesda, Maryland
August 16, 2016

SASAKAWA PEACE FOUNDATION USA, INC.
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 247,556	\$ 664,673
Grants receivable	44,466	28,774
Reimbursements receivable	16,255	14,936
Tenant receivable	99,080	120,009
Prepaid expenses	61,335	39,606
Prepaid excise taxes	<u>1,191</u>	<u>1,395</u>
Total current assets	<u>469,883</u>	<u>869,393</u>
Property and equipment, net	<u>4,517,558</u>	<u>3,993,959</u>
Other assets:		
Lease acquisition costs, net of accumulated amortization of \$330,913 in 2016 and 286,100 in 2015	253,384	165,763
Website development costs, net of accumulated amortization of \$21,695 in 2016 and 9,458 in 2015	23,705	28,973
Restricted cash - tenant security deposits	<u>88,920</u>	<u>66,225</u>
Total other assets	<u>366,009</u>	<u>260,961</u>
TOTAL ASSETS	<u>\$ 5,353,450</u>	<u>\$ 5,124,313</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 241,035	\$ 224,305
Credit card payable	111,494	73,029
Grants payable	-	21,649
Accrued vacation	27,741	13,354
Deferred income	<u>2,966</u>	<u>55</u>
Total current liabilities	383,236	332,392
Other liabilities:		
Tenant security deposit	85,083	62,424
Unrestricted net assets	<u>4,885,131</u>	<u>4,729,497</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,353,450</u>	<u>\$ 5,124,313</u>

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

SASAKAWA PEACE FOUNDATION USA, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED MARCH 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Revenues:		
Rental income	\$ 1,590,053	\$ 1,621,735
Grant income	3,904,466	3,005,614
Contributions	12,972	6,862
Interest and dividends	462	860
Loss on asset disposals	<u>(331)</u>	<u>-</u>
Total revenues	<u>5,507,622</u>	<u>4,635,071</u>
Expenses:		
Programs:		
Research	2,832,714	1,513,155
Seminars/JUMP	131,803	269,563
Grants and contributions	859,728	1,489,563
General and administrative	395,025	339,895
Rental property	<u>1,132,718</u>	<u>1,231,623</u>
Total expenses	<u>5,351,988</u>	<u>4,843,799</u>
Change in net assets	155,634	(208,728)
Unrestricted net assets - beginning	<u>4,729,497</u>	<u>4,938,225</u>
UNRESTRICTED NET ASSETS - ENDING	<u>\$ 4,885,131</u>	<u>\$ 4,729,497</u>

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

SASAKAWA PEACE FOUNDATION USA, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Operating activities:		
Change in net assets	\$ 155,634	\$ (208,728)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on asset disposals	331	-
Depreciation and amortization	300,483	265,124
Changes in assets and liabilities:		
Grants receivable	(15,692)	43,452
Reimbursements receivable	(1,319)	(14,936)
Tenant receivable	20,929	(73,050)
Prepaid expenses	(21,729)	(39,606)
Prepaid excise taxes	204	14,022
Restricted cash - tenant security deposits	(22,695)	23,904
Accounts payable	16,730	177,565
Credit card payable	38,465	73,029
Grants payable	(21,649)	1,649
Accrued vacation	14,387	(18,628)
Lease acquisition costs	-	(49,950)
Deferred rental income	2,911	(1,303)
Tenant security deposits	<u>22,659</u>	<u>(14,443)</u>
Net cash provided by operating activities	<u>489,649</u>	<u>178,101</u>
Cash flows from investing activities:		
Additions to property, plant and equipment	(767,363)	(281,776)
Additions to website development costs	(13,900)	-
Additions to lease commissions	<u>(125,503)</u>	<u>-</u>
Net cash used in investing activities	<u>(906,766)</u>	<u>(281,776)</u>
Net decrease in cash and cash equivalents	(417,117)	(103,675)
Cash and cash equivalents - beginning	<u>664,673</u>	<u>768,348</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 247,556</u>	<u>\$ 664,673</u>

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

SASAKAWA PEACE FOUNDATION USA, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Sasakawa Peace Foundation USA, Inc. (the "Foundation") was incorporated on September 24, 1990, as a not-for profit private foundation and commenced operations in March 1991. The Foundation is dedicated to research, analysis and better public understanding of the United States and Japan relationship. To foster this mission, the Foundation's research programs focus on security, diplomacy, economics, business, trade, technology and other matters of common concern. The Foundation's education programs are designed to facilitate people-to-people exchange and dialogue on these issues with American and Japanese policymakers, influential citizens and the broader public.

Upon its formation, the Foundation received a grant from the Sasakawa Peace Foundation Japan ("SPF-Japan") to acquire a building in Washington, D.C., to house a library of research, survey and other noncommercial publications, and an art gallery dedicated for the purpose of fostering a better understanding of contemporary Japan in the United States. After extensive renovations to the property, the Foundation opened the library and art gallery on December 2, 1992. In October 1996, after reevaluating its activities, the Foundation terminated the art gallery operations and initiated new programs to promote better understanding and dialogue between the United States and Asia. The library operations were discontinued during 2014, and the related assets were donated to other educational and charitable organizations. The Foundation is currently renting space in the building to unrelated commercial tenants and uses the income from the rental activities to maintain the building and support the Foundation's activities.

Financial statement presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Accordingly, the Foundation follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*, which requires the Foundation to distinguish between contributions that increase permanently restricted net assets (subject to perpetual funding source-imposed restrictions), temporarily restricted net assets (funding source-imposed restrictions have not been met) and unrestricted net assets (not subject to funding source-imposed restrictions or whose funding source-imposed restrictions have been met). Contributions with donor-imposed restrictions that are met in the same accounting period are recorded as unrestricted revenue. At March 31, 2016 and 2015, the Foundation had no temporarily or permanently restricted net assets.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

See independent accountant's review report.

SASAKAWA PEACE FOUNDATION USA, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

The Foundation recognizes rental revenue on the straight-line basis over the terms of the respective leases. Revenue from contributions and grants are recognized as income when they are unconditionally promised. Revenue from conditional grants is recognized when the Foundation has complied with substantially all of the conditions set forth in the grant agreement.

Contributions of non-cash assets are recorded at their fair values in the period received. Contributions of services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. For the years ended March 31, 2016 and 2015, there were no contributions of non-cash assets or contributed services meeting the requirements for recognition in the financial statements.

Cash and cash equivalents

Cash and cash equivalents consist primarily of cash on deposit and money market accounts that are readily convertible into cash.

Restricted cash

Tenant security deposits are held in a separate bank account in accordance with applicable state laws and disbursed in accordance with the lease agreements.

Receivables

Receivables consist of grant commitments, expense reimbursements and tenant-related income, and are stated at the amounts that management expects to collect. Management evaluates such receivables and establishes an allowance for doubtful accounts based on a history of write-offs and collections and current credit conditions. The Foundation charges off uncollected receivables when management determines that it has exhausted all collection efforts. Management has determined that, at March 31, 2016 and 2015, all of its receivables were collectible, and that no allowance for doubtful accounts was required.

Fair value measurements

FASB ASC 820, *Fair Value Measurement*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

See independent accountant's review report.

SASAKAWA PEACE FOUNDATION USA, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurements (continued)

Under this standard, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date.

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical 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 to the valuation methodology are unobservable and significant to the fair value measurement.

Income taxes

The Foundation is classified as a private foundation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes on its exempt income under Sections 509(a)(3) and 170(b)(1)(A)(vi) of the Code. Contributions to the Foundation are deductible to the extent permitted by law. The Foundation is subject to certain excise taxes on any net investment income. The Foundation is also exempt from the District of Columbia's income and franchise, personal property, and sales and use taxes.

Uncertain tax positions

The Foundation follows accounting requirements associated with uncertainty in income taxes using the provisions of FASB ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not that the positions will be sustained upon examination by the taxing authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

As of March 31, 2016 and 2015, management has determined that the Foundation had no uncertain tax positions that qualified for either recognition or disclosure in the financial statements. Additionally, the Foundation had no interest or penalties related to income taxes.

The Foundation files income tax returns in the U.S. federal jurisdiction and in various states and jurisdictions. With few exceptions, the Foundation is no longer subject to U.S. federal or state income tax examinations by taxing authorities for years before 2013.

See independent accountant's review report.

SASAKAWA PEACE FOUNDATION USA, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lease acquisition costs

Lease acquisition costs consist primarily of commissions due to the property management company for locating tenants for the Foundation's rental property. Such costs are amortized over the terms of the respective lease agreements using the straight-line method. For the years ended March 31, 2016 and 2015, amortization of the lease acquisition costs totaled \$44,813 and \$42,402, respectively.

Website development costs

In accordance with FASB ASC 350, *Intangibles - Goodwill and Other*, the Foundation classifies and accounts for costs incurred for website development in three stages. During the initial, or planning stage, the costs incurred are expensed. Costs incurred during the second, or the development stage, are capitalized and then amortized when the website is ready for its intended use. The third stage consists of post-implementation activity and adding additional upgrades and features. Post-implementation costs are expensed as incurred; costs incurred for additional upgrades and features once the website is launched are capitalized if the upgrades and enhancements furnish additional functionality; otherwise, they are expensed as incurred.

The Foundation amortizes its capitalized website development costs over three years using the straight-line method. During the years ended March 31, 2016 and 2015, amortization expense related to capitalized website development costs totaled \$12,237 and \$6,931, respectively.

Property and equipment

Acquisitions of property and equipment are recorded at cost. Improvements and replacements are capitalized. Maintenance and repairs that do not improve or extend the lives of furniture and equipment are charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss reported in the statements of activities.

Depreciation is provided using the straight-line and various accelerated methods over the estimated useful lives of the assets, which are as follows:

Equipment	5 years
Furniture and fixtures	7 years
Building improvement	15 years
Property improvements	39 years

Long-lived assets

Management assesses whether indicators of impairment of long-lived assets, such as property, equipment and intangible assets, are present. If such indicators are present, recoverability of these assets is determined based upon expected undiscounted future net cash flows from the operations to which the assets relate utilizing management's best estimates, appropriate assumptions and projections at the time. If the carrying value is determined not to be recoverable from future operating cash flows, the asset would be deemed impaired and an impairment loss would be recognized to the extent the carrying value exceeded the estimated fair value of the asset. Management determined that there was no impairment to its long-lived assets during the years ended March 31, 2016 or 2015.

See independent accountant's review report.

SASAKAWA PEACE FOUNDATION USA, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent events

In accordance with FASB ASC 855, *Subsequent Events*, the Foundation has evaluated subsequent events through August 16, 2016, the date on which these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

NOTE 2. CONCENTRATION OF CREDIT RISK

The Foundation places its cash and cash equivalents, which may at times be in excess of Federal Deposit Insurance Corporation insurance limits, with high credit quality financial institutions and attempts to limit the amount of credit exposure with any one institution.

The Foundation receives rental income from office space leased in Washington, D.C., and is subject to the normal fluctuations and risk associated with the real estate market in this area.

NOTE 3. PROPERTY AND EQUIPMENT

The Foundation's property and equipment consisted of the following at March 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 1,200,000	\$ 1,200,000
Building and improvements	5,856,266	5,099,445
Furniture and equipment	<u>342,265</u>	<u>334,871</u>
	7,398,531	6,634,316
Less: accumulated depreciation	<u>2,880,973</u>	<u>2,640,357</u>
Property and equipment, net	<u>\$ 4,517,558</u>	<u>\$ 3,993,959</u>

Depreciation expense was \$243,433 and \$215,791 for the years ended March 31, 2016 and 2015, respectively.

NOTE 4. FOUNDING GRANT AND ONGOING SUPPORT

In March 1991, the Foundation received an initial grant from SPF-Japan (Tokyo), the founder of the Foundation, of 2,970,000,000 Japanese Yen (\$21,655,122) for the purpose of acquiring an office building at 1819 L Street in Washington, D.C. The building was acquired in May 1991 at a cost of \$19,074,660, and the remaining balance of the grant was used to renovate the building and fund the initial program. The Foundation's board of directors has approved that the rental income be applied to fund current operations for the library and other programs of the Foundation.

In 1996, the Foundation recorded an impairment loss on its office building in the amount of \$14,630,058 because the carrying amount of the property exceeded the estimated future cash flows expected from the rental income. The new fair value of the building was determined using the income capitalization approach that derived a value for income-producing property by converting anticipated monetary benefits into a property value.

See independent accountant's review report.

SASAKAWA PEACE FOUNDATION USA, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

NOTE 4. FOUNDING GRANT AND ONGOING SUPPORT (CONTINUED)

For the years ended March 31, 2016 and 2015, the Foundation received grants totaling \$3,618,467 and \$3,005,614, respectively, from SPF-Japan (Tokyo) to assist with operating activities. Grants receivable from SPF-Japan (Tokyo) were \$44,466 and \$28,773 at March 31, 2016 and 2015, respectively.

NOTE 5. FAIR VALUE MEASUREMENTS

Assets and liabilities measured at fair value are based on one or more of three valuation techniques identified in the tables below. The valuation techniques are as follows:

- (a) *Market approach.* Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- (b) *Cost approach.* Amount that would be required to replace the service capacity of an asset (replacement cost); and
- (c) *Income approach.* Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).

The following tables summarize the Foundation's assets measured at fair value on a recurring basis, categorized by GAAP's valuation hierarchy:

<u>Description</u>	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	Total at March 31, 2016	Valuation Technique
Investments:					
Money market fund	\$ <u>88,920</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>88,920</u>	(b)

<u>Description</u>	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	Total at March 31, 2015	Valuation Technique
Investments:					
Money market fund	\$ <u>65,169</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>65,169</u>	(b)

Money market funds, which are included in cash and cash equivalents, are valued at cost plus accrued interest, which approximates fair value because of the short-term nature and the liquidity of the assets.

NOTE 6. RENTAL INCOME

The Foundation is the lessor of commercial space under operating leases expiring periodically through 2024. Certain of the lease agreements include renewal periods at the Foundation's option, as well as rent holidays and scheduled rent increases. Rental income is recognized on the straight-line method over the terms of the respective leases.

See independent accountant's review report.

SASAKAWA PEACE FOUNDATION USA, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

NOTE 6. RENTAL INCOME (CONTINUED)

Future minimum lease payments expected to be received under the leases are as follows:

<u>Year ending March 31:</u>	<u>Amount</u>
2017	\$ 1,746,493
2018	1,349,795
2019	814,996
2020	433,747
2021	442,372
Thereafter	<u>854,798</u>
	<u>\$ 5,642,201</u>

NOTE 7. FEDERAL EXCISE TAXES

The Foundation is subject to federal excise taxes on net investment income. During the years ended March 31, 2016 and 2015, the Foundation earned net investment income of \$272,765 and \$257,960, respectively. Federal excise taxes incurred during the years ended March 31, 2016 and 2015, amounted to \$2,728 and \$2,580, respectively.

Additionally, the Code requires minimum qualifying distributions of funds related to their exempt purpose. During the years ended March 31, 2016 and 2015, the Foundation made qualifying distributions of \$4,032,723 and \$3,495,831, which were in excess of the minimum distributable amounts of \$799,170 and \$771,489, respectively. The Code allows for excess distributions to be carried forward, to reduce the minimum distributions required in future years. At March 31, 2016, the Foundation had excess distribution carryforwards of \$11,676,886.

NOTE 8. RETIREMENT PLAN

The Foundation has a defined contribution 401(k) plan. Substantially all employees are eligible to participate. The Foundation made contributions of \$54,651 and \$44,823 for the years ended March 31, 2016 and 2015, respectively.

NOTE 9. LITIGATION

The Foundation is subject to various proceedings arising during the ordinary course of operations. Management believes that the ultimate resolution of these matters will not have a material adverse effect on the Foundation's financial condition.