

**SASAKAWA PEACE FOUNDATION USA, INC.**  
**(A Nonprofit Organization)**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED MARCH 31, 2017 AND 2016**

**SASAKAWA PEACE FOUNDATION USA, INC.**  
**(A Nonprofit Organization)**  
**FOR THE YEARS ENDED MARCH 31, 2017 AND 2016**

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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 nonprofit organization) (the "Foundation"), which comprise the statements of financial position as of March 31, 2017 and 2016, and the related statements of activities and cash flows for the years 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 engagements 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 reviews, 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.

  
CERTIFIED PUBLIC ACCOUNTANTS

Bethesda, Maryland  
August 3, 2017

**SASAKAWA PEACE FOUNDATION USA, INC.**  
**(A Nonprofit Organization)**  
**STATEMENTS OF FINANCIAL POSITION**  
**MARCH 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 304,303	\$ 247,556
Grants receivable	100,607	44,466
Reimbursements receivable	-	16,255
Tenant rents receivable	29,039	99,080
Prepaid expenses	43,570	61,335
Prepaid federal excise tax	<u>-</u>	<u>1,191</u>
Total current assets	<u>477,519</u>	<u>469,883</u>
Property and equipment, net	<u>4,422,980</u>	<u>4,517,558</u>
Other assets:		
Lease acquisition costs, net of accumulated amortization of \$378,300 in 2017 and \$330,913 in 2016	252,144	253,384
Website development costs, net of accumulated amortization of \$34,494 in 2017 and \$21,695 in 2016	10,906	23,705
Restricted cash - tenant security deposits	<u>88,965</u>	<u>88,920</u>
Total other assets	<u>352,015</u>	<u>366,009</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 5,252,514</u></b>	<b><u>\$ 5,353,450</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Current liabilities:		
Accounts payable	\$ 102,092	\$ 241,035
Credit card payable	101,996	111,494
Accrued vacation	31,204	27,741
Deferred income	8,635	2,966
Federal excise tax payable	<u>1,706</u>	<u>-</u>
Total current liabilities	245,633	383,236
Tenant security deposits	<u>85,083</u>	<u>85,083</u>
Total liabilities	330,716	468,319
Unrestricted net assets	<u>4,921,798</u>	<u>4,885,131</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 5,252,514</u></b>	<b><u>\$ 5,353,450</u></b>

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

**SASAKAWA PEACE FOUNDATION USA, INC.**  
**(A Nonprofit Organization)**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED MARCH 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Revenues:		
Grant income	\$ 3,750,799	\$ 3,904,466
Rental income	1,705,134	1,590,053
Contributions	2,983	12,972
Interest and dividends	104	462
Loss on asset disposals	<u>(7,732)</u>	<u>(331)</u>
Total revenues	<u>5,451,288</u>	<u>5,507,622</u>
Expenses:		
Programs:		
Research	3,047,291	2,832,714
Seminars/JUMP	148,896	131,803
Grants	538,524	859,728
General and administrative	278,383	395,025
Rental operations	<u>1,401,527</u>	<u>1,132,718</u>
Total expenses	<u>5,414,621</u>	<u>5,351,988</u>
Change in net assets	36,667	155,634
Unrestricted net assets - beginning	<u>4,885,131</u>	<u>4,729,497</u>
<b>UNRESTRICTED NET ASSETS - ENDING</b>	<b><u>\$ 4,921,798</u></b>	<b><u>\$ 4,885,131</u></b>

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**SASAKAWA PEACE FOUNDATION USA, INC.**  
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**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED MARCH 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 36,667	\$ 155,634
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	330,429	300,483
Loss on asset disposals	7,732	331
Changes in assets and liabilities:		
Grants receivable	(56,141)	(15,692)
Reimbursements receivable	16,255	(1,319)
Tenant rents receivable	70,041	20,929
Prepaid expenses	17,765	(21,729)
Prepaid federal excise tax	1,191	204
Restricted cash - tenant security deposits	(45)	(22,695)
Accounts payable	(138,943)	16,730
Credit card payable	(9,498)	38,465
Grants payable	-	(21,649)
Accrued vacation	3,463	14,387
Deferred income	5,669	2,911
Federal excise tax payable	1,706	-
Tenant security deposits	-	22,659
Net cash provided by operating activities	<u>286,291</u>	<u>489,649</u>
Cash flows from investing activities:		
Acquisitions of property and equipment	(183,397)	(767,363)
Payments of lease commissions	(46,147)	(125,503)
Payments of website development costs	-	(13,900)
Net cash used in investing activities	<u>(229,544)</u>	<u>(906,766)</u>
Net increase (decrease) in cash and cash equivalents	56,747	(417,117)
Cash and cash equivalents - beginning	<u>247,556</u>	<u>664,673</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<b><u>\$ 304,303</u></b>	<b><u>\$ 247,556</u></b>

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

**SASAKAWA PEACE FOUNDATION USA, INC.**  
**(A Nonprofit Organization)**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2017 AND 2016**

**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 its founder, 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. Subsequently, the Foundation expanded its research, educational, and grant programs on U.S.-Japan relations with additional grants. 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, 2017 and 2016, 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.

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**SASAKAWA PEACE FOUNDATION USA, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2017 AND 2016**

**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 received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets.

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, 2017 and 2016, 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, 2017 and 2016, all of its receivables were collectible, and that no allowance for doubtful accounts was required.

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.

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**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

The Foundation files income tax returns in the U.S. federal jurisdiction. As of March 31, 2017 and 2016, management has determined that the Foundation had no uncertain tax positions that qualified for either recognition or disclosure in the financial statements.

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, 2017 and 2016, amortization of the lease acquisition costs totaled \$47,387 and \$44,813, respectively.

Website development costs

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, 2017 and 2016, amortization expense related to capitalized website development costs totaled \$12,799 and \$12,237, respectively.

Property and equipment

Acquisitions of property and equipment, including improvements and replacements, are recorded at cost. Depreciation is provided using the straight-line and various accelerated methods over the estimated useful lives of the assets. Maintenance and repairs that do not improve or extend the lives of the assets 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.

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**SASAKAWA PEACE FOUNDATION USA, INC.**  
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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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, 2017 or 2016.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates.

A description of the significant program activities of the Foundation are as follows:

*Research* - designed to identify issues of importance to the United States and Japan that deserve greater attention, coordination, and cooperation.

*Seminars/JUMP* - conduct of seminars, conferences, and outreach to inform and connect Americans who have served or are serving in the U.S. military in Japan to facilitate their contributions to strengthening the U.S.-Japan relationship.

*Grants* - awards given to organizations to strengthen the U.S.-Japan relationship.

Recent accounting pronouncements

In August 2016, FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities* ("ASU 2016-14"). This update significantly changes how not-for-profit entities present net assets on the face of the financial statements, as well as requires additional disclosures for the nature and function of expenses and for liquidity and availability of resources. ASU 2016-14 is effective for years beginning after December 15, 2017, with early adoption permitted. The effect of adopting this new guidance on the Foundation's financial statements and related disclosures has not yet been determined, nor has management determined the timing of adoption.

In February 2016, FASB issued ASU No. 2016-02, *Leases* ("ASU 2016-02"). This update requires all leases with a term greater than 12 months to be recognized on the statement of financial position through a right-of-use asset and a lease liability and the disclosure of key information pertaining to leasing arrangements. This new guidance is effective for years beginning after December 15, 2019, with early adoption permitted. The Foundation is evaluating the effect that ASU 2016-02 will have on its financial statements and related disclosures, but has not yet determined the timing of adoption.

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**SASAKAWA PEACE FOUNDATION USA, INC.**  
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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Subsequent events

Management has evaluated subsequent events through August 3, 2017, 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. PROPERTY AND EQUIPMENT**

The Foundation's property and equipment consisted of the following at March 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 1,200,000	\$ 1,200,000
Building and improvements	6,030,153	5,856,266
Furniture and equipment	<u>147,342</u>	<u>342,265</u>
	7,377,495	7,398,531
Less: accumulated depreciation	<u>2,954,515</u>	<u>2,880,973</u>
Property and equipment, net	<u>\$ 4,422,980</u>	<u>\$ 4,517,558</u>

Depreciation expense was \$270,243 and \$243,433 for the years ended March 31, 2017 and 2016, respectively.

**NOTE 3. FOUNDING GRANT AND ONGOING SUPPORT**

In March 1991, the Foundation received an initial grant from SPF-Japan (Tokyo) in the amount of \$21,655,122 (2,970,000,000 Japanese Yen) 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. The remaining proceeds were used to renovate the building and to fund the initial operations of the Foundation.

In 1996, the Foundation recorded an impairment loss on the building in the amount of \$14,630,058, as management determined that the carrying amount of the property exceeded the estimated future cash flows expected to be received from operations of the property.

For the years ended March 31, 2017 and 2016, the Foundation received grants totaling \$3,469,801 and \$3,618,467, respectively, from SPF-Japan (Tokyo) to assist with operating activities. Grants receivable from SPF-Japan (Tokyo) were \$100,607 and \$44,466 at March 31, 2017 and 2016, respectively.

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**SASAKAWA PEACE FOUNDATION USA, INC.**  
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**NOTE 4. 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.

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

<u>Year ending March 31:</u>	<u>Amount</u>
2018	\$ 1,414,205
2019	877,517
2020	433,747
2021	442,372
2022	452,954
Thereafter	<u>1,088,399</u>
	<u>\$ 4,709,194</u>

The Foundation's board of directors has approved that the rental income be applied to fund current operations of the Foundation.

**NOTE 5. GRANTS**

The Foundation awarded the following grants during the years ended March 31, 2017 and 2016, to support projects with a purpose to promote dialogue and strengthen the U.S.-Japan relationship:

	<u>2017</u>	<u>2016</u>
Strengthening the U.S.-Japan Relationship from U.S. Perspectives	\$ 101,170	\$ -
Japan-U.S. Military Program ("JUMP")	82,102	73,976
Other grants	<u>355,252</u>	<u>785,752</u>
Total	<u>\$ 538,524</u>	<u>\$ 859,728</u>

The following are descriptions of the grants awarded by the Foundation:

*Strengthening the U.S.-Japan Relationship from U.S. Perspectives* - Five grants were awarded to organize programs and offer opportunities for students, policy experts, congressional staff and practitioners to learn more about and strengthen their ties to Japan.

*Japan-U.S. Military Program ("JUMP")* - Two grants were awarded to organize events and networking activities in the United States and Yokosuka, Japan for Americans who have served or are serving in the U.S. military in Japan to update them on U.S.-Japan relations and enhance their ties to Japan.

*Other grants* - A grant was awarded to support a project to organize events and delegation trips to Japan for congressional members and staff. In 2016, additional grants were awarded to conduct a project on the U.S.-Japan security alliance.

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**SASAKAWA PEACE FOUNDATION USA, INC.**  
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**NOTE 6. CONCENTRATIONS**

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.

The Foundation receives a significant portion of its grant income from SPF-Japan (Tokyo) (see Note 3).

**NOTE 7. FEDERAL EXCISE TAX**

The Foundation is subject to federal excise tax on net investment income. During the years ended March 31, 2017 and 2016, the Foundation earned net investment income of \$294,634 and \$272,765, respectively. Federal excise tax incurred during the years ended March 31, 2017 and 2016, amounted to \$2,946 and \$2,728, respectively.

Additionally, the Code requires minimum qualifying distributions of funds related to their exempt purpose. During the years ended March 31, 2017 and 2016, the Foundation made qualifying distributions of \$4,127,728 and \$4,032,723, respectively, which were in excess of the minimum distributable amounts of \$796,716 and \$799,170, respectively. The Code allows for excess distributions to be carried forward, to reduce the minimum distributions required in future years. At March 31, 2017, the Foundation had excess distribution carryforwards of \$10,619,986.

**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 \$83,461 and \$54,651 for the years ended March 31, 2017 and 2016, respectively.