

Japanese American Citizens League

Financial Statements

December 31, 2012

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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, 2012, 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, 2012, 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 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 14, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Armanino LLP
Armanino^{LLP}
San Francisco, California

January 21, 2014

JAPANESE AMERICAN CITIZENS LEAGUE
Statement of Financial Position
December 31, 2012
(With Comparative Totals for 2011)

ASSETS

	2012	2011
Current assets		
Cash and cash equivalents	\$ 388,946	\$ 487,075
Contributions and other receivables, net of allowance for doubtful accounts of \$24,000 in 2012	269,508	120,745
Prepaid expenses and other current assets	86,093	56,957
Total current assets	744,547	664,777
Property and equipment, net	175,681	193,289
Cash and cash equivalents held for long-term purposes	1,168,412	575,456
Long-term investments	9,281,989	8,004,198
Total assets	\$ 11,370,629	\$ 9,437,720

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued liabilities	\$ 212,831	\$ 250,984
Deferred revenue	64,907	63,861
Current portion of accumulated postretirement benefit obligation	29,434	18,762
Total current liabilities	307,172	333,607
Accumulated postretirement benefit obligation, net of current portion	709,122	655,523
Total liabilities	1,016,294	989,130
Net assets		
Unrestricted		
Designated	1,127,116	863,947
Undesignated	795,318	(254,243)
Total unrestricted	1,922,434	609,704
Temporarily restricted	1,866,957	1,348,697
Permanently restricted	6,564,944	6,490,189
Total net assets	10,354,335	8,448,590
Total liabilities and net assets	\$ 11,370,629	\$ 9,437,720

The accompanying notes are an integral part of these financial statements

JAPANESE AMERICAN CITIZENS LEAGUE
Statement of Activities
December 31, 2012
(With Comparative Totals for 2011)

	2012			Total	2011
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues, gains (losses) and other support					
Public support - contributions	\$ 1,534,642	\$ 236,391	\$ 41,000	\$ 1,812,033	\$ 752,718
Membership income	724,639	-	-	724,639	722,916
Investment income, net	166,831	47,424	10,739	224,994	814,633
Net realized and unrealized gains (losses) on investments	61,822	650,047	23,016	734,885	(639,959)
Newspaper revenue	142,860	-	-	142,860	185,787
Book sales	1,028	-	-	1,028	3,530
Grants	-	271,266	-	271,266	385,184
Fundraising campaigns	128,493	-	-	128,493	245,012
Conference revenue	96,059	-	-	96,059	84,137
Other revenue	75,236	-	-	75,236	47,864
Net assets released from restrictions	686,868	(686,868)	-	-	-
Total revenues, gains (losses) and other support	<u>3,618,478</u>	<u>518,260</u>	<u>74,755</u>	<u>4,211,493</u>	<u>2,601,822</u>
Expenses					
Program	1,578,201	-	-	1,578,201	1,950,564
General and administrative	418,278	-	-	418,278	343,406
Fundraising	309,269	-	-	309,269	425,940
Total expenses	<u>2,305,748</u>	<u>-</u>	<u>-</u>	<u>2,305,748</u>	<u>2,719,910</u>
Change in net assets	<u>1,312,730</u>	<u>518,260</u>	<u>74,755</u>	<u>1,905,745</u>	<u>(118,088)</u>
Net assets at beginning of year	<u>609,704</u>	<u>1,348,697</u>	<u>6,490,189</u>	<u>8,448,590</u>	<u>8,566,678</u>
Net assets at end of year	<u>\$ 1,922,434</u>	<u>\$ 1,866,957</u>	<u>\$ 6,564,944</u>	<u>\$ 10,354,335</u>	<u>\$ 8,448,590</u>

The accompanying notes are an integral part of these financial statements

JAPANESE AMERICAN CITIZENS LEAGUE
Statement of Functional Expenses
December 31, 2012
(With Comparative Totals for 2011)

	Program Services	Supporting Services		2012 Total	2011 Total
		General and Administrative	Fundraising		
Salaries	\$ 436,476	\$ 130,417	\$ 98,155	\$ 665,048	\$ 737,570
Payroll taxes	34,416	12,441	9,364	56,221	66,096
Employee benefits	94,145	34,032	25,614	153,791	178,982
Postretirement benefits	39,344	14,223	10,704	64,271	153,835
Contract services	103,410	37,382	28,134	168,926	222,099
Depreciation	12,508	4,521	3,403	20,432	24,410
Awards	1,944	703	529	3,176	1,431
Dues, subscriptions and periodicals	2,471	893	672	4,036	4,072
Non-capitalizable equipment	4,907	1,774	1,335	8,016	11,693
Postage and delivery	21,002	7,592	5,714	34,308	40,724
Printing and copying	38,733	14,002	10,538	63,273	51,580
Office supplies	10,890	3,937	2,963	17,790	27,352
Telephone	15,175	5,486	4,129	24,790	24,114
Books and publications	352	127	96	575	3,230
Allocations to districts	18,211	-	-	18,211	17,949
Refunds	90,338	-	-	90,338	117,643
Meetings and conferences	145,240	52,503	39,515	237,258	236,733
Travel	66,446	24,020	18,078	108,544	154,557
National board	18,480	6,680	5,028	30,188	15,083
Advertising	-	-	-	-	1,656
Composition and presswork	23,074	-	-	23,074	38,425
Circulation and mailing	55,939	-	-	55,939	69,129
Maintenance	7,267	2,627	1,977	11,871	14,694
Occupancy costs	65,779	23,779	17,896	107,454	105,155
Utilities	7,286	2,634	1,982	11,902	16,552
Contributions	6,047	2,186	1,645	9,878	103,914
Insurance	55,663	20,122	15,144	90,929	85,902
Miscellaneous	24,458	8,841	6,654	39,953	32,275
Bad debt	24,000	-	-	24,000	-
Scholarships and student aid	154,200	-	-	154,200	162,075
Staff development	-	5,795	-	5,795	595
Personnel recruitment cost	-	1,561	-	1,561	385
	<u>\$ 1,578,201</u>	<u>\$ 418,278</u>	<u>\$ 309,269</u>	<u>\$ 2,305,748</u>	<u>\$ 2,719,910</u>

The accompanying notes are an integral part of these financial statements

JAPANESE AMERICAN CITIZENS LEAGUE
Statement of Cash Flows
December 31, 2012
(With Comparative Totals for 2011)

	2012	2011
Cash flows from operating activities		
Change in net assets	\$ 1,905,745	\$ (118,088)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	20,432	24,410
Net realized and unrealized (gains) losses on investments	(734,885)	639,959
Loss on disposal of property and equipment	1,189	-
Changes in operating assets and liabilities		
Contributions and other receivables, net	(107,763)	(35,463)
Prepaid expenses and other current assets	(29,136)	(2,063)
Accounts payable and accrued liabilities	(38,153)	(36,109)
Deferred revenue	1,046	(158)
Postretirement benefit obligation	64,271	163,558
Net cash provided by operating activities	1,082,746	636,046
Cash flows from investing activities		
Purchases of investments	(2,778,427)	(2,947,716)
Sales or maturities of investments	2,235,521	2,412,478
Cash and cash equivalents held for long-term purposes, net	(592,956)	169,343
Acquisition of property and equipment	(4,013)	(18,302)
Net cash used in investing activities	(1,139,875)	(384,197)
Cash flows from financing activities		
Contributions of permanently restricted net assets	(41,000)	-
Net change in cash and cash equivalents	(98,129)	251,849
Cash and cash equivalents, beginning of year	487,075	235,226
Cash and cash equivalents, end of year	\$ 388,946	\$ 487,075

The accompanying notes are an integral part of these financial statements

JAPANESE AMERICAN CITIZENS LEAGUE
Notes to Financial Statements
December 31, 2012

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 2012 was \$53,532. Revenues recognized from affiliates during 2012 were \$53,511.

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.

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, 2012

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, 2012 there were contributions receivable of approximately \$154,000 that are expected to be collected within the next year.

JAPANESE AMERICAN CITIZENS LEAGUE
Notes to Financial Statements
December 31, 2012

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, 2012

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, 2012, 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, 2012

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, 2011 from which the summarized information was derived.

2. Investments

Investments at December 31, 2012 consisted of the following:

U.S government obligations	\$ 293,738
Corporate bonds	1,056,668
Mutual funds	5,751,869
Corporate equities	2,101,069
International securities	<u>78,645</u>
Total	<u>\$9,281,989</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, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Dividend and interest income	\$166,831	\$ 47,424	\$ 10,739	\$224,994
Net realized and unrealized losses	<u>61,822</u>	<u>650,047</u>	<u>23,016</u>	<u>734,885</u>
Total investment return	<u>\$228,653</u>	<u>\$ 697,471</u>	<u>\$ 33,755</u>	<u>\$959,879</u>

JAPANESE AMERICAN CITIZENS LEAGUE
Notes to Financial Statements
December 31, 2012

3. Fair Value Disclosures

The following are the major categories of assets measured at fair value on a recurring basis during the year ended December 31, 2012:

	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, <u>2012</u>
Investments	<u>\$9,281,989</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$9,281,989</u>

4. Property and Equipment

At December 31, 2012, property and equipment consisted of the following:

Land	\$ 17,927
Building and improvements	502,322
Equipment	<u>177,713</u>
	697,962
Less accumulated depreciation	<u>(522,281)</u>
Property and equipment, net	<u>\$175,681</u>

For the year ended December 31, 2012, depreciation expense totaled \$20,432.

5. Restricted Net Assets and Net Assets Released From Restrictions

Temporarily restricted net assets were available for the following purposes at December 31, 2012:

Legacy	\$1,437,941
Leadership development	367,143
Curriculum guide	22,408
Other	<u>39,465</u>
Total temporarily restricted net assets	<u>\$1,866,957</u>

JAPANESE AMERICAN CITIZENS LEAGUE
Notes to Financial Statements
December 31, 2012

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, 2012:

Leadership development	\$535,058
Legacy	59,033
Curriculum guide	2,000
Scholarships	<u>90,777</u>
Net assets released from restrictions	<u>\$686,868</u>

Permanently restricted net assets at December 31, 2012 are donor-restricted for the following purposes:

Legacy fund	\$5,052,439
Scholarship fund	1,305,849
Masaoka Fellows fund	175,625
Student aid fund	16,435
Ways and means fund	12,533
Plant	<u>2,063</u>
Total permanently restricted net assets	<u>\$6,564,944</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 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, 2012

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, 2012.

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, 2012

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, 2012 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$1,121,945	\$6,564,944	\$7,686,889
Board-designated endowment funds	<u>1,127,115</u>	<u>-</u>	<u>-</u>	<u>1,127,115</u>
Total funds	<u>\$1,127,115</u>	<u>\$1,121,945</u>	<u>\$6,564,944</u>	<u>\$8,814,004</u>

JAPANESE AMERICAN CITIZENS LEAGUE
Notes to Financial Statements
December 31, 2012

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, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 863,947	\$ 814,522	\$6,490,189	\$8,168,658
Investment return				
Investment income	27,925	47,424	10,739	86,088
Net appreciation (realized and unrealized)	<u>176,701</u>	<u>536,650</u>	<u>23,015</u>	<u>736,366</u>
Total investment return	204,626	584,074	33,755	822,455
Board designation to national endowment	101,417	-	-	101,417
Contributions	-	-	41,000	41,000
Appropriation of endowment assets for expenditure	<u>(42,874)</u>	<u>(276,651)</u>	<u>-</u>	<u>(319,525)</u>
Endowment net assets, end of year	<u>\$1,127,115</u>	<u>\$1,121,945</u>	<u>\$6,564,944</u>	<u>\$8,814,004</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, 2012, JACL's contributions to the Plan were \$41,074.

8. Postretirement 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, 2012 amounted to eight people. JACL uses a December 31 measurement date for its defined postretirement benefit obligations.

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8. Postretirement Benefits (continued)

The following sets forth the funded status of the plan as of December 31, 2012,

Plan assets at fair value	\$ -
Projected benefit obligation	<u>738,556</u>
Funded status recognized in Statement of Financial Position	<u>\$(738,556)</u>

The accumulated benefit obligation represents the actuarial present value of benefits attributable to service rendered to date. The accumulated postretirement benefit obligation ("APBO") includes the following as of December 31, 2012:

Accumulated postretirement benefit obligation	
Retired employees	\$138,155
Employees currently eligible to retire	155,103
Employees not yet eligible to retire	<u>445,298</u>
Accumulated postretirement benefit obligation	<u>\$738,556</u>

Included in amounts not recognized in net periodic benefit cost as of December 31, 2012 are the net loss of \$239,280 and net transition obligation of \$6,483. The plan did not have any net prior service costs as of December 31, 2012.

The net periodic postretirement benefit cost are recognized in JACL's financial statements. The components of the net periodic postretirement benefit cost for the year ended December 31, 2012 is as follows:

Service cost - postretirement benefits earned during the period	\$20,093
Interest cost on accumulated postretirement benefit obligation	27,450
Net amortization of transition obligation	41,267
Less: benefits paid	<u>(14,016)</u>
Net periodic postretirement benefit cost	<u>\$74,794</u>

For the year ended December 31, 2012, the discount rate assumed for the actuarial calculation of the APBO was 3.70% and the assumed health care trend rate in measuring the APBO was 5.5%. Changes in these rates could have a significant effect on the amounts reported.

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8. Postretirement Benefits (continued)

JACL expects future post retirement benefit obligation payments to be paid as follows:

2013	\$ 29,434
2014	\$ 29,578
2015	\$ 37,331
2016	\$ 34,540
2017	\$ 34,850
2018 - 2022	\$180,515

9. Commitments

JACL leases its facilities and office equipment under operating lease agreements, expiring at various times through September 2017, 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. For the year ended December 31, 2012, JACL's management has determined that any resulting deferred rent was not material to the financial statements taken as a whole and, accordingly, has not recorded any such liabilities resulting thereon. Rent expense paid under these leases for the year ended December 31, 2012 was \$107,454.

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

2013	\$139,299
2014	165,972
2015	148,911
2016	97,288
2017	<u>99,720</u>
Total	<u>\$651,190</u>

10. Rental Income

The JACL sublets a portion of space in its office headquarters to unrelated third party entities on a month-to-month basis. For the year ended December 31, 2012, total sublease income received was approximately \$12,000.

11. Subsequent Events

The JACL has evaluated subsequent events through January 21, 2014, 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 the JACL's financial statements.