

米日財団

United States-Japan Foundation

FINANCIAL STATEMENTS

DECEMBER 31, 2005 and 2004



Eisner LLP
Accountants and Advisors

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INDEPENDENT AUDITORS' REPORT

Board of Directors
United States-Japan Foundation
New York, New York

We have audited the accompanying statements of financial position of the United States-Japan Foundation (the "Foundation") as of December 31, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the Foundation. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements enumerated above present fairly, in all material respects, the financial position of United States-Japan Foundation as of December 31, 2005 and 2004, and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Eisner LLP".

New York, New York
March 1, 2006

UNITED STATES-JAPAN FOUNDATION

Statements of Financial Position

	December 31,	
	<u>2005</u>	<u>2004</u>
ASSETS		
Cash	\$ 25,208	\$ 147,127
Due from broker	856,000	
Accrued income receivable	9,358	8,436
Investments	84,425,374	82,718,734
Property and equipment, net	603,311	629,856
Prepaid federal excise tax		23,754
Security deposits and other assets	<u>56,433</u>	<u>49,154</u>
	<u>\$ 85,975,684</u>	<u>\$ 83,577,061</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Grants payable	\$ 325,232	\$ 767,062
Accounts payable and accrued expenses	34,329	40,998
Accrued federal excise tax	<u>4,750</u>	
	364,311	808,060
Commitment (Note E)		
Net assets - unrestricted	<u>85,611,373</u>	<u>82,769,001</u>
	<u>\$ 85,975,684</u>	<u>\$ 83,577,061</u>

UNITED STATES-JAPAN FOUNDATION

Statements of Activities

	Year Ended December 31,	
	<u>2005</u>	<u>2004</u>
Revenues:		
Contributions	<u>\$ 20,372</u>	<u>\$ 10,000</u>
Investment income:		
Dividends	1,522,540	2,302,712
Interest	<u>136,809</u>	<u>105,619</u>
	1,659,349	2,408,331
Investment expenses	744,223	(914,642)
Federal excise taxes	<u>(53,504)</u>	<u>(109,239)</u>
	861,622	1,384,450
Net investment income	<u>861,622</u>	<u>1,384,450</u>
Total revenues	<u>881,994</u>	<u>1,394,450</u>
Expenses:		
Grants	990,422	1,183,136
US-Japan Leadership Program	486,054	476,045
Other programs	1,041,815	945,530
Administrative	<u>527,642</u>	<u>507,317</u>
Total expenses	<u>3,045,933</u>	<u>3,112,028</u>
Excess of expenses over contribution and net investment income before net realized and unrealized gains on investments	(2,163,939)	(1,717,578)
Net realized and unrealized gains on investments	<u>5,006,311</u>	<u>5,224,136</u>
Increase in net assets - unrestricted	2,842,372	3,506,558
Net assets - unrestricted, January 1	<u>82,769,001</u>	<u>79,262,443</u>
Net assets - unrestricted, December 31	<u>\$ 85,611,373</u>	<u>\$ 82,769,001</u>

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2005 and 2004

Statements of Cash Flows

	<u>Year Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Increase in net assets	\$ 2,842,372	\$ 3,383,063
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(5,006,311)	(5,224,136)
Depreciation and amortization	38,870	49,413
Loss on disposal of property and equipment		
Changes in:		
Due from broker	(856,000)	
Accrued income receivable	(922)	110,682
Prepaid federal excise tax	23,754	(23,754)
Security deposits and other assets	(7,279)	(7,322)
Grants payable	(441,830)	(201,173)
Federal excise tax payable	4,750	(42,007)
Accounts payable and accrued expenses	<u>(6,669)</u>	<u>3,744</u>
Net cash used in operating activities	<u>(3,409,265)</u>	<u>(1,951,490)</u>
Cash flows from investing activities:		
Purchases of investments	(14,149,978)	(26,359,930)
Proceeds from sales of investments	17,449,649	28,336,836
Purchases of property and equipment	<u>(12,325)</u>	<u> </u>
Net cash provided by investing activities	<u>3,287,346</u>	<u>1,976,906</u>
Change in cash	(121,919)	25,416
Cash - January 1	<u>147,127</u>	<u>121,711</u>
Cash - December 31	<u>\$ 25,208</u>	<u>\$ 147,127</u>
Supplemental information:		
Cash paid for excise tax	<u>\$ 25,000</u>	<u>\$ 175,000</u>

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2005 and 2004

NOTE A - THE FOUNDATION AND ITS SIGNIFICANT ACCOUNTING POLICIES

[1] The Foundation:

The United States-Japan Foundation (the "Foundation") is a private foundation organized in 1980 for the purpose of promoting understanding and cooperation between the peoples and institutions of the United States and Japan.

[2] Federal excise taxes:

The Foundation qualifies as a tax-exempt charitable organization under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, accordingly, is not subject to federal income taxes. However, the Foundation is subject to an excise tax, not to exceed 2% on net investment income, including realized gains, as defined in the Code.

In addition, the Foundation must make certain minimum distributions in an amount equal to 5% of the average fair value of its assets held during the year. The required distributions for the years ended December 31, 2005 and 2004 were approximately \$4,075,000 and \$3,830,000, respectively. At December 31, 2005, the Foundation has excess distribution carryforwards of approximately \$15,885,000, expiring in 2006 through 2009.

Management has elected to not reflect the federal excise tax liability on the unrealized appreciation of the investment portfolio as of December 31, 2005; the liability is not considered to be material.

[3] Basis of accounting:

The financial statements of the Foundation have been prepared using the accrual basis of accounting.

[4] Net assets:

The Foundation's net assets, which are unrestricted, represent resources available for current operations as there are no donor restrictions on the use of these assets.

[5] Contributions:

Proceeds from contributions are recorded as revenue upon receipt of cash or unconditional pledges. Proceeds from contributions are considered available for unrestricted use unless specifically restricted by the donor.

[6] Fair value of financial instruments:

Financial instruments are composed of cash and other assets, the carrying values of which approximate their fair values. Similarly, the reported amounts of liabilities are estimated to approximate their fair value. Investments are reported at their fair market values.

[7] Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2005 and 2004

NOTE A - THE FOUNDATION AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[8] Allocations of expenses:

The costs of providing the Foundation's programs and activities have been summarized in the accompanying statements of activities. Program and administrative expenses represent costs associated with the grant-making and operational activities of the Foundation and have been allocated using appropriate measurement methodologies developed by management.

NOTE B - INVESTMENTS

[1] Investments are reported at their aggregate fair values, and investment transactions are recorded as of the trade dates. Management reports its investments in limited partnerships and hedge funds based upon the valuation of each partnership's assets, or cash held, as determined by the related investment manager or advisor. Mutual funds consist primarily of equity and fixed-income funds.

Any investments denominated in foreign currencies are translated at the closing rate of exchange at the end of the reporting period. Transactions during the year, including purchases and sales and income and expenses, are translated at the rate of exchange prevailing on the dates of the transactions.

Realized and unrealized gains or losses on investments are determined by the comparison of specific costs of acquisition to the proceeds at the time of disposal and the market values at the balance-sheet date, respectively. Realized and unrealized gains or losses include the effects of currency translation with respect to foreign security transactions. Realized gains were \$1,574,147 and \$4,151,062 for 2005 and 2004, respectively. Unrealized gains were \$3,435,362 and \$1,068,565 for 2005 and 2004, respectively.

A forward exchange currency contract is a commitment to purchase or sell a foreign currency at a future date, at a negotiated rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net realized gains or losses on investments. The net realized (losses)/gains on forward exchange currency contracts were (\$3,198) and \$4,509 for 2005 and 2004, respectively.

[2] At each year-end, the cost and fair value of the Foundation's investments were as follows:

	December 31,			
	2005		2004	
	Fair Value	Cost	Fair Value	Cost
Money-market and other temporary investments	\$ 2,085,516	\$ 2,085,516	\$ 1,368,172	\$ 1,368,172
Mutual funds	48,320,417	40,346,065	38,334,276	31,878,289
Limited partnerships	24,662,825	21,946,813	34,111,042	33,142,379
Equity securities	<u>9,356,616</u>	<u>7,947,088</u>	<u>8,905,244</u>	<u>7,665,364</u>
Total investments	<u>\$ 84,425,374</u>	<u>\$ 72,325,482</u>	<u>\$ 82,718,734</u>	<u>\$ 74,054,204</u>

Approximately 22 percent and 17 percent of the Foundation's marketable securities were held by highly capitalized financial institutions, during 2005 and 2004, respectively.

In connection with investment activity, the Foundation selects various investment vehicles, including limited partnerships. Under the terms of the limited-partnership agreements, the Foundation may make an initial capital contribution and may commit to funding additional capital. At December 31, 2005, the Foundation has commitments to provide additional capital investments of approximately \$5,403,000.

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2005 and 2004

NOTE C - PROPERTY AND EQUIPMENT

The costs of a cooperative apartment owned by the Foundation (including subsequent improvements), office furnishings, equipment and leasehold improvements have been capitalized and are being depreciated over their anticipated useful lives. The apartment and related improvements are depreciated over forty years. Office furnishings and equipment are depreciated over five years. Leasehold improvements are amortized over the life of the underlying leases. Depreciation and amortization expense was \$ 38,870 and \$49,413 for 2005 and 2004, respectively.

At each year-end, property and equipment consisted of the following:

	December 31,	
	2005	2004
Cooperative apartment	\$ 790,725	\$ 790,725
Cooperative apartment improvements	242,700	242,700
Leasehold improvements	229,685	229,685
Equipment	97,799	126,655
Furniture and fixtures	<u>288,264</u>	<u>395,505</u>
	1,649,173	1,785,270
Less accumulated depreciation and amortization	<u>1,045,862</u>	<u>1,155,414</u>
	<u>\$ 603,311</u>	<u>\$ 629,856</u>

The Foundation wrote off fully depreciated property and equipment of \$148,422 and \$262,936 for 2005 and 2004, respectively. The maintenance and utility charges on the cooperative apartment were \$42,702 and \$41,445 for 2005 and 2004, respectively.

NOTE D - US-JAPAN LEADERSHIP PROGRAM

The Foundation manages the US-Japan Leadership Program (the "Program") which develops a network of communication, friendship and understanding among the next generation of leaders in each country. The Program brings selected young leaders together through annual conferences, a dedicated website, a semi-annual newsletter and frequent reunions. During 2005 and 2004, the Foundation received contributions from former Program participants to assist with the costs associated with running the Program.

NOTE E - LEASES

At December 31, 2005, future minimum lease payments under noncancellable leases (with expirations through 2007) are as follows:

Year	Amount
2006	125,820
2007	<u>20,970</u>
	<u>\$ 146,790</u>

Rent expense was \$199,019 and \$190,535 for 2005 and 2004, respectively.

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2005 and 2004

NOTE F - RETIREMENT PLAN

The Foundation has a defined-contribution retirement plan for the benefit of its employees. Contributions were \$134,055 and \$131,969 for 2005 and 2004, respectively.

NOTE G - GRANT ACTIVITY

The Foundation's grant activity for 2005 was as follows:

Recipient Name and Purpose	Unpaid January 1, 2005	Net Grants Authorized 2005	Paid	Unpaid December 31, 2005
Precollege Education				
Action for a Better International Community (Tokyo, Japan) To improve education about the United States through the development and dissemination of textbooks on America.		\$ 17,484	\$ 17,484	
AmerAsian School in Okinawa (Okinawa, Japan) To support the third year of a three-year project to support the enhancement of the bi-lingual/bi-cultural education provided to students at the AmerAsian School in Okinawa through the hiring of two American teachers.	\$ 25,000			\$ 25,000
Anacortes School District (Anacortes, WA) To support Japanese language classes at Island View Elementary School.		2,200	2,200	
AYUSA International (San Francisco, CA) To support the first year of a three-year project to selectively recruit ten high school students for an academic year of study and service in Japan.	45,798		45,798	
AYUSA International (San Francisco, CA) To support the second year of a three-year project to selectively recruit ten high school students for an academic year of study and service in Japan.	46,373			46,373
AYUSA International (San Francisco, CA) To support the third year of a three-year project to selectively recruit ten high school students for an academic year of study and service in Japan.		94,646	47,323	47,323
Baraboo Middle School (Baraboo, WI) To support, as part of the Elgin Heinz Outstanding Teacher Award, Japan-related activities and events at Baraboo Middle School.		5,000	5,000	
Friends of Grace Church School (New York, NY) To support a junior high school exchange project that will bring 14 students from Yukuhashi, Japan, to interact with students at Grace Church School in New York City during Golden Week 2005.	7,000		7,000	
Hartford Area Career and Technology Center (While River Junction, VT) To support a technical education study program for secondary vocational technical education students from the Hartford Area Career and Technology Center and the Fukuoka School of Technology.		10,000	10,000	
Hiroshima University (Higashi-Hiroshima, Japan) To support the initial development of Hiroshima University's Global Partnership Schools Center that will promote school-to-school relationships in the US and Japan.	41,527	515	42,042	
Hiroshima University (Higashi-Hiroshima, Japan) To support the first year of a two-year project to continue development of Hiroshima University's Global Partnership Schools Center that will promote school-to-school relationships in the US and Japan.		51,094	51,094	
(carried forward)	165,698	180,939	227,941	118,696

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2005 and 2004

NOTE G - GRANT ACTIVITY (CONTINUED)

Recipient Name and Purpose	Unpaid January 1, 2005	Net Grants Authorized 2005	Paid	Unpaid December 31, 2005
(brought forward)	\$ 165,698	\$ 180,939	\$ 227,941	\$ 118,696
Precollege Education (continued)				
Hyogo University of Teacher Education (Yashiro, Japan) To support the third year of a three-year professional development program on American Studies for elementary, junior high, and high school teachers from throughout Hyogo Prefecture.	129,657	(4,257)	125,400	
Japan-America Society of Washington, DC (Washington, DC) To support the thirteenth year of a national language competition and supporting regional competitions for high school students studying Japanese.	49,995		49,995	
Japan-American Society of Washington, DC (Washington, DC) To support the fourteenth year of a national language competition and supporting regional competitions for high school students studying Japanese.		50,000	50,000	
Lake Washington High School (Kirkland, WA) To support, as part of the Elgin Heinz Outstanding Teacher Award, scholarships for a minimum of seven students to travel to Japan during the summer of 2006.		5,000	5,000	
Lincoln Memorial University (Harrogate, TN) To enable students from Kanto International Senior High School in Tokyo, Japan to visit primary and secondary schools in Tennessee.		7,500	7,500	
Murray State University (Murray, KY) To provide salary support to install the first Japanese language teacher ever in Murray Independent Schools, a local public school district.		22,000	22,000	
Seattle Public Schools (Seattle, WA) To support the development of a model Kindergarten through 8 th grade Japanese immersion program for the Seattle Public Schools as part of the international school initiative.	17,592		17,592	
Seattle Public Schools (Seattle, WA) To support the second year of a three-year project to develop a model Kindergarten through 8 th grade Japanese immersion program for the Seattle Public Schools as part of their international school initiative.		66,250	33,125	33,125
Simmons College (Boston, MA) To support the first year of a three-year teacher-professional development program that will introduce Boston Public middle school teachers to the study of Japan.		75,000	37,500	37,500
Society for USA Understanding (Tokyo, Japan) To develop and disseminate teaching materials on the United States for use in Japanese junior and senior high schools.	26,359	1,338	27,697	
Stanford University (Stanford, CA) To support the third year of a three-year Internet-mediated Japan Studies course for exemplary high school students in the United States.		66,385	33,193	33,192
The Fund for American Studies (Washington, DC) To support The Fund for American Studies' Asia Institute for Political Economy that offers a unique opportunity for students from Asia and the US to delve into serious political and economic issues facing their country.		1,000	1,000	
The Midori Foundation (New York, NY) To support the second year of a two-year Midori and Friends' music education program in underprivileged elementary schools in the New York City area, including professional development, curriculum development, Vocal Learning in Japan, concerts by Midori in schools, and a US-Japan pen pal program.		35,000	35,000	
(carried forward)	389,301	506,155	672,943	222,513

UNITED STATES-JAPAN FOUNDATION

Notes to Financial Statements December 31, 2005 and 2004

NOTE G - GRANT ACTIVITY (CONTINUED)

Recipient Name and Purpose	Unpaid January 1, 2005	Net Grants Authorized 2005	Paid	Unpaid December 31, 2005
(brought forward)	\$ 389,301	\$ 506,155	\$ 672,943	\$ 222,513
Precollege Education (continued)				
University of Mary Washington Foundation (Fredericksburg, VA) To support a conference on contemporary US-Japan relations to be held in the spring of 2006 under the auspices of the Leidecker Center for Asian Studies.		5,000	5,000	
University of Oregon (Eugene, OR) To support the second year of a three-year project to create a national system of articulation in Japanese language based on clear and measurable standards.	50,261		50,261	
University of Pennsylvania (Philadelphia, PA) To support an advanced training program that will enable teachers in the Philadelphia area to understand and teach about multi-cultural Japan.		49,789	49,789	
University of Vermont (Burlington, VT) To support the second year of a three-year project to promote the study of Japan in the schools throughout Vermont under the guidance of two full-time educators at the University of Vermont.	75,000		50,000	25,000
University of Vermont (Burlington, VT) To support the third year of a three-year project to promote teaching and learning about Japan in schools throughout Vermont.		100,700	100,700	
Youth Hope Fund (of the Emory United Methodist Church (Street, MD) To support the rescue and relief of victims of the tsunami.	<u> </u>	<u>5,000</u>	<u>5,000</u>	<u> </u>
Subtotal for Precollege Education	<u>514,562</u>	<u>666,644</u>	<u>933,693</u>	<u>247,513</u>
US-Japan Policy				
Massachusetts Institute of Technology (Cambridge, MA) To support a symposium titled "Globalization and the Future of the National Economy", to be held in Tokyo on January 18, 2006, that will create a dialogue between Japanese and US business leaders on the effect of globalization on corporate decisions.		10,560	10,560	
Pacific Forum CSIS (Honolulu, HI) To support the first year of a three-year focused policy dialogue on US-Japan-China relations that will draw attention to the long-term strategic goals of the three countries, and how current policy positions and pronouncements - on all three sides - impact the realization of those goals.		75,140	75,140	
The Japan Association for Diplomatic History (Kobe, Hyogo-ken) To support the first year of a two-year project to develop a comprehensive textbook on the history of US-Japan relations.		47,055	25,336	21,719
Subtotal for US-Japan Policy		<u>132,755</u>	<u>111,036</u>	<u>21,719</u>
Communications/Public Opinion				
Japan Society (New York, NY) To support the first year of a three-year intensive fellowship program for Japanese and American media professionals, allowing them to reside, study and work for two months in the other country, focused on a research topic of their choice.	165,000		165,000	
Japan Society (New York, NY) To support the second year of three-year intensive fellowship program for American media professionals, allowing them to reside, study and work for six weeks in Japan, focused on a research topic of their choice.		110,000	55,000	55,000
(carried forward)	<u>165,000</u>	<u>110,000</u>	<u>220,000</u>	<u>55,000</u>

UNITED STATES-JAPAN FOUNDATION

**Notes to Financial Statements
December 31, 2005 and 2004**

NOTE G - GRANT ACTIVITY (CONTINUED)

Recipient Name and Purpose	Unpaid January 1, 2005	Net Grants Authorized 2005	Paid	Unpaid December 31, 2005
(brought forward)	\$ 165,000	\$ 110,000	\$ 220,000	\$ 55,000
Communications/Public Opinion (continued)				
Japanese American National Museum (Los Angeles, CA) To support the third year of a three-year project that will bring together younger leaders from Japan and the Japanese American community in the United States to collaborate on issues of mutual concern in advancing US-Japan relations.	25,000		25,000	
Minnesota Public Radio (St. Paul, MN) To support a public radio documentary focusing on Japan's unique role in modern history.		50,000	50,000	
National Association of Japan-America Societies (Washington, DC) To strengthen the financial base and infrastructure of the National Association of Japan-America Societies.		50,000	50,000	
Projectile Arts, Inc. (Brooklyn, NY) To support the production of a 90-minute documentary film on high school baseball in Japan.		31,500	31,500	
Public Radio International (Minneapolis, MN) To support enhanced coverage of Japan in PRI's daily international news program, The World.	37,500		37,500	
St. Patrick's Catholic Church (Racine, WI) A discretionary grant in honor of Mr. H. Norman Johnson, father of USJF Chairman Thomas S. Johnson.		1,000	1,000	
The Bachmann-Strauss Dystonia and Parkinson Foundation, Inc. (New York, NY) In honor of Bonnie Strauss and to support the Foundation's mission to find better medical treatments and a cure for dystonia and Parkinson's disease.		1,000		1,000
WGBH Educational Foundation (Boston, MA) To reformat, edit, broadcast and distribute the film: Sugihara: Conspiracy of Kindness for national televised broadcast on PBS.	25,000		25,000	
Subtotal for Communications/Public Opinion	<u>252,500</u>	<u>243,500</u>	<u>440,000</u>	<u>56,000</u>
Subtotal	767,062	1,042,899	1,484,729	325,232
Prior year's awards withdrawn/returned in current year		<u>(57,001)</u>	<u>(57,001)</u>	
Total	<u>\$ 767,062</u>	<u>\$ 985,898</u>	<u>\$ 1,427,728</u>	<u>\$ 325,232</u>

(a) Net grants authorized reflect the additions of net currency gains which totaled \$4,524 for the year. Current year reductions in awards have been netted against the original award.

(b) Unexpended funds returned in the current year are netted against payments.