

FINANCIAL STATEMENTS

THE HITACHI FOUNDATION

**FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009**

THE HITACHI FOUNDATION

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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Hitachi Foundation
Washington, D.C.

We have audited the accompanying statements of financial position of The Hitachi Foundation (the Foundation) as of December 31, 2010 and 2009, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2010 and 2009, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Gelman Rosenberg & Freedman

June 3, 2011

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THE HITACHI FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2010 AND 2009

ASSETS

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 922,615	\$ 9,356,628
Investments (Notes 2 and 9)	20,730,295	11,068,738
Contributions and other receivables	53,529	11,787
Prepaid expenses	12,686	17,707
Prepaid Federal excise taxes (Note 5)	-	20,008
Property, furniture and equipment, net (Note 3)	<u>76,659</u>	<u>98,159</u>
TOTAL ASSETS	<u>\$ 21,795,784</u>	<u>\$ 20,573,027</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Grants payable (Note 4)	\$ 1,357,848	\$ 1,515,007
Accounts payable	50,638	14,844
Accrued expenses	48,638	41,567
Federal excise taxes payable (Note 5)	7,250	-
Deferred Federal excise taxes (Note 5)	35,998	6,150
Deferred rent (Note 8)	<u>40,143</u>	<u>36,545</u>
Total liabilities	<u>1,540,515</u>	<u>1,614,113</u>

NET ASSETS

Unrestricted	20,245,269	18,948,914
Temporarily restricted (Note 7)	<u>10,000</u>	<u>10,000</u>
Total net assets	<u>20,255,269</u>	<u>18,958,914</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 21,795,784</u>	<u>\$ 20,573,027</u>

THE HITACHI FOUNDATION

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE			
Contributions from Hitachi, Ltd. and subsidiaries	\$ 2,125,700	\$ 10,000	\$ 2,135,700
Other contributions	25,050	-	25,050
Investment income	622,151	-	622,151
Publications and conferences	11,785	-	11,785
Other	2,838	-	2,838
Net assets released from donor restrictions (Note 7)	<u>10,000</u>	<u>(10,000)</u>	<u>-</u>
Total revenue	<u>2,797,524</u>	<u>-</u>	<u>2,797,524</u>
EXPENSES			
Programs:			
Grants approved	1,458,870	-	1,458,870
Program support	860,219	-	860,219
Management and general	<u>914,169</u>	<u>-</u>	<u>914,169</u>
Total expenses	<u>3,233,258</u>	<u>-</u>	<u>3,233,258</u>
Changes in net assets before realized gain (loss) on sales of investments and unrealized gain on investments	(435,734)	-	(435,734)
Realized gain (loss) on sales of investments	285,850	-	285,850
Unrealized gain on investments	<u>1,492,410</u>	<u>-</u>	<u>1,492,410</u>
Changes in net assets before provision for Federal excise tax	1,342,526	-	1,342,526
Federal excise tax recovery (provision) (Note 5):			
Current	(16,323)	-	(16,323)
Deferred	<u>(29,848)</u>	<u>-</u>	<u>(29,848)</u>
Changes in net assets	1,296,355	-	1,296,355
Net assets at beginning of year	<u>18,948,914</u>	<u>10,000</u>	<u>18,958,914</u>
NET ASSETS AT END OF YEAR	<u>\$ 20,245,269</u>	<u>\$ 10,000</u>	<u>\$ 20,255,269</u>

See accompanying notes to financial statements.

2009		
Unrestricted	Temporarily Restricted	Total
\$ 2,099,990	\$ 10,000	\$ 2,109,990
21,000	-	21,000
479,879	-	479,879
25	-	25
6,328	-	6,328
-	-	-
<u>2,607,222</u>	<u>10,000</u>	<u>2,617,222</u>
1,262,126	-	1,262,126
655,185	-	655,185
<u>1,151,967</u>	-	<u>1,151,967</u>
<u>3,069,278</u>	-	<u>3,069,278</u>
(462,056)	10,000	(452,056)
(4,059,817)	-	(4,059,817)
<u>3,142,035</u>	-	<u>3,142,035</u>
(1,379,838)	10,000	(1,369,838)
(7,765)	-	(7,765)
<u>(6,150)</u>	-	<u>(6,150)</u>
(1,393,753)	10,000	(1,383,753)
<u>20,342,667</u>	-	<u>20,342,667</u>
<u>\$ 18,948,914</u>	<u>\$ 10,000</u>	<u>\$ 18,958,914</u>

See accompanying notes to financial statements.

THE HITACHI FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 1,296,355	\$ (1,383,753)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation and amortization	29,077	29,556
Realized (gain) loss on sales of investments	(285,850)	4,059,817
Unrealized gain on investments	(1,492,410)	(3,142,035)
(Increase) decrease in:		
Contributions and other receivables	(41,742)	73,349
Prepaid expenses	5,020	10,721
Prepaid Federal excise taxes	20,008	7,765
Increase (decrease) in:		
Grants payable	(157,159)	(185,345)
Accounts payable	35,794	(14,102)
Accrued expenses	7,072	(2,665)
Federal excise taxes payable	7,250	-
Deferred Federal excise taxes	29,848	6,150
Deferred rent	<u>3,598</u>	<u>6,765</u>
Net cash used by operating activities	<u>(543,139)</u>	<u>(533,777)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(17,490,179)	(1,867,270)
Proceeds from sales of investments	9,606,882	4,766,305
Purchase of furniture and equipment	<u>(7,577)</u>	<u>(31,798)</u>
Net cash provided (used) by investing activities	<u>(7,890,874)</u>	<u>2,867,237</u>
Net increase (decrease) in cash and cash equivalents	(8,434,013)	2,333,460
Cash and cash equivalents at beginning of year	<u>9,356,628</u>	<u>7,023,168</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>922,615</u>	\$ <u>9,356,628</u>
SUPPLEMENTAL INFORMATION:		
Taxes Paid	\$ <u>1,063</u>	\$ <u>35,503</u>

See accompanying notes to financial statements.

THE HITACHI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Hitachi Foundation (the Foundation) is an independent non-profit philanthropic organization established by Hitachi, Ltd. in 1985. Governed by a Board of Directors, composed of highly accomplished Americans, The Foundation's mission is to forge an authentic integration of business actions and societal well-being in North America. The Foundation's strategic focus through 2013 is on discovering and expanding business practices that create tangible, enduring economic opportunities for low-wealth Americans, their families, and the communities in which they reside - while also enhancing business value.

The Foundation has three core programs: the Business and Work Program (formerly the Business and Communities Grants Program) seeks to advance the fields of corporate social responsibility (CSR) and corporate citizenship by discovering sustainable business practices that strengthen the bottom line and create pathways out of poverty for low-income workers. Through its Hitachi Community Action Partnership, the Foundation and Hitachi America jointly promote community engagement among Hitachi group companies in North America. The Yoshiyama Young Entrepreneurs Program (formerly the Yoshiyama Award for Exemplary Service to the Community) identifies and supports inspiring young entrepreneurs who are operating businesses that create greater economic opportunity and help to improve the lives of low-wealth individuals in North America.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

Cash and cash equivalents -

The Foundation considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

At times during the year, the Foundation maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Realized gains or losses on investments are determined by comparison of specific costs of acquisition to proceeds at the time of disposal. Unrealized gains or losses on investments are determined by comparison of specific costs of acquisition to the market value at the Statements of Financial Position date.

Accounts receivable -

Accounts receivable approximate fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Property, furniture and equipment -

Property, furniture and equipment purchased by the Foundation in excess of \$1,000 are carried at original cost basis. Depreciation and amortization are recorded using the straight-line method, based on the estimated useful lives of the assets, generally three to five years.

THE HITACHI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Taxes -

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to Federal income taxes. However, the Foundation is subject to a Federal excise tax based on its net investment income.

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the years ended December 31, 2010 and 2009, the Foundation has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Foundation and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Contributions -

Contributions and grants have been recorded as revenue in the year notification is received from the donor.

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Grants -

Grant expenditures are considered incurred at the time of approval by the Board of Directors or the President.

THE HITACHI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Risks and uncertainties -

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Fair value measurements -

The Foundation adopted the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Foundation accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

2. INVESTMENTS

Investments consisted of the following at December 31, 2010 and 2009:

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Mutual funds	\$ 16,627,231	\$ 18,295,776	\$ 8,011,999	\$ 8,220,552
Certificates of deposit	-	-	1,500,000	1,500,000
Bonds	<u>2,303,152</u>	<u>2,434,519</u>	<u>1,249,237</u>	<u>1,348,186</u>
TOTAL INVESTMENTS	<u>\$ 18,930,383</u>	<u>\$ 20,730,295</u>	<u>\$ 10,761,236</u>	<u>\$ 11,068,738</u>

3. PROPERTY, FURNITURE AND EQUIPMENT

Property, furniture and equipment at December 31, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Furniture and equipment	\$ 138,053	\$ 130,476
Leasehold improvements	<u>86,251</u>	<u>86,251</u>
Total property, furniture and equipment	224,304	216,727
Less: Accumulated depreciation and amortization	<u>(147,645)</u>	<u>(118,568)</u>
PROPERTY, FURNITURE AND EQUIPMENT, NET	<u>\$ 76,659</u>	<u>\$ 98,159</u>

THE HITACHI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

3. PROPERTY, FURNITURE AND EQUIPMENT (Continued)

Depreciation and amortization expense totaled \$29,077 and \$29,556 for the years ended December 31, 2010 and 2009, respectively.

4. GRANTS PAYABLE

Grants payable at December 31, 2010 and 2009 consisted of amounts due to qualifying charitable organizations, which have been approved by the Directors of the Foundation or the President.

The following is a schedule of grants payable at December 31, 2010 and 2009:

	2010	2009
2010	\$ -	\$ 1,515,007
2011	1,138,193	-
2012	219,655	-
	\$ 1,357,848	\$ 1,515,007

5. FEDERAL EXCISE TAXES

The Internal Revenue Code imposes on private foundations an excise tax equal to either one or two percent of net investment income (principally interest, dividends and net realized capital gains, less expenditures incurred in the production of investment income). The provision for Federal excise tax consists of a current provision on net investment income and a deferred provision on the net unrealized gain on investments.

During the year ended December 31, 2010, the Foundation recognized total deferred tax expense of \$29,848, based on the appreciated value of its investments portfolio as of fiscal year-end. At December 31, 2010, the total deferred Federal excise tax payable aggregated \$35,998. In addition, the Foundation recognized \$16,323 of current year Federal excise tax expense on its net investment activity (interest, dividends and current year realized gains on sales of investments). At December 31, 2010, the total current Federal excise tax payable aggregated \$7,250.

During the year ended December 31, 2009, the Foundation recognized total deferred tax expense of \$6,150, based on the appreciated value of its investments portfolio as of fiscal year-end. At December 31, 2009, the total deferred Federal excise tax payable aggregated \$6,150. In addition, the Foundation recognized \$7,765 of current year Federal excise tax expense on its net investment activity (interest, dividends and current year realized gains on sales of investments). At December 31, 2009, the total prepaid Federal excise tax expense aggregated \$20,008.

6. PENSION PLAN

On January 1, 1994, the Foundation adopted a 403(b) plan covering substantially all full-time employees who meet certain age and service requirements. Under the terms of the plan, employees may contribute the lower of \$16,500 or 25% of their annual compensation. The Foundation's contribution is discretionary, and is currently established at ten percent of annual salary for all qualifying employees.

Pension expense totaled \$64,045 and \$74,921 for the years ended December 31, 2010 and 2009, respectively.

THE HITACHI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

7. TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2010 and 2009, the Foundation received a \$10,000 contribution in support of 2011 and 2010 activities, respectively, and accordingly has presented such amount as temporarily restricted net assets in the accompanying financial statements.

During the year ended December 31, 2010, \$10,000 was released from restrictions through the passage of time. During the year ended December 31, 2009, there were no net assets released from restrictions.

8. LEASE COMMITMENT

During March 2006, the Foundation entered into a lease agreement for office space. The term of the lease is 120 months, commencing on July 15, 2006. The Foundation is responsible for its pro-rata share of operating expenses and real estate taxes.

On the anniversary of each lease year, the monthly rent shall be increased by two and a half percent of the amount of the annual base rent payable for the preceding lease year. Generally accepted accounting principles require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is being deferred. Such amount will be amortized over the term of the lease agreement. The total deferred rent expense recognized during the years ended December 31, 2010 and 2009 totaled \$3,598 and \$6,765, respectively.

Following is a summary of future minimum lease payments required under the lease:

Year Ended December 31,

2011	\$ 133,084
2012	136,412
2013	139,822
2014	143,317
2015	146,900
2016	<u>74,510</u>
	<u>\$ 774,045</u>

9. FAIR VALUE MEASUREMENTS

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, the Foundation has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

THE HITACHI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

9. FAIR VALUE MEASUREMENTS (Continued)

Investments recorded in the Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Foundation has the ability to access.

Level 2. These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

Financial assets recorded in the Statements of Financial Position are categorized based on the inputs to the valuation technique as follows for the years ended December 31, 2010 and 2009:

		2010			
		Level 1	Level 2	Level 3	Total
Asset Category:					
	Investments	<u>\$20,730,295</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,730,295</u>
		2009			
		Level 1	Level 2	Level 3	Total
	Investments	<u>\$11,068,738</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,068,738</u>

10. SUBSEQUENT EVENTS

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 3, 2011, the date the financial statements were issued.