

Hawaiian Mission Children's Society
dba Hawaiian Mission Houses Historic Site and Archives
Profit and loss, January 1, 2017 to December 31, 2017

	2017 P&L
INCOME	*subject to audit
Contributed Support	
Direct Contributions	\$ 392,743
Non-government grants - Restricted*	90,973
Government grants - Restricted*	72,695
Special Donations & Bequests	400
Total Direct Contributions and Grants	556,811
Earned Income	
School Programs, Special Tours	21,968
Special Events and Public Programs	57,807
Income from Investments	47,219
Museum Store (net), Daily tours, Usage fees	32,533
Total Earned Income	159,527
Distribution from Board-Managed Fund	426,543
Temporarily Restricted Income –	196,183
TOTAL INCOME	\$ 1,339,064
EXPENSES	
Expenses - personnel related	
Salaries and Benefits	\$ 791,343
Contract service expenses	34,211
Non-personnel related Expenses	
Postage, printing, and Supplies	33,744
Facility and Equipment Expenses	135,733
Travel, conferences, meetings	2,987
Other expenses including Insurance	100,062
Business Expenses, Bank Fees, GET	15,334
Public Program Expenses	49,214
Special Projects*	195,613
TOTAL EXPENSES	\$ 1,358,242
NET INCOME	\$ (19,178)

*When projects are grant-dependent and funds are not raised, projects are revised or delayed.

Hawaiian Mission Children's Society
 dba Hawaiian Mission Houses Historic Site and Archives
 Balance Sheet
 Dec 31, 2017

Assets		
	Cash & Short Term Investments	\$ 621,795
	Receivables	46,498
	Inventory	81,602
	Prepaid Expenses	8,426
	Other Current Assets	508
	Total Current Assets	\$ 758,828
	Gross Property, Plant & Equipment	\$ 2,786,681
	Accumulated Depreciation	\$ (1,429,628)
	Furniture, Fixtures & Equipment	\$ 7,285
	Net Property, Plant & Equipment	\$ 1,364,338
	Long Term Investments	\$ 3,153,517
	Interests in Perpetual Trusts	\$ 1,280,641
	Total Long Term Assets	\$ 4,434,158
	Total Assets	\$ 6,557,324
Liabilities		
	Accounts Payable	\$ 98,901
	Accrued Expenses	\$ 31,575
	Deferred Revenues	\$ 266,509
	Total Current Liabilities	\$ 396,985
	Total Liabilities	
Equity		\$ 6,160,340
Total Liabilities and Equity		\$ 6,557,324

THE HAWAIIAN MISSION CHILDREN'S SOCIETY

**FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016
With Prior Year Comparative Information
And Independent Auditor's Report**



CW Associates

A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITOR'S REPORT

The Hawaiian Mission Children's Society:

Report on the Financial Statements

We have audited the accompanying financial statements of The Hawaiian Mission Children's Society (Society), a nonprofit Hawaii corporation, which comprise the statement of financial position as of December 31, 2016, 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 of 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 on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Society as of December 31, 2016, 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 Prior Year Comparative Information

We have previously audited the Society's financial statements as of and for the year ended December 31, 2015, and our report dated September 7, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the accompanying prior year comparative information is consistent, in all material respects, with the audited financial statements from which it has been derived.

CW ASSOCIATES, CPAs

Honolulu, Hawaii
May 23, 2017

THE HAWAIIAN MISSION CHILDREN'S SOCIETY

STATEMENT OF FINANCIAL POSITION

**As of December 31, 2016
(With Prior Year Comparative Information)**

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	\$ 1,172,597	\$ 731,920
Investments in marketable securities	2,901,769	2,862,472
Grants and pledges receivable – net	25,239	15,000
Inventory for retail operations	85,228	90,389
Prepaid expenses and other assets	8,116	29,096
Total current assets	<u>4,192,949</u>	<u>3,728,877</u>
 PROPERTY AND EQUIPMENT – Net	 <u>1,736,846</u>	 <u>1,336,811</u>
 INTERESTS IN PERPETUAL TRUSTS	 <u>1,445,428</u>	 <u>1,417,907</u>
 HISTORICAL COLLECTION (See Note A)	 <u>-</u>	 <u>-</u>
 TOTAL ASSETS	 <u>\$7,375,223</u>	 <u>\$6,483,595</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 91,875	\$ 60,959
Accrued liabilities	28,883	26,450
Total current liabilities	<u>120,758</u>	<u>87,409</u>
 NET ASSETS		
Unrestricted net assets		
Unrestricted – undesignated	539,708	335,129
Unrestricted – invested in marketable securities	2,901,769	2,862,472
Unrestricted – invested in property and equipment	1,736,846	1,336,811
Total unrestricted net assets	<u>5,178,323</u>	<u>4,534,412</u>
Temporarily restricted net assets	519,004	342,215
Permanently restricted net assets	1,557,138	1,519,559
Total net assets	<u>7,254,465</u>	<u>6,396,186</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$7,375,223</u>	 <u>\$6,483,595</u>

See accompanying notes to the financial statements.

THE HAWAIIAN MISSION CHILDREN'S SOCIETY

STATEMENT OF ACTIVITIES

**For the Year Ended December 31, 2016
(With Prior Year Comparative Information)**

	<u>2016</u>	<u>2015</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and support		
Unrestricted contributions	\$ 833,192	\$ 343,492
Net assets released from program restrictions	476,557	203,068
Investment income (loss)	317,788	(111,711)
Special events – net	84,544	89,560
Distributions from perpetual trusts	70,386	73,498
Facilities fees	67,889	69,290
Revenue from retail operations	55,841	56,207
Program income	44,048	56,059
Admissions and membership	43,801	43,060
Total revenue and support	<u>1,994,046</u>	<u>822,523</u>
Expenses		
Program services	1,069,423	929,610
Retail operations	119,059	133,810
Management and general	54,571	55,190
Fundraising	107,082	111,000
Total expenses	<u>1,350,135</u>	<u>1,229,610</u>
Increase (decrease) in unrestricted net assets	<u>643,911</u>	<u>(407,087)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Temporarily restricted contributions	648,896	147,008
Temporarily restricted investment income	4,450	-
Net assets released from temporary restrictions	<u>(476,557)</u>	<u>(203,068)</u>
Increase (decrease) in temporarily restricted net assets	<u>176,789</u>	<u>(56,060)</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Permanently restricted contributions	8,592	-
Permanently restricted investment income	1,466	1,362
Increase (decrease) in interests in perpetual trusts	97,907	(53,729)
Distributions from perpetual trusts	<u>(70,386)</u>	<u>(73,498)</u>
Increase (decrease) in permanently restricted net assets	<u>37,579</u>	<u>(125,865)</u>
INCREASE (DECREASE) IN NET ASSETS	858,279	(589,012)
NET ASSETS – Beginning of year	<u>6,396,186</u>	<u>6,985,198</u>
NET ASSETS – End of year	<u><u>\$7,254,465</u></u>	<u><u>\$6,396,186</u></u>

See accompanying notes to the financial statements.

THE HAWAIIAN MISSION CHILDREN'S SOCIETY

STATEMENT OF FUNCTIONAL EXPENSES

**For the Year Ended December 31, 2016
(With Prior Year Comparative Information)**

	<u>Program Services</u>	<u>Retail Operations</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>2016 Total</u>	<u>2015 Total</u>
Salaries	\$ 391,480	\$ 50,770	\$ 22,102	\$ 64,569	\$ 528,921	\$ 522,541
Program	181,450	-	-	-	181,450	93,289
Office and administrative	91,960	6,657	6,330	23,749	128,696	125,799
Employee benefits	64,963	9,802	3,707	7,544	86,016	87,993
Utilities	69,529	2,914	5,927	1,562	79,932	88,686
Repairs and maintenance	76,244	853	1,734	457	79,288	52,193
Professional services	65,098	2,634	5,357	1,411	74,500	67,415
Depreciation	57,803	2,423	4,928	1,298	66,452	66,393
Payroll taxes	30,018	3,975	1,669	5,018	40,680	42,354
Cost of sales	-	35,790	-	-	35,790	38,140
Insurance	20,581	1,094	1,645	896	24,216	24,193
Supplies	<u>20,297</u>	<u>2,147</u>	<u>1,172</u>	<u>578</u>	<u>24,194</u>	<u>20,614</u>
Total expenses	<u>\$1,069,423</u>	<u>\$119,059</u>	<u>\$ 54,571</u>	<u>\$107,082</u>	<u>\$1,350,135</u>	<u>\$1,229,610</u>

See accompanying notes to the financial statements.

THE HAWAIIAN MISSION CHILDREN'S SOCIETY

STATEMENT OF CASH FLOWS

**For the Year Ended December 31, 2016
(With Prior Year Comparative Information)**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 858,279	\$(589,012)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	66,452	66,393
(Gain) loss on investments in marketable securities	(230,338)	200,121
Increase (decrease) in interests in perpetual trusts	(97,907)	53,729
Distributions from perpetual trusts	70,386	73,498
(Increase) decrease in:		
Grants and pledges receivable – net	(10,239)	73,000
Inventory for retail operations	5,161	18,452
Prepaid expenses and other assets	20,980	(11,901)
Increase (decrease) in:		
Accounts payable	30,916	54,602
Accrued liabilities	2,433	(372)
Net cash provided (used) by operating activities	<u>716,123</u>	<u>(61,490)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of marketable securities	769,649	811,612
Purchases of marketable securities	(578,608)	(589,672)
Additions to property and equipment	(466,487)	(74,927)
Net cash provided (used) by investing activities	<u>(275,446)</u>	<u>147,013</u>
NET INCREASE IN CASH	440,677	85,523
CASH – Beginning of year	<u>731,920</u>	<u>646,397</u>
CASH – End of year	<u>\$ 1,172,597</u>	<u>\$ 731,920</u>

See accompanying notes to the financial statements.

THE HAWAIIAN MISSION CHILDREN'S SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

**For the Year Ended December 31, 2016
(With Prior Year Comparative Information)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activity

The Hawaiian Mission Children's Society (Society) is a nonprofit educational institution and genealogical society. The Society was founded in 1852 and incorporated in Hawaii in December 1907. It operates *The Hawaiian Mission House Historic Site and Archives*, consisting of historic structures that serve as a museum. It also operates a research library that compiles genealogical records of the American Protestant missionaries in Hawaii and interprets the historic site. The collections of the Society reflect the social history of Hawaii from a variety of viewpoints. Go to www.missionhouses.org for additional information.

The Society is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and is not a private foundation. Accordingly, qualifying contributions to the Society are tax deductible.

Basis of Accounting

The Society reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Support is recognized when pledged and is considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is recognized when pledged as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a temporary restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets. Other revenue is recognized when earned. Expenses are recognized when the related liability is incurred. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service using natural expense classifications. Other expenses that are common to several functions are allocated by various bases based on estimates by management.

Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills that are performed by people with those skills and would otherwise be purchased by the Society. A substantial number of unpaid volunteers have made significant contributions of their time to the Society. The value of their time is not reflected in these financial statements because it does not meet the criteria for recognition.

Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in accordance with such generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, and it is reasonably possible that such estimates may change within the near term.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk

Financial instruments that potentially subject the Society to credit risk include cash, investments in marketable securities, and grants and pledges receivable. Cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$520,300 and \$167,500 at December 31, 2016 and 2015, respectively. Investments in marketable securities are insured by federal and private insurance, as represented by the custodians. Future changes in market prices may make such investments less valuable. Grants and pledges receivable have been adjusted for all known doubtful accounts (none at December 31, 2016 and 2015). Grants and pledges receivable are determined to be collectible or uncollectible based on assessments by management of the facts and circumstances related to the individual accounts.

Investments in Marketable Securities

Investments in marketable securities are stated at fair value. Net realized and unrealized gains and losses, determined using the specific identification method, are included in investment income (loss).

The established framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation methodologies used to measure fair value. There are three levels of inputs to the valuation methodology. Level 1 inputs consist of unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs are unobservable and significant to the fair value measurement. The fair value measurement level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation methodologies used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Inventory for Retail Operations

Inventory consists of books, artifacts, and other items related to the historical significance of the Society and its facilities, as well as merchandise inventory for its retail operations. The inventory is valued at the lower of cost or market value. Cost is determined on the first-in, first-out (FIFO) basis.

Property and Equipment

Property and equipment is stated at cost or, if donated, at estimated fair market value at the date of donation. Depreciation is computed using the straight-line method over estimated useful lives of five to fifty years for buildings and improvements, and three to fifteen years for furniture and equipment. Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Repairs and maintenance are expensed as incurred. Major improvements and expenditures for property and equipment are capitalized.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in Perpetual Trusts

The interests in perpetual trusts consist of a one-fourth interest in the Dorothea Sloggett Cooke Trust and a one-eighth interest in the Harrison and Dorothea Sloggett Cooke Trust (collectively, the Trusts). The assets of the Trusts, consisting primarily of investments stated at fair value, are held by Bank of Hawaii, and are restricted in perpetuity to continue the programs of the Society and other nonprofit organizations. Increases and decreases in the fair value of the Trusts are included in the changes in permanently restricted net assets. Approved distributions from the Trusts are unrestricted as to use.

Historical Collection

The historical collection consists of documents and artifacts held by the Society for educational, research, and curatorial purposes. The collection is continuously cataloged, preserved, and cared for. The items in the collection, which were acquired through purchases and contributions since the Society's inception, are not recognized in the accompanying financial statements because they have no alternative uses. Purchases of collection items are recorded as decreases in unrestricted net assets in the period in which the items are acquired or as temporarily or permanently restricted net assets if they are purchased with donor-restricted funds. Contributed collection items are not reflected on the financial statements. Proceeds, if any, from the disposition of collection items are reflected as increases in the appropriate net asset classes.

Hawaii General Excise Tax

The State of Hawaii imposes a general excise tax of 4% on the gross receipts of the Society from special events and rentals within Hawaii, plus an additional 0.5% on such gross receipts within the City and County of Honolulu. Hawaii general excise tax amounting to \$6,844 and \$8,916 for the years ended December 31, 2016 and 2015, respectively, is included in office and administrative expenses.

Income Taxes

Accounting principles generally accepted in the United States of America require uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. Management has evaluated the Society's tax positions as of December 31, 2016 and 2015 and for the years then ended by reviewing its income tax returns and conferring with its tax advisors, and determined that the Society had no uncertain tax positions required to be reported in accordance with such generally accepted accounting principles. The Society is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

Financial Statement Presentation

The accompanying financial statements include prior year comparative information that is not in sufficient detail to constitute a complete presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Society's financial statements as of and for the year ended December 31, 2015, from which the information was derived.

NOTE B – INVESTMENTS IN MARKETABLE SECURITIES

At December 31, 2016 and 2015, investments in marketable securities consisted of the following:

	2016		2015	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Equity securities	\$1,847,512	\$2,591,714	\$1,854,908	\$2,555,855
U.S. Treasury Notes	<u>300,578</u>	<u>310,055</u>	<u>301,082</u>	<u>306,617</u>
Total investments in marketable securities	<u>\$2,148,090</u>	<u>\$2,901,769</u>	<u>\$2,155,990</u>	<u>\$2,862,472</u>

The fair value of the investments exceeded their cost by \$753,679 and \$706,482 at December 31, 2016 and 2015, respectively. Investment income (loss) for the years ended December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 93,366	\$ 89,772
Realized gains from sales of marketable securities	183,141	284,600
Unrealized gains (losses) from holding marketable securities	<u>47,197</u>	<u>(484,721)</u>
Total investment income (loss)	<u>\$323,704</u>	<u>\$ (110,349)</u>

NOTE C – FAIR VALUE MEASUREMENTS

At December 31, 2016 and 2015, the fair value measurements reportable by the Society included investments in marketable securities held by the Society (see Note B) consisting of investments in equity securities valued at quoted market prices (a Level 1 measurement) and investments in U.S. Treasury Notes valued by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer (a Level 2 measurement). There were no investments held by the Society for which Level 3 valuation inputs were required. The following sets forth by level, within the fair value hierarchy, the investments of the Society at fair value as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities:				
Consumer staples	\$ 387,687	\$ -	\$ -	\$ 387,687
Energy	345,772	-	-	345,772
Information technology	343,889	-	-	343,889
Industrials	319,489	-	-	319,489
Financials	297,995	-	-	297,995
Health care	317,236	-	-	317,236
Other equity securities	<u>579,646</u>	<u>-</u>	<u>-</u>	<u>579,646</u>
Total equity securities	<u>2,591,714</u>	<u>-</u>	<u>-</u>	<u>2,591,714</u>
U.S. Treasury Notes	<u>-</u>	<u>310,055</u>	<u>-</u>	<u>310,055</u>
Total investments at fair value	<u>\$2,591,714</u>	<u>\$310,055</u>	<u>\$ -</u>	<u>\$2,901,769</u>

NOTE C – FAIR VALUE MEASUREMENTS (continued)

The following sets forth by level, within the fair value hierarchy, the investments of the Society at fair value as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities:				
Industrials	\$ 469,203	\$ -	\$ -	\$ 469,203
Consumer staples	408,974	-	-	408,974
Financials	364,484	-	-	364,484
Information technology	352,842	-	-	352,842
Energy	278,371	-	-	278,371
Health care	256,632	-	-	256,632
Other equity securities	425,349	-	-	425,349
Total equity securities	<u>2,555,855</u>	<u>-</u>	<u>-</u>	<u>2,555,855</u>
U.S. Treasury Notes	<u>-</u>	<u>306,617</u>	<u>-</u>	<u>306,617</u>
Total investments at fair value	<u>\$2,555,855</u>	<u>\$306,617</u>	<u>\$ -</u>	<u>\$2,862,472</u>

NOTE D – PROPERTY AND EQUIPMENT

At December 31, 2016 and 2015, property and equipment consisted of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 5	\$ 5
Chamberlain House restoration	1,259,580	1,259,580
Administration building and improvements	825,775	825,775
Library building and improvements	174,931	174,931
Furniture and equipment	413,556	413,556
Construction in progress	<u>559,081</u>	<u>92,594</u>
Total	3,232,928	2,766,441
Accumulated depreciation	<u>(1,496,082)</u>	<u>(1,429,630)</u>
Property and equipment – net	<u>\$1,736,846</u>	<u>\$1,336,811</u>

Land consists of 49,242 square feet underlying the Society's museum, library, and administration facilities stated at its estimated fair market value at the date of donation. Property and equipment includes the costs of an on-going project to restore and renovate the house museum and related facilities. Construction in progress consists of materials for construction of a historic replica of a missionary's house.

The Society leases cemetery property from Kawaihao Church in Honolulu, Hawaii, under an agreement that permits the Society to use and maintain the cemetery property for an indefinite period at no cost. The cemetery property is not recognized in the accompanying financial statements because it has no alternative use.

NOTE E – PERPETUAL TRUSTS

As stipulated by the donors, the assets of the Trusts, consisting primarily of investments stated at fair value, are held at and invested by Bank of Hawaii and are restricted in perpetuity to continue the programs of the Society. Increases and decreases in the fair value of the Trusts are included in changes in permanently restricted net assets. Approved distributions from the Trusts are unrestricted as to use. 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 the Uniform Prudent Management of Institutional Funds Act of 2006 requires the Society to retain as a fund of perpetual duration. However, with regard to the Trusts, such information is not available due to the age of the Trusts.

At December 31, 2016 and 2015, the fair value measurements reportable by the Society included investments in perpetual trusts held at and invested by Bank of Hawaii (see above) consisting of investments in mutual funds and investments in equity securities valued at quoted market prices (a Level 1 measurement), and investments in cash valued at stated value (a Level 1 measurement). There were no investments held at and invested by Bank of Hawaii for which Level 2 or Level 3 valuation inputs were required.

The following sets forth by level, within the fair value hierarchy, the Society's interests in perpetual trusts at fair value as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Equity	\$ 790,900	\$ -	\$ -	\$ 790,900
Fixed income	323,471	-	-	323,471
Total mutual funds	<u>1,114,371</u>	<u>-</u>	<u>-</u>	<u>1,114,371</u>
Equity securities:				
Consumer goods	70,389	-	-	70,389
Healthcare	43,480	-	-	43,480
Technology	37,102	-	-	37,102
Financials	33,376	-	-	33,376
Services	28,887	-	-	28,887
Utilities	26,099	-	-	26,099
Basic materials	24,241	-	-	24,241
Industrial goods	20,791	-	-	20,791
Other	10,269	-	-	10,269
Total equity securities	<u>294,634</u>	<u>-</u>	<u>-</u>	<u>294,634</u>
Cash	<u>36,423</u>	<u>-</u>	<u>-</u>	<u>36,423</u>
Total interests in perpetual trusts at fair value	<u>\$1,445,428</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,445,428</u>

NOTE E – PERPETUAL TRUSTS (Continued)

The following sets forth by level, within the fair value hierarchy, the Society's interests in perpetual trusts at fair value as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Equity	\$ 777,577	\$ -	\$ -	\$ 777,577
Fixed income	321,914	-	-	321,914
Total mutual funds	<u>1,099,491</u>	<u>-</u>	<u>-</u>	<u>1,099,491</u>
Equity securities:				
Consumer goods	71,670	-	-	71,670
Technology	42,851	-	-	42,851
Healthcare	33,702	-	-	33,702
Financials	32,379	-	-	32,379
Utilities	27,960	-	-	27,960
Services	24,351	-	-	24,351
Basic materials	22,819	-	-	22,819
Industrial goods	14,149	-	-	14,149
Other	14,505	-	-	14,505
Total equity securities	<u>284,386</u>	<u>-</u>	<u>-</u>	<u>284,386</u>
Cash	<u>34,030</u>	<u>-</u>	<u>-</u>	<u>34,030</u>
Total interests in perpetual trusts at fair value	<u>\$1,417,907</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,417,907</u>

NOTE F – TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2016 and 2015, temporarily restricted net assets consisted of the following:

	<u>2016</u>	<u>2015</u>
Net assets temporarily restricted for:		
Capital campaign	\$226,215	\$226,215
Education, public, and curatorial programs	134,758	6,000
Chief letter collection	100,000	75,000
Historic restoration and upkeep	43,409	-
Other temporarily restricted net assets	<u>14,622</u>	<u>35,000</u>
Total temporarily restricted net assets	<u>\$519,004</u>	<u>\$342,215</u>

The Society has an ongoing capital campaign to obtain contributions for the restoration and renovation of its house museum and related facilities. Capital campaign contributions are released from temporarily restricted net assets when those items are placed into service.

NOTE G – PERMANENTLY RESTRICTED NET ASSETS

At December 31, 2016 and 2015, permanently restricted net assets consisted of the following:

	<u>2016</u>	<u>2015</u>
Net assets permanently restricted for:		
Perpetual trusts	\$ 1,445,428	\$ 1,417,907
Endowment funds	<u>111,710</u>	<u>101,652</u>
Total permanently restricted net assets	<u>\$ 1,557,138</u>	<u>\$ 1,519,559</u>

Accounting principles generally accepted in the United States of America provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA was enacted in the State of Hawaii on July 1, 2009. It is the policy of the Society to preserve the original gift of donor-restricted endowment funds as permanently restricted net assets, absent explicit donor stipulations to the contrary. Unless otherwise stated, other donor-restricted gifts are classified as temporarily restricted net assets.

In December 2014, the Society received a gift of \$100,290 from the James Hunnewell Family (Family) to establish an endowment fund. The endowment fund was named the James Hunnewell Family Education Fund (Fund). The Fund is restricted as to use for the Society's education programs, with initial priority towards school programs. The Society is required to track the Fund separately and report to the Family annually. Distributions must follow the Society's investment policy and no distributions are allowed if the market value of the Fund falls below the total contributed corpus of the Fund. The Society's investment policy related to endowment funds is to distribute up to 5% of the endowment and to maintain the endowment funds at the adjusted corpus, which is the original contribution amount adjusted for inflation annually. At December 31, 2016, the Society's market value of related investments exceeded the restricted endowment net assets by \$4,450. At December 31, 2015, the Society's restricted endowment net assets exceeded the market value of the related investments by \$2,613.

In March 2016, the Society received a gift of \$8,592 to establish the Dexter and Lois Smith Fund, an endowment fund. The income will be used for the Society's general charitable purposes and is considered unrestricted.

Changes in permanently restricted endowment fund net assets for the years ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 101,652	\$ 100,290
Permanently restricted contribution	8,592	-
Unrealized loss on investments	-	(1,251)
Inflation adjustment	<u>1,466</u>	<u>2,613</u>
Balance, end of year	<u>\$ 111,710</u>	<u>\$ 101,652</u>

NOTE H – SPECIAL EVENTS

Revenue and direct expenses from special events for the years ended December 31, 2016 and 2015 consisted of the following:

	2016	2015
Revenue from special events:		
Huakai revenue	\$110,175	\$108,549
Revenue from other events	<u>6,575</u>	<u>5,525</u>
Total revenue from special events	<u>116,750</u>	<u>114,074</u>
Direct expenses of special events:		
Huakai direct expenses	<u>32,206</u>	<u>24,514</u>
Total direct expenses of special events	<u>32,206</u>	<u>24,514</u>
Special events – net	<u>\$ 84,544</u>	<u>\$ 89,560</u>

NOTE I – LEASES

The Society leases a portion of its facilities to the Hawaiian Historical Society for approximately \$2,400 per month (increasing annually by 2%) under an operating lease agreement expiring in March 2026. It also leased a portion of its facilities to a third-party providing limited food service under a month-to-month agreement which expired in December 2016. Lease rent income for the years ended December 31, 2016 and 2015 amounted to \$65,532 and \$61,298, respectively, including common area maintenance costs and Hawaii general excise tax.

NOTE J – RETIREMENT PLAN

The Society sponsors a defined contribution retirement plan covering substantially all of its employees, to which it contributes a percentage of their compensation, up to the maximum allowed under Internal Revenue Code Section 403(b). Its employees may also contribute to the plan. Retirement plan expense amounted to \$13,715 and \$13,077 for the years ended December 31, 2016 and 2015, respectively.

NOTE K – CONTINGENCIES

The Society may be subject to legal proceedings, claims, and litigation arising in the ordinary course of business for which it may seek the advice of legal counsel. Management estimates that the cost to resolve such matters, if any, would not be material to the financial statements. However, it is at least reasonably possible that such estimates may change within the near term. The Society operates in the State of Hawaii. National and international events can have severe, adverse effects on economic conditions in Hawaii. The effects on the financial statements of the Society from such changes in economic conditions, if any, are not presently determinable.

NOTE L – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued, and determined that the Society did not have any subsequent events requiring adjustment to the financial statements or disclosure in the notes to the financial statements.