

HAWAIIAN MISSION CHILDREN'S SOCIETY

**FINANCIAL STATEMENTS
For the Year Ended December 31, 2014
With Prior Year Comparative Information
And Independent Auditor's Report**



CW Associates
A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITOR'S REPORT

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, 2014, 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, 2014, and the results of its operations and its cash flows for the year then ended, in conformity 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, 2013, and our report dated September 5, 2014, 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
August 6, 2015

HAWAIIAN MISSION CHILDREN'S SOCIETY

STATEMENT OF FINANCIAL POSITION

As of December 31, 2014
(With Prior Year Comparative Information)

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	\$ 646,397	\$ 626,678
Investments in marketable securities	3,284,533	3,605,591
Grants and pledges receivable – net	88,000	-
Inventory for retail operations	108,841	108,729
Prepaid expenses and other assets	17,195	11,167
Total current assets	<u>4,144,966</u>	<u>4,352,165</u>
PROPERTY AND EQUIPMENT – Net	<u>1,328,277</u>	<u>1,366,268</u>
INTERESTS IN PERPETUAL TRUSTS	<u>1,545,134</u>	<u>1,533,672</u>
HISTORICAL COLLECTION (See Note A)	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$7,018,377</u>	<u>\$7,252,105</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 6,357	\$ 9,428
Accrued liabilities	26,822	33,782
Total current liabilities	<u>33,179</u>	<u>43,210</u>
NET ASSETS		
Unrestricted net assets		
Unrestricted – undesignated	328,689	399,234
Unrestricted – invested in marketable securities	3,284,533	3,605,591
Unrestricted – invested in property and equipment	1,328,277	1,366,268
Total unrestricted net assets	4,941,499	5,371,093
Temporarily restricted net assets	398,275	304,130
Permanently restricted net assets	1,645,424	1,533,672
Total net assets	<u>6,985,198</u>	<u>7,208,895</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$7,018,377</u>	<u>\$7,252,105</u>

See accompanying notes to the financial statements.

HAWAIIAN MISSION CHILDREN'S SOCIETY

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2014
(With Prior Year Comparative Information)

	<u>2014</u>	<u>2013</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and support		
Unrestricted contributions	\$ 220,350	\$ 428,070
Investment income	134,338	769,108
Special events – net	118,517	81,696
Net assets released from program restrictions	105,535	313,341
Distributions from perpetual trusts	70,542	66,910
Revenue from retail operations	57,215	74,458
Facilities fees	43,575	47,734
Program income	41,183	43,524
Admissions and membership	32,826	38,389
Total revenue and support	<u>824,081</u>	<u>1,863,230</u>
Expenses		
Program services	942,587	962,398
Retail operations	120,029	134,270
Management and general	82,359	103,712
Fundraising	108,700	105,529
Total expenses	<u>1,253,675</u>	<u>1,305,909</u>
Increase (decrease) in unrestricted net assets	<u>(429,594)</u>	<u>557,321</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Temporarily restricted contributions	199,680	168,110
Net assets released from temporary restrictions	<u>(105,535)</u>	<u>(313,341)</u>
Increase (decrease) in temporarily restricted net assets	<u>94,145</u>	<u>(145,231)</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Permanently restricted contributions	100,290	-
Increase in interests in perpetual trusts	82,004	142,627
Distributions from perpetual trusts	<u>(70,542)</u>	<u>(66,910)</u>
Increase in permanently restricted net assets	<u>111,752</u>	<u>75,717</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(223,697)</u>	<u>487,807</u>
NET ASSETS – Beginning of year	<u>7,208,895</u>	<u>6,721,088</u>
NET ASSETS – End of year	<u>\$6,985,198</u>	<u>\$7,208,895</u>

See accompanying notes to the financial statements.

HAWAIIAN MISSION CHILDREN'S SOCIETY

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2014
(With Prior Year Comparative Information)

	<u>Program Services</u>	<u>Retail Operations</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>2014 Total</u>	<u>2013 Total</u>
Salaries	\$401,984	\$ 48,876	\$21,838	\$ 64,560	\$ 537,258	\$ 501,776
Office and administrative	70,375	15,269	5,147	24,185	114,976	110,426
Utilities	83,169	3,487	7,107	1,892	95,655	103,820
Employee benefits	68,753	7,799	3,572	8,493	88,617	69,894
Professional services	70,508	2,952	6,017	1,602	81,079	72,309
Repairs and maintenance	45,890	-	29,740	-	75,630	130,143
Program	75,563	-	-	-	75,563	122,206
Depreciation	57,453	2,409	4,909	1,307	66,078	60,899
Payroll taxes	34,477	4,380	1,814	5,539	46,210	49,583
Cost of sales	-	31,883	-	-	31,883	47,029
Insurance	17,895	1,011	1,405	894	21,205	19,109
Supplies	<u>16,520</u>	<u>1,963</u>	<u>810</u>	<u>228</u>	<u>19,521</u>	<u>18,715</u>
Total expenses	<u>\$942,587</u>	<u>\$120,029</u>	<u>\$82,359</u>	<u>\$108,700</u>	<u>\$1,253,675</u>	<u>\$1,305,909</u>

See accompanying notes to the financial statements.

HAWAIIAN MISSION CHILDREN'S SOCIETY

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2014
(With Prior Year Comparative Information)

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$(223,697)	\$ 487,807
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Depreciation	66,078	60,899
Gain on investments in marketable securities	(44,146)	(689,915)
Increase in interests in perpetual trusts – net of distributions	(11,462)	(75,717)
(Increase) decrease in:		
Grants and pledges receivable – net	(88,000)	-
Inventory for retail operations	(112)	3,121
Prepaid expenses and other assets	(6,028)	(337)
Increase (decrease) in:		
Accounts payable	(3,071)	(3,731)
Accrued liabilities	(6,960)	3,554
Net cash used by operating activities	<u>(317,398)</u>	<u>(214,319)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of marketable securities	515,866	160,477
Purchases of marketable securities	(150,662)	-
Additions to property and equipment	<u>(28,087)</u>	<u>(56,168)</u>
Net cash provided by investing activities	<u>337,117</u>	<u>104,309</u>
NET INCREASE (DECREASE) IN CASH	19,719	(110,010)
CASH – Beginning of year	<u>626,678</u>	<u>736,688</u>
CASH – End of year	<u>\$ 646,397</u>	<u>\$ 626,678</u>

See accompanying notes to the financial statements.

HAWAIIAN MISSION CHILDREN'S SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

**For the Year Ended December 31, 2014
(With Prior Year Comparative Information)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activity

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 that 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 \$30,300 and \$79,100 at December 31, 2014 and 2013, 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, 2014 and 2013). 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.

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. 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, rentals, and gift shop sales within Hawaii, plus an additional 0.5% on such gross receipts within the City and County of Honolulu. Hawaii general excise tax amounting to \$10,161 and \$8,416 for the years ended December 31, 2014 and 2013, 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, 2014 and 2013 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. With few exceptions, the income tax returns of the Society are no longer subject to examination by taxing authorities for tax years ending on or before December 31, 2010, due to the expiration of the statutes of limitations.

NOTE B – INVESTMENTS IN MARKETABLE SECURITIES

At December 31, 2014 and 2013, investments in marketable securities consisted of the following:

	2014		2013	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Equity securities	\$ 1,792,742	\$ 2,973,756	\$ 1,982,439	\$ 3,288,396
U.S. Treasury Notes	<u>300,588</u>	<u>310,777</u>	<u>295,669</u>	<u>317,195</u>
Total investments in marketable securities	<u>\$ 2,093,330</u>	<u>\$ 3,284,533</u>	<u>\$ 2,278,108</u>	<u>\$ 3,605,591</u>

For the years ended December 31, 2014 and 2013, investment income consisted of the following:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 90,192	\$ 79,193
Realized gains from sales of marketable securities	180,427	82,720
Unrealized gains (losses) from holding marketable securities	<u>(136,281)</u>	<u>607,195</u>
Total investment income	<u>\$ 134,338</u>	<u>\$ 769,108</u>

NOTE C – FAIR VALUE MEASUREMENTS

At December 31, 2014 and 2013, 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, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities:				
Industrials	\$ 505,598	\$ -	\$ -	\$ 505,598
Consumer staples	438,985	-	-	438,985
Energy	294,731	-	-	294,731
Health care	284,182	-	-	284,182
Information technology	243,310	-	-	243,310
Consumer discretionary	227,442	-	-	227,442
Financials	212,590	-	-	212,590
Other equity securities	766,918	-	-	766,918
Total equity securities	<u>2,973,756</u>	<u>-</u>	<u>-</u>	<u>2,973,756</u>
U.S. Treasury Notes	<u>-</u>	<u>310,777</u>	<u>-</u>	<u>310,777</u>
Total investments at fair value	<u>\$ 2,973,756</u>	<u>\$ 310,777</u>	<u>\$ -</u>	<u>\$ 3,284,533</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, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities:				
Consumer discretionary	\$ 598,077	\$ -	\$ -	\$ 598,077
Industrials	583,428	-	-	583,428
Consumer staples	397,494	-	-	397,494
Energy	318,697	-	-	318,697
Health care	287,334	-	-	287,334
Financials	246,363	-	-	246,363
Information technology	243,167	-	-	243,167
Telecommunication services	88,116	-	-	88,116
Other equity securities	525,720	-	-	525,720
Total equity securities	<u>3,288,396</u>	<u>-</u>	<u>-</u>	<u>3,288,396</u>
U.S. Treasury Notes	<u>-</u>	<u>317,195</u>	<u>-</u>	<u>317,195</u>
Total investments at fair value	<u>\$3,288,396</u>	<u>\$317,195</u>	<u>\$ -</u>	<u>\$3,605,591</u>

NOTE D – PROPERTY AND EQUIPMENT

At December 31, 2014 and 2013, property and equipment consisted of the following:

	<u>2014</u>	<u>2013</u>
Land	\$ 5	\$ 5
Chamberlain House restoration	1,259,579	1,259,579
Administration building and improvements	825,775	825,775
Library building and improvements	174,931	174,931
Furniture and equipment	404,140	403,136
Construction in progress	27,083	-
Total	<u>2,691,513</u>	<u>2,663,426</u>
Accumulated depreciation	<u>(1,363,236)</u>	<u>(1,297,158)</u>
Property and equipment – net	<u>\$1,328,277</u>	<u>\$1,366,268</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 Kawaihau 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 UPMIFA 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, 2014 and 2013, 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 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.

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, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Equity	\$ 839,872	\$ -	\$ -	\$ 839,872
Fixed income	358,345	-	-	358,345
Total mutual funds	<u>1,198,217</u>	<u>-</u>	<u>-</u>	<u>1,198,217</u>
Equity securities:				
Consumer Goods	62,274	-	-	62,274
Healthcare	45,811	-	-	45,811
Technology	41,518	-	-	41,518
Utilities	33,527	-	-	33,527
Financials	31,165	-	-	31,165
Industrial Goods	30,516	-	-	30,516
Basic Materials	26,943	-	-	26,943
Services	23,372	-	-	23,372
Other	15,313	-	-	15,313
Total equity securities	<u>310,439</u>	<u>-</u>	<u>-</u>	<u>310,439</u>
Cash	<u>36,478</u>	<u>-</u>	<u>-</u>	<u>36,478</u>
Total interests in perpetual trusts at fair value	<u>\$1,545,134</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,545,134</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, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Equity	\$ 690,780	\$ -	\$ -	\$ 690,780
Fixed income	335,327	-	-	335,327
Total mutual funds	<u>1,026,107</u>	<u>-</u>	<u>-</u>	<u>1,026,107</u>
Equity securities:				
Healthcare	96,041	-	-	96,041
Consumer Goods	86,716	-	-	86,716
Utilities	62,478	-	-	62,478
Technology	61,163	-	-	61,163
Basic Materials	48,797	-	-	48,797
Financials	33,268	-	-	33,268
Services	24,782	-	-	24,782
Industrial Goods	20,054	-	-	20,054
Other	31,827	-	-	31,827
Total equity securities	<u>465,126</u>	<u>-</u>	<u>-</u>	<u>465,126</u>
Cash	<u>42,439</u>	<u>-</u>	<u>-</u>	<u>42,439</u>
Total interests in perpetual trusts at fair value	<u>\$ 1,533,672</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,533,672</u>

NOTE F – TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2014 and 2013, temporarily restricted net assets consisted of the following:

	<u>2014</u>	<u>2013</u>
Net assets temporarily restricted for		
Capital campaign	\$276,216	\$276,216
Library Digitalization Project	54,500	20,414
Education, Public, and Curatorial Programs	25,000	5,000
Historic Restoration and Upkeep	8,724	-
Other	<u>33,835</u>	<u>2,500</u>
Total temporarily restricted net assets	<u>\$398,275</u>	<u>\$304,130</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, 2014 and 2013, permanently restricted net assets consisted of the following:

	<u>2014</u>	<u>2013</u>
Net assets permanently restricted for		
Perpetual trusts	\$ 1,545,134	\$ 1,533,672
Endowment	<u>100,290</u>	<u>-</u>
Total permanently restricted net assets	<u>\$ 1,645,424</u>	<u>\$ 1,533,672</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.

The Society's investment policy related to endowments 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.

In December 2014, the Society received a gift 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 Fund is to be tracked and reported 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. For the year ended December 31, 2014, contributions amounted to \$100,290 and there were no investment income, net appreciation, or amounts appropriated for expenditure. The Fund amounted to \$100,290 of which \$46,000 is included in grants and pledges receivable at December 31, 2014. The pledge amount was received as of January 2015.

NOTE H – SPECIAL EVENTS

Revenue and direct expenses from special events for the years ended December 31, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Revenue from special events		
Huakai revenue	\$ 142,050	\$ 97,425
Revenue from other events	<u>7,875</u>	<u>8,745</u>
Total revenue from special events	<u>149,925</u>	<u>106,170</u>
Direct expenses of special events		
Huakai direct expenses	<u>31,408</u>	<u>24,474</u>
Total direct expenses of special events	<u>31,408</u>	<u>24,474</u>
Special events – net	<u>\$ 118,517</u>	<u>\$ 81,696</u>

NOTE I – LEASES

The Society leases a portion of its facilities to the Hawaiian Historical Society under an operating lease agreement expiring in March 2016. It also leases a portion of its facilities to a third-party providing limited food service under an agreement expiring in September 2015. Lease rent income for the years ended December 31, 2014 and 2013 amounted to \$41,303 and \$43,886, respectively, including common area maintenance costs and Hawaii general excise tax. At December 31, 2014, future minimum lease rent income was expected to approximate \$33,900 in 2015 and \$7,300 in 2016.

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 also contribute to the plan. Retirement plan expense amounted to \$12,366 and \$12,162 for the years ended December 31, 2014 and 2013, respectively.

NOTE K – FINANCIAL STATEMENT PRESENTATION

The accompanying financial statements include prior year comparative information that is not in sufficient detail to constitute a complete presentation in conformity 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, 2013, from which the information was derived. Certain amounts in the prior year comparative information have been reclassified to conform to the current year presentation.

NOTE L – 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 M – 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.