

KONA HOSPITAL FOUNDATION  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013  
(WITH INDEPENDENT AUDITOR'S REPORT)

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## Taketa, Iwata, Hara & Associates, LLC

Certified Public Accountants & Consultants

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### INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The Board of Trustees  
Kona Hospital Foundation:

We have audited the accompanying financial statements of Kona Hospital Foundation (Foundation), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

#### Management's Responsibility for the Financial Statements

The Foundation's 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 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 an 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 the Foundation's management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kona Hospital Foundation, as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Taketa, Iwata, Hara & Associates, LLC*

Hilo, Hawaii  
June 2, 2015

KONA HOSPITAL FOUNDATION

Statements of Financial Position

December 31, 2014 and 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 545,829	552,247
Other receivable	3,550	4,150
Auction items	2,490	1,235
Investments in marketable securities	<u>725,223</u>	<u>712,888</u>
Total current assets	1,277,092	1,270,520
Office equipment	5,972	5,972
Less accumulated depreciation	<u>4,527</u>	<u>4,038</u>
Net office equipment	1,445	1,934
Unconditional promises to give - noncurrent portion	191,599	25,000
Beneficial interest in perpetual trust	<u>1,600,000</u>	<u>1,564,000</u>
Total assets	<u>\$ 3,070,136</u>	<u>\$ 2,861,454</u>
 <u>Liabilities and Net Assets</u> 		
Current liabilities:		
Accounts payable	\$ 998	4,170
Unconditional promises made	<u>335,447</u>	<u>250,000</u>
Total current liabilities	<u>336,445</u>	<u>254,170</u>
Net assets:		
Unrestricted	1,039,353	916,576
Temporarily restricted	94,338	126,708
Permanently restricted	<u>1,600,000</u>	<u>1,564,000</u>
Total net assets	<u>2,733,691</u>	<u>2,607,284</u>
Total liabilities and net assets	<u>\$ 3,070,136</u>	<u>2,861,454</u>

See accompanying notes to financial statements.

KONA HOSPITAL FOUNDATION

Statement of Activities

For the year ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues:				
Donations	\$ 271,567	13,000	-	284,567
Event income	283,474	-	-	283,474
Unrealized gain on valuation of perpetual trust	-	-	36,000	36,000
Alberta E. Brown Trust income	42,963	-	-	42,963
Investment gains	21,401	-	-	21,401
Interest income and dividends	13,701	-	-	13,701
Other income	6,084	-	-	6,084
	<hr/>	<hr/>	<hr/>	<hr/>
Total public support and revenues	639,190	13,000	36,000	688,190
Net assets released from restrictions:				
Restrictions satisfied by payments	45,370	(45,370)	-	-
Expenses:				
Program services	289,028	-	-	289,028
Support services	82,161	-	-	82,161
Fundraising	190,594	-	-	190,594
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	561,783	-	-	561,783
	<hr/>	<hr/>	<hr/>	<hr/>
Total increase in net assets	122,777	(32,370)	36,000	126,407
Net assets at beginning of year	916,576	126,708	1,564,000	2,607,284
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets at end of year	<u>\$ 1,039,353</u>	<u>94,338</u>	<u>1,600,000</u>	<u>2,733,691</u>

See accompanying notes to financial statements.

KONA HOSPITAL FOUNDATION

Statement of Activities

For the year ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues:				
Donations	\$ 92,425	32,984	-	125,409
Event income	327,760	-	-	327,760
Unrealized loss on valuation of perpetual trust	-	-	(205,000)	(205,000)
Alberta E. Brown Trust income	52,827	-	-	52,827
Investment gains	61,861	-	-	61,861
Interest income and dividends	11,271	-	-	11,271
Other income	190	-	-	190
	<hr/>	<hr/>	<hr/>	<hr/>
Total public support and revenues	546,334	32,984	(205,000)	374,318
Net assets released from restrictions:				
Restrictions satisfied by payments	348,267	(348,267)	-	-
Expenses:				
Program services	573,743	-	-	573,743
Support services	68,013	-	-	68,013
Fundraising	256,416	-	-	256,416
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	898,172	-	-	898,172
Total decrease in net assets	(3,571)	(315,283)	(205,000)	(523,854)
Net assets at beginning of year	<hr/>	<hr/>	<hr/>	<hr/>
	920,147	441,991	1,769,000	3,131,138
Net assets at end of year	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 916,576	126,708	1,564,000	2,607,284

See accompanying notes to financial statements.

KONA HOSPITAL FOUNDATION

Statement of Functional Expenses

For the year ended December 31, 2014

	Program services	Supporting Activities		Total
		Management and General	Fundraising	
Support to Kona Hospital	\$ 281,458	-	-	281,458
Auction items	-	-	79,806	79,806
Payroll leasing	7,505	37,530	30,024	75,059
Event catering	-	-	47,080	47,080
Professional fees	-	21,736	625	22,361
Event entertainment	-	-	10,980	10,980
Event other costs	-	-	8,227	8,227
Taxes	-	236	6,516	6,752
Merchant service fees	-	610	5,390	6,000
Printing and reproduction	17	3,677	-	3,694
Postage	-	3,569	54	3,623
Event travel	-	-	1,696	1,696
Office supplies	-	1,693	-	1,693
Insurance	-	1,151	-	1,151
Other	-	11,714	-	11,714
<b>Total expenses before depreciation</b>	<b>288,980</b>	<b>81,916</b>	<b>190,398</b>	<b>561,294</b>
Depreciation	48	245	196	489
	<b>\$ 289,028</b>	<b>82,161</b>	<b>190,594</b>	<b>561,783</b>

See accompanying notes to financial statements.

KONA HOSPITAL FOUNDATION

Statement of Functional Expenses

For the year ended December 31, 2013

	Program services	Supporting Activities		Total
		Management and General	Fundraising	
Support to Kona Hospital	\$ 566,021	-	-	566,021
Auction items	-	-	124,826	124,826
Payroll leasing	7,696	38,482	30,785	76,963
Event catering	-	-	44,858	44,858
Professional fees	-	21,304	625	21,929
Event entertainment	-	-	8,454	8,454
Event other costs	-	-	9,323	9,323
Taxes	-	145	6,545	6,690
Merchant service fees	-	211	4,397	4,608
Printing and reproduction	-	1,898	694	2,592
Postage	-	137	2,004	2,141
Event travel	-	69	1,268	1,337
Office supplies	-	1,951	770	2,721
Insurance	-	1,151	-	1,151
Bad debts	-	-	21,648	21,648
Board expense	-	972	-	972
Other	-	1,565	117	1,682
<b>Total expenses before depreciation</b>	<b>573,717</b>	<b>67,885</b>	<b>256,314</b>	<b>897,916</b>
<b>Depreciation</b>	<b>26</b>	<b>128</b>	<b>102</b>	<b>256</b>
	<b>\$ 573,743</b>	<b>68,013</b>	<b>256,416</b>	<b>898,172</b>

See accompanying notes to financial statements.



KONA HOSPITAL FOUNDATION

Statements of Cash Flows

For the years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Change in cash and cash equivalents:		
Cash flows from operating activities:		
Cash received from support and revenues	\$ 652,170	502,811
Cash paid for expenses	(681,355)	(652,507)
Interest received	13,701	11,271
Net cash used for operating activities	<u>(15,484)</u>	<u>(138,425)</u>
Cash flows from investing activities:		
Proceeds from the sale of investments	364,922	439,301
Purchase of investments	(355,856)	(750,242)
Net cash provided (used) by investing activities	<u>9,066</u>	<u>(310,941)</u>
Net decrease in cash	(6,418)	(449,366)
Cash and cash equivalents at beginning of year	<u>552,247</u>	<u>1,001,613</u>
Cash and cash equivalents at end of year	<u>\$ 545,829</u>	<u>552,247</u>
Reconciliation of change in net assets to net cash used by operating activities:		
Increase (decrease) in net assets	\$ 126,407	(523,854)
Adjustments to reconcile change in net assets to net cash used provided by operating activities:		
Noncash donations received	(50,965)	(56,050)
Noncash items auctioned	49,710	95,415
Investment gain	(21,401)	(61,861)
Bad debt expense	-	21,648
Depreciation expense	489	256
Unrealized (gain) loss on valuation of perpetual trust	(36,000)	205,000
Effect of changes in other balance sheet accounts:		
Unconditional promises to give	(166,599)	52,075
Other receivable	600	600
Accounts payable	(3,172)	(21,652)
Unconditional promises made	85,447	149,998
Total adjustments	<u>(141,891)</u>	<u>385,429</u>
Net cash used by operating activities	<u>\$ (15,484)</u>	<u>(138,425)</u>

Supplemental Disclosure of Cash Flow Information:

There were no non-cash investing and financing activities in 2014 and 2013.

See accompanying notes to financial statements.

KONA HOSPITAL FOUNDATION

Notes to Financial Statements

December 31, 2014 and 2013

(1) Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Kona Hospital Foundation (Foundation) was established in July 1984 for the purpose of providing funding for improvements and equipment at the Kona Community Hospital, located in Kealahou on the Big Island of Hawaii. The Foundation is a nonprofit organization and relies primarily on donations and fundraisers to fund its operations.

Financial Statement Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets – Net assets that are not subject to donor imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. Temporarily restricted contributions for which the restrictions are satisfied in the same year the contribution is received are reflected as unrestricted net assets in the accompanying financial statements.

Permanently restricted net assets – Net assets subject to donor imposed stipulations that are maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned for general or specific purposes.

Basis of Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with the AICPA Audit and Accounting Guide "Not-for-Profit Organizations."

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. For purposes of the statement of financial position and the statement of cash flows, cash and cash equivalents consists of cash and other highly liquid resources, such as investments in certificates of deposit and money market funds, with an original maturity of three months or less when purchased. The following is the composition of the combined amounts appearing on the financial statements.

	<u>2014</u>	<u>2013</u>
Cash	\$ 467,570	466,486
Money market funds	<u>78,259</u>	<u>85,761</u>
Total	<u>\$ 545,829</u>	<u>552,247</u>

See accompanying auditor's report

## KONA HOSPITAL FOUNDATION

### Notes to Financial Statements, Continued

At December 31, 2014 and 2013, the Foundation had account balances at institutions that were insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

The Foundation has cash and cash equivalent funds in a money market fund that is insured by the Securities Investor Protection Corporation (SIPC) up to \$250,000. At December 31, 2014 and 2013 no amounts exceeded the SIPC insured limit.

#### Office Equipment

Office equipment are stated at cost or fair value at date of donation. All assets acquired by the Foundation whose initial value or cost exceeds \$5,000 are capitalized and depreciated. Major renewals and betterments are also capitalized, while repairs and maintenance, which do not improve or extend the lives of assets, are charged to expense in the statement of activities.

Depreciation is calculated by the straight-line method over the estimated useful lives of the equipment. Depreciation lives are estimated at 5 years. The depreciation expense for 2014 and 2013 amounted to \$489 and \$256, respectively.

#### Donations

All donations are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the donation is received, the Foundation reports the support as unrestricted.

#### Promises to Give

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional at the time of the promise. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Foundation records unconditional promises to give that are for a period of less than one year at its net realizable value. The Foundation records unconditional promises to give that are for a period of more than one year at the present value of the future payments.

#### Unconditional Promises Made

Contributions made are recognized as expenses in the period made and as increases of liabilities depending on the form of the benefits given. The Foundation is a donor to Kona Community Hospital and unconditional promises made are accrued when the Foundation notifies Kona Community Hospital of their intent to reimburse the Hospital. The total unconditional promises made by the Foundation to Kona Community Hospital at December 31, 2014 and 2013 amounted to \$335,447 and \$250,000 respectively.

See accompanying auditor's report

## KONA HOSPITAL FOUNDATION

### Notes to Financial Statements, Continued

#### Noncash contributions

Support arising from donated goods, property and services is recognized in the financial statements at its fair value. Such contributions may be reflected in the financial statements if the services received (a) create or enhance nonfinancial assets or (b) required specialized skills that are provided by individuals possessing those skills that would typically need to be purchased if not provided by donation. The Foundation received a substantial amount of services donated by volunteers interested in the Foundation's programs. No amounts have been reflected in the accompanying financial statements for donated services as none of the services performed for the Foundation fulfilled the required criteria.

The Foundation received substantial noncash donated items such as tickets, gift certificates, works of art, and merchandise that are to be used for fundraising purposes. These noncash donated items are valued at the estimated fair value at the time the items are received from the donor. The total value of items donated to the Foundation in 2014 and 2013 was \$50,965 and \$56,050 and the total value of unsold items as of December 31, 2014 and 2013 amounted to \$2,490 and \$1,235. The total noncash donated items sold in 2014 and 2013 were \$49,710 and \$95,415 and are included in auction items expense.

#### Functional Allocation of Expenses

The costs of providing various donations to the Hospital and other activities have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among programs, supporting services, and fundraising.

#### Advertising Costs

Advertising costs are expensed as incurred. The Foundation did not incur any advertising costs in 2014 and 2013.

#### Investments in Marketable Securities

Pursuant to the Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), financial instruments carried at fair value are categorized into a three-level fair value hierarchy, based on the priority of inputs to the respective valuation technique. The three-level hierarchy for fair value measurement is defined as follows:

Level 1 – inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date.

Level 2 – inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and

Level 3 – inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability. Estimates and assumptions related to the pricing of the asset or liability, including assumptions regarding risk, are made.

See accompanying auditor's report

KONA HOSPITAL FOUNDATION

Notes to Financial Statements, Continued

Net appreciation or depreciation in the fair value of investments includes realized and unrealized changes in the values of investments bought, sold and held during the year. Purchases and sales of securities are recorded on a trade-date basis.

Tax Status

The Foundation is classified as a tax exempt organization other than a private foundation under Section 501 (c)(3) of the U.S. Internal Revenue Code and is exempt from Federal and State income taxes. The Foundation files income tax returns in the U.S federal jurisdiction. With few exceptions, the Foundation is no longer subject to U.S federal income tax examinations by tax authorities for years before 2011.

In assessing the realizability of tax benefits, management of the Foundation considers whether it is more likely than not that some portion or all of any tax positions will not be realized. The ultimate realization of such tax positions is dependent upon the nature of future income. Management considers projected future income, and tax planning strategies in making this assessment. Based upon the level of historical income and projections for future income, management believes it is more than likely that the Foundation will realize all tax benefits. Management believes that its tax-exempt status would be sustained upon examination.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Unconditional Promises to Give

Unconditional promises to give consist of the following:

As of December 31:	2014	2013
Unconditional promises	\$ 232,599	67,500
Less: unamortized discount	41,000	42,500
	\$ 191,599	25,000
Amounts due in		
Less than one year	\$ -	-
One to five years – net of discount	166,599	-
Thereafter	25,000	25,000
Total unconditional promises to give	\$ 191,599	25,000

Unconditional promises to give are from businesses and individuals located primarily on the island of Hawaii. The unconditional promises to give are receivable over periods ranging from 1 to 11 years.

See accompanying auditor's report

KONA HOSPITAL FOUNDATION  
Notes to Financial Statements, Continued

In 2010 the Foundation received an unconditional promise to give from the Robert McClean Trust (Trust). The Trust gave the Foundation a 10% undivided interest in a \$250,000 note receivable. The present value of this multiyear unconditional promise to give is based on an interest rate of 6%, the stated rate of the underlying note receivable. Payments received from the note receivable amounted to \$1,500 in 2014 and 2013. The present value as of December 31, 2014 and 2013 amounted to \$25,000.

In 2014 the Foundation received an unconditional promise to give from the Stolaroff Foundation in the amount of \$250,000. In March of 2014 the Foundation received \$75,000 of the promise with the remaining balance of \$175,000 to be paid over a period of five years. The present value of the unconditional promise to give as of December 31, 2014 amounted to \$166,599.

Bad debt expense related to the unconditional promises to give amounted to \$21,648 for 2013.

(3) Investments in Marketable Securities

The investments in marketable securities owned by the Foundation consisted of the following:

	Cost	Cumulative Unrealized Gain (loss)	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)
At December 31, 2014:			
Exchange traded funds and closed end funds	\$ 275,559	87,732	363,291
Stocks	325,258	36,674	361,932
Total	<u>\$ 600,817</u>	<u>124,406</u>	<u>725,223</u>
At December 31, 2013:			
Exchange traded funds and closed end funds	\$ 229,935	84,280	314,215
Stocks	360,930	37,743	398,673
Total	<u>\$ 590,865</u>	<u>122,023</u>	<u>712,888</u>

At December 31, 2014 and 2013 investment gains amounted to \$21,401 and \$61,861 respectively. Investment gains consisted of realized and unrealized gains and losses on investments carried at fair value.

See accompanying auditor's report

KONA HOSPITAL FOUNDATION

Notes to Financial Statements, Continued

(4) Net Assets

Kona Hospital Foundation's financial statements were prepared in conformity to the Accounting Standards Codification. Accordingly, the Foundation reports its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, depending on the nature of any restrictions.

The Foundation is in the process of campaigning to raise funds for the benefit of Kona Community Hospital's cancer center. The board of trustees voted to designate \$250,000 of unrestricted net assets for this project. As of December 31, 2014 the total unconditional promises to give amounted to \$232,455 for the Cancer Center project. In 2013 the Foundation campaigned to raise funds to upgrade the Hospital's operating room technology. The board of trustees voted to designate \$250,000 of unrestricted net assets for these upgrades. As of December 31, 2014 total unconditional promises to give amounted to \$102,992 for the operating room technology project.

(5) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following uses:

At December 31:	2014	2013
Chapel Fund	\$ 71,125	71,125
Short Stay Waiting Area Renovation	13,000	-
Obstetrics Department: Baby Warmers	4,168	20,766
Adopt-a-Room	-	14,980
Bed Project	-	9,412
Operating Room: Pressure Infuser Irrigation Pumps	4,000	4,000
Obstetrics Department: Foreign Language Education	-	1,505
Respiratory Therapy	-	1,500
The Cancer Center: Infusion/Chemotherapy	1,045	1,045
Obstetrics Department: Hydrocephalus Foundation		
NRT Nursing Education	1,000	1,000
Other Temporarily Restricted Funds	-	1,375
Total	\$ 94,338	126,708

Kona Community Hospital and the board of trustee closed the adopt a room project and the bed project in 2013.

(6) Permanently Restricted Net Assets

Permanently restricted net assets are comprised of the Alberta E. Brown Trust. In 1991, the Foundation was named as a beneficiary of the Trust in perpetuity as long as it remains a non-private tax exempt organization. The present value of the perpetual trust was estimated using a five year moving average of the annual distributions and a five year moving average of the 30 year Treasury bill rate. The five year moving average interest rate was 3.38% in 2014 and 3.75% in 2013. The five year moving average of the distributed earnings received from the Trust amounted to \$54,083 in 2014 and \$58,639 in 2013.

It is reasonably possible that a material change in the estimates regarding the beneficial interest in the perpetual trust may occur in the near term.

See accompanying auditor's report

KONA HOSPITAL FOUNDATION  
Notes to Financial Statements, Continued

Permanently restricted net assets changes are as follows:

	<u>Beneficial Interest in Perpetual Trust</u>
Balance at January 1, 2013	\$ 1,769,000
Investment earnings	52,827
Earnings transferred to unrestricted and temporarily restricted net assets	(52,827)
Unrealized loss on valuation of perpetual trust	(205,000)
Balance at December 31, 2013	\$ 1,564,000
Balance at January 1, 2014	\$ 1,564,000
Investment earnings	42,963
Earnings transferred to unrestricted and temporarily restricted net assets	(42,963)
Unrealized gain on valuation of perpetual trust	36,000
Balance at December 31, 2014	\$ 1,600,000

(7) Subsequent events

The financial statements were available to be issued on June 2, 2015 with subsequent events being evaluated through this date.

See accompanying auditor's report