

FLYING HOUSE PRODUCTIONS

FINANCIAL REPORT

SEPTEMBER 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Flying House Productions
Seattle, Washington

We have audited the accompanying financial statements of Flying House Productions, which comprise the statements of financial position as of September 30, 2016 and 2015, 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Flying House Productions as of September 30, 2016 and 2015, 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.

Peterson Sullivan LLP

March 9, 2017

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FLYING HOUSE PRODUCTIONS

STATEMENTS OF FINANCIAL POSITION

September 30, 2016 and 2015

| ASSETS | 2016 | 2015 |
|---|--------------|--------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 591,139 | \$ 188,641 |
| Promises to give, net | 2,356 | 20,106 |
| Inventory | 16,059 | 13,346 |
| Prepaid expenses and other assets | 87,694 | 92,047 |
| Total current assets | 697,248 | 314,140 |
| Other Assets | | |
| Restricted certificate of deposit (line of credit collateral) | 100,000 | 100,000 |
| Beneficial interest in assets held by The Seattle Foundation | 633,722 | 437,908 |
| Investments | 629,140 | 607,166 |
| Property and equipment, net | 544,268 | 574,238 |
| Total other assets | 1,907,130 | 1,719,312 |
| Total assets | \$ 2,604,378 | \$ 2,033,452 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 110,748 | \$ 71,542 |
| Unearned revenue | 281,624 | 284,191 |
| Note payable, current portion | 7,569 | 7,235 |
| Total current liabilities | 399,941 | 362,968 |
| Other Liabilities | | |
| Note payable, less current portion | 171,967 | 180,026 |
| Total liabilities | 571,908 | 542,994 |
| Net Assets | | |
| Unrestricted | | |
| Undesignated | 451,160 | 329,194 |
| Board-designated | 729,140 | 607,166 |
| Total unrestricted | 1,180,300 | 936,360 |
| Temporarily restricted | 363,228 | 223,747 |
| Permanently restricted | 488,942 | 330,351 |
| Total net assets | 2,032,470 | 1,490,458 |
| Total liabilities and net assets | \$ 2,604,378 | \$ 2,033,452 |

See Notes to Financial Statements

FLYING HOUSE PRODUCTIONS

STATEMENTS OF ACTIVITIES

For the Years Ended September 30, 2016 and 2015

| | 2016 | | | | 2015 | | | |
|--|---------------------|---------------------------|---------------------------|---------------------|-------------------|---------------------------|---------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Revenue and Support | | | | | | | | |
| Admissions and sales of concessions | \$ 1,412,043 | \$ - | \$ - | \$ 1,412,043 | \$ 1,218,718 | \$ - | \$ - | \$ 1,218,718 |
| Less: value of compensatory tickets | (99,161) | | | (99,161) | (99,954) | | | (99,954) |
| Grants and contributions | 465,284 | 183,171 | 275 | 648,730 | 542,739 | 51,520 | 300 | 594,559 |
| Bequests | 189,817 | | 158,316 | 348,133 | 101,000 | 50,000 | 100,000 | 251,000 |
| Auction and other special events | 479,290 | | | 479,290 | 431,969 | | | 431,969 |
| Direct costs of auction and other special events | (225,466) | | | (225,466) | (190,248) | | | (190,248) |
| In-kind goods and services | 921,935 | | | 921,935 | 878,812 | | | 878,812 |
| Other income | 1,203 | | | 1,203 | 1,095 | | | 1,095 |
| Net assets released from restriction | 75,997 | (75,997) | | | 50,600 | (50,600) | | |
| Total support and revenue | 3,220,942 | 107,174 | 158,591 | 3,486,707 | 2,934,731 | 50,920 | 100,300 | 3,085,951 |
| Expenses | | | | | | | | |
| Program services | 2,407,085 | | | 2,407,085 | 2,355,799 | | | 2,355,799 |
| Management and general | 229,165 | | | 229,165 | 228,040 | | | 228,040 |
| Fundraising | 385,518 | | | 385,518 | 338,739 | | | 338,739 |
| Total expenses | 3,021,768 | | | 3,021,768 | 2,922,578 | | | 2,922,578 |
| Change in net assets before net investment income | 199,174 | 107,174 | 158,591 | 464,939 | 12,153 | 50,920 | 100,300 | 163,373 |
| Net investment income | 44,766 | 32,307 | | 77,073 | (25,609) | (15,048) | | (40,657) |
| Change in net assets | 243,940 | 139,481 | 158,591 | 542,012 | (13,456) | 35,872 | 100,300 | 122,716 |
| Net Assets, beginning of year | 936,360 | 223,747 | 330,351 | 1,490,458 | 949,816 | 187,875 | 230,051 | 1,367,742 |
| Net Assets, end of year | <u>\$ 1,180,300</u> | <u>\$ 363,228</u> | <u>\$ 488,942</u> | <u>\$ 2,032,470</u> | <u>\$ 936,360</u> | <u>\$ 223,747</u> | <u>\$ 330,351</u> | <u>\$ 1,490,458</u> |

See Notes to Financial Statements

FLYING HOUSE PRODUCTIONS

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2016

| | Program Services | Management and General | Fundraising | Total |
|--|------------------|---------------------------|-------------|--------------|
| Salaries | \$ 419,539 | \$ 145,404 | \$ 176,789 | \$ 741,732 |
| Payroll taxes and benefits | 71,120 | 24,602 | 43,061 | 138,783 |
| | 490,659 | 170,006 | 219,850 | 880,515 |
| In-kind goods and services | 839,476 | | 82,459 | 921,935 |
| Professional fees | 395,991 | 30,258 | 70,095 | 496,344 |
| Advertising, outreach, and public relations | 175,238 | 4,661 | 11,627 | 191,526 |
| Occupancy | 139,475 | 3,004 | 17,725 | 160,204 |
| Food and beverage | 18,056 | 122 | 81,923 | 100,101 |
| Equipment rental and maintenance | 55,875 | 6,188 | 33,310 | 95,373 |
| Interest and bank charges | 41,364 | 2,473 | 19,994 | 63,831 |
| Music and royalties | 49,327 | | 5 | 49,332 |
| Postage and communications | 27,269 | 2,488 | 12,810 | 42,567 |
| Ticket agency fees | 42,350 | | | 42,350 |
| Conferences | 29,418 | 2,312 | 5,479 | 37,209 |
| Cost of goods sold | 13,742 | | 19,250 | 32,992 |
| Depreciation and amortization | 23,979 | 3,114 | 2,877 | 29,970 |
| Travel and accommodations | 24,508 | 583 | 3,898 | 28,989 |
| Costumes and scenery | 25,506 | | 2,454 | 27,960 |
| Prizes and awards | 2,491 | 33 | 24,033 | 26,557 |
| Insurance | 6,584 | 2,743 | 1,746 | 11,073 |
| Supplies | 5,777 | 1,180 | 1,449 | 8,406 |
| | 2,407,085 | 229,165 | 610,984 | 3,247,234 |
| Total expenses | | | | |
| Less: special event expenses | | | 225,466 | 225,466 |
| | 2,407,085 | 229,165 | 385,518 | 3,021,768 |
| Total expenses included in expense section on the statement of activities | \$ 2,407,085 | \$ 229,165 | \$ 385,518 | \$ 3,021,768 |

See Notes to Financial Statements

FLYING HOUSE PRODUCTIONS

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2015

| | Program Services | Management and General | Fundraising | Total |
|--|------------------|---------------------------|-------------|--------------|
| Salaries | \$ 410,094 | \$ 142,929 | \$ 159,364 | \$ 712,387 |
| Payroll taxes and benefits | 72,607 | 23,935 | 33,084 | 129,626 |
| | 482,701 | 166,864 | 192,448 | 842,013 |
| In-kind goods and services | 817,760 | | 61,052 | 878,812 |
| Professional fees | 414,026 | 26,480 | 60,336 | 500,842 |
| Advertising, outreach, and public relations | 137,302 | 130 | 1,575 | 139,007 |
| Performance and rehearsal facility rental | 133,215 | | | 133,215 |
| Prizes and awards | 349 | | 63,938 | 64,287 |
| Interest, merchant fees, and bank charges | 40,578 | 5,663 | 14,217 | 60,458 |
| Food and beverage | 8,929 | 1,131 | 50,127 | 60,187 |
| Equipment rental and maintenance | 48,272 | 5,803 | 5,820 | 59,895 |
| Postage and communication | 50,202 | 1,589 | 5,818 | 57,609 |
| Music and royalties | 50,019 | | 500 | 50,519 |
| Printing | 34,765 | | 5,448 | 40,213 |
| Occupancy | | 3,205 | 36,655 | 39,860 |
| Ticket agency fees | 39,858 | | | 39,858 |
| Travel and conferences | 28,988 | 3,713 | 6,803 | 39,504 |
| Depreciation and amortization | 27,110 | 7,222 | 3,512 | 37,844 |
| Costumes and scenery | 26,195 | | 1,863 | 28,058 |
| Insurance | 8,241 | 3,434 | 2,060 | 13,735 |
| Supplies | 4,861 | 2,806 | 3,931 | 11,598 |
| Cost of goods sold | 2,428 | | 5,551 | 7,979 |
| Bad debt | | | 7,333 | 7,333 |
| | 2,355,799 | 228,040 | 528,987 | 3,112,826 |
| Total expenses | | | 190,248 | 190,248 |
| Less: special event expenses | | | 190,248 | 190,248 |
| Total expenses included in expense section on the statement of activities | \$ 2,355,799 | \$ 228,040 | \$ 338,739 | \$ 2,922,578 |

See Notes to Financial Statements

FLYING HOUSE PRODUCTIONS

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2016 and 2015

| | 2016 | 2015 |
|---|----------------|---------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ 542,012 | \$ 122,716 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities | | |
| Depreciation and amortization | 29,970 | 37,844 |
| Realized and unrealized (gains) losses on investments | (67,201) | 47,266 |
| Change in operating assets and liabilities | | |
| Promises to give, net | 17,750 | 110,596 |
| Inventory | (2,713) | 1,790 |
| Prepaid expenses and other assets | 4,353 | 40,300 |
| Accounts payable and accrued expenses | 39,206 | 7,606 |
| Unearned revenue | (2,567) | (6,495) |
| Net cash flows from operating activities | 560,810 | 361,623 |
| Cash Flows from Investing Activities | | |
| Purchase of equipment | | (9,139) |
| Withdrawal of unrestricted assets held in trust | | 16,829 |
| Net investments/deposits in The Seattle Foundation | (150,587) | (87,950) |
| Net cash flows from investing activities | (150,587) | (80,260) |
| Cash Flows from Financing Activities | | |
| Principal payments on note payable | (7,725) | (7,302) |
| Payments on lines of credit | | (200,000) |
| Net cash flows from financing activities | (7,725) | (207,302) |
| Net Increase in Cash and Cash Equivalents | 402,498 | 74,061 |
| Cash and Cash Equivalents, beginning of year | 188,641 | 114,580 |
| Cash and Cash Equivalents, end of year | \$ 591,139 | \$ 188,641 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid for interest | \$ 9,823 | \$ 12,019 |

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

Flying House Productions ("FHP"), doing business as Seattle Men's Chorus and Seattle Women's Chorus, was incorporated as a nonprofit corporation in the State of Washington in 1982. FHP's purpose is threefold: to perform choral music for the general public at the highest possible levels of professionalism, to promote social change in support of LGBTQ causes, and to provide its members with a welcoming, nurturing community in which to pursue their artistry. FHP's voices transform society through innovative and entertaining programs that build community, illuminate the experiences of LGBTQ people and their allies, expand inclusion, and inspire justice.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Basis of Financial Presentation

FHP 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. Contributions that are received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction is met in the year in which the support is recognized. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and are reported as net assets released from restrictions.

Grants and Contributions Revenue

Grants and contributions consist of unrestricted and temporarily restricted grants, contributions, and unconditional promises to give. Support revenue is recognized when an unconditional grant or contribution is received or a pledge is made. Grants, contributions, or pledges that include donor-imposed conditions are not recognized until the conditions have been substantially met. FHP had no conditional promises to give as of September 30, 2016 or 2015.

Gifts of equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Admissions and Concessions Revenue

Amounts received for admissions, concessions, advertising, and publishing are deemed to be earned and reported as increases in unrestricted net assets when the related service or good has been provided. Such amounts received but not yet earned are reported as unearned revenue. Compensatory tickets are recorded as a reduction to admissions revenue when the tickets are used by the recipient.

Bequests

Bequest revenue is recognized when FHP is informed that it will receive a bequest and the amount to be received is known by FHP, which is generally when the estate has cleared probate. FHP has been named as a beneficiary in certain revocable bequests. As these bequests are revocable, they have not been reflected in the financial statements.

Board-Designated Net Assets

The Board of Directors has designated certain unrestricted funds to be available for specific projects outside the normal operations of FHP that still fulfill the vision and mission of FHP. Board-designated net assets for certain purposes of future periods as follows at September 30:

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Dr. C. Wight Reade Fund | \$ 629,140 | \$ 607,166 |
| Dennis Coleman Artistic Excellence Fund | 100,000 | |
| | <u>\$ 729,140</u> | <u>\$ 607,166</u> |

Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted by donors for certain purposes or future periods as follows at September 30:

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Artistic excellence | \$ 123,923 | \$ - |
| Unappropriated endowment fund earnings | 80,790 | 48,483 |
| Music arrangements | 46,500 | 50,000 |
| Chorus productions | 45,036 | 45,036 |
| Membership assistance | 33,187 | 46,759 |
| Building fund | 28,469 | 28,469 |
| Outreach | 5,073 | 5,000 |
| Raffles | 250 | |
| | <u>\$ 363,228</u> | <u>\$ 223,747</u> |

Permanently Restricted Net Assets

Permanently restricted net assets are endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income may be used for current operations. The related assets are presented in the statements of financial position as:

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Beneficial interest in assets held by The Seattle Foundation | \$ 633,722 | \$ 437,908 |
| Less: amounts without permanent restrictions | <u>(144,780)</u> | <u>(107,557)</u> |
| | <u>\$ 488,942</u> | <u>\$ 330,351</u> |

Cash and Cash Equivalents

Cash and cash equivalents consist of checking and money market accounts (except those included in the investment account). FHP maintains some of its cash in a bank account that may exceed federally insured limits at times during the year.

Promises to Give

Promises to give are reported at net realizable values. At September 30, 2016 and 2015, the allowance was \$3,168 and \$6,510, respectively. All promises to give are due in one year or less.

Fair Value Measurements

Fair value is a market-based measurement determined on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs, such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

FHP reports its investments and its beneficial interest in assets held at The Seattle Foundation at fair value. FHP's beneficial interest is valued using Level 3 inputs.

Investments

Investments are stated at fair value and consist of money market and mutual funds. Fair values for investments are determined by reference to quoted market prices in active markets (Level 1 inputs). Interest, dividends, and realized and unrealized gains and losses are reported as increases or decreases in unrestricted net assets unless a donor or law temporarily or permanently restricts their use. Unrealized gains and losses are reported as investment income in the statements of activities.

Certificates of Deposit

Certificates of deposit are recorded in these financial statements at cost plus accrued interest, and have an initial maturity of greater than three months.

Property and Equipment

Property and equipment are stated at cost or, in the case of donated assets, at estimated fair value on the date of donation. FHP capitalizes all expenditures for property and equipment in excess of \$2,500. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, 3 to 10 years for furniture and equipment and 40 years for the building. Amortization of assets under capital leases is included in depreciation and amortization.

In-Kind Goods and Services

Contributed materials have been recorded on the basis of rates that otherwise would have been paid for similar goods. Donated services are recorded as in-kind contributions and are recognized as revenue at estimated values at the date of receipt if they (a) create or enhance nonfinancial assets or (b) require specialized skills and would need to be purchased if not provided by donation. Corresponding expenses are recognized as the assets and services are utilized. Donated goods and services were used for program and supporting services and consisted of the following for the years ended September 30:

| | <u>2016</u> | <u>2015</u> |
|------------------|-------------------|-------------------|
| Donated services | \$ 818,375 | \$ 789,819 |
| Donated goods | <u>103,560</u> | <u>88,993</u> |
| | <u>\$ 921,935</u> | <u>\$ 878,812</u> |

In order to accomplish its mission, FHP relies on over 600 singing chorus members who volunteer their time and talent for rehearsals and performances. These members volunteered 61,534 and 59,790 hours in the years ended September 30, 2016 and 2015, respectively. In accordance with financial accounting standards, FHP recognizes program costs for these contributed services. To value volunteer singer hours, FHP uses the 25th percentile hourly rate of \$13.21 for musicians and singers as provided by the U.S. Bureau of Labor Statistics for both 2016 and 2015.

FHP also puts on a concert for children during a regular performance season at no cost to the attendees in order to promote the mission of FHP. As these performances are outside of the normal scope of FHP, management has concluded that these performances are not significant to FHP's operations and are not recorded in the financial statements.

Advertising

FHP expenses the costs of advertising as incurred. Advertising expense was \$126,784 and \$120,583 for the years ended September 30, 2016 and 2015, respectively.

Income Taxes

FHP is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. FHP is subject to federal income taxes on certain activities that are not substantially related to FHP programs. Income tax expense incurred for the years ended September 30, 2016 and 2015, was not significant.

Functional Allocation of Expenses

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

Subsequent Events

FHP has evaluated subsequent events through the date these financial statements were available to be issued, which was March 9, 2017.

Note 2. Investments

Investments consist of the following at September 30:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|-------------------|-------------------|
| Cash (money market accounts) | \$ 9,199 | \$ 22,088 |
| Equities | | |
| Large cap | 177,426 | 221,568 |
| International | 87,134 | 48,252 |
| Small cap | 24,515 | 46,911 |
| Emerging markets | 33,807 | 34,985 |
| Mid cap | 43,293 | 49,539 |
| Fixed income | | |
| Investment grade taxable bonds | 144,593 | 110,451 |
| Global high yield bonds | 14,410 | 29,999 |
| International bonds | 3,013 | 12,830 |
| Hedge funds | 49,956 | |
| Real estate | 41,794 | 30,543 |
| | <u>\$ 629,140</u> | <u>\$ 607,166</u> |

Investment income (including from beneficial interest in assets held by The Seattle Foundation) is comprised of the following for the years ended September 30:

| | <u>2016</u> | <u>2015</u> |
|--|------------------|--------------------|
| Interest and dividends | \$ 9,872 | \$ 6,609 |
| Realized and unrealized gains (losses) | 67,201 | (47,266) |
| | <u>\$ 77,073</u> | <u>\$ (40,657)</u> |

Interest and dividends are net of management fees of \$14,207 and \$11,997 for the years ended September 30, 2016 and 2015, respectively.

Note 3. Property and Equipment

| | 2016 | 2015 |
|--------------------------------|-------------------|-------------------|
| Land | \$ 400,000 | \$ 400,000 |
| Building | 172,805 | 172,805 |
| Furniture and equipment | 282,040 | 359,398 |
| | 854,845 | 932,203 |
| Less: accumulated depreciation | (310,577) | (357,965) |
| | <u>\$ 544,268</u> | <u>\$ 574,238</u> |

Note 4. Beneficial Interest in Assets Held by The Seattle Foundation

In July 1997, FHP transferred certain investments to The Seattle Foundation to be held in perpetuity, with the income to be used for current operations. These amounts are administered by The Seattle Foundation and are accounted for and designated by The Seattle Foundation as the Seattle Men's Chorus Designated Endowment Fund and the Seattle Men's Chorus Rex Reyes Memorial Fund. In addition, the fund holds unrestricted investments to be withdrawn as needed by FHP.

Under the agreement between FHP and The Seattle Foundation, the members of the Board of Directors of FHP may make a written request for the return of these funds. The Seattle Foundation will return funds if it is deemed consistent with the mission and purposes of FHP and the charitable and philanthropic purposes of The Seattle Foundation. However, The Seattle Foundation retains variance power over these funds.

FHP's interest in The Seattle Foundation's investment portfolio is stated at the fair value of FHP's portion of The Seattle Foundation's assets based on the value of the underlying investments on the statements of financial position. A reconciliation of the beginning and ending balances of FHP's beneficial interest in assets held by The Seattle Foundation, whose fair value measurement was made using significant unobservable inputs (Level 3), is as follows:

| | 2016 | 2015 |
|--|-------------------|-------------------|
| Balance, beginning of year | \$ 437,908 | \$ 374,117 |
| Contributions | 158,316 | 100,000 |
| Realized and unrealized gains (losses) | 36,887 | (20,066) |
| Income | 8,720 | 6,539 |
| Management fees | (8,109) | (5,853) |
| Distributions | | (16,829) |
| Balance, end of year | <u>\$ 633,722</u> | <u>\$ 437,908</u> |

Note 5. Lines of Credit and Restricted Certificate of Deposit

FHP had a \$300,000 line of credit which matured on September 15, 2016, and was renewed through September 15, 2017, and bears interest at the lender's prime rate plus 1.75%, not to be below 5%. This resulted in an interest rate of 5.25% at September 30, 2016. There was no balance outstanding at September 30, 2016 or 2015. The line is secured by a deed of trust on the land and building.

FHP has a second line of credit of \$100,000 that bears interest at 2.78%. The line matured on September 15, 2016, and was renewed through September 15, 2017. There was no outstanding balance at September 30, 2016 or 2015. The line is secured by a certificate of deposit (restricted certificate of deposit).

Note 6. Note Payable

Note payable consists of a promissory note payable to a local bank, which matures on September 2019 with payments of \$1,462 that include interest at 5.25%. A balloon payment of any remaining principal and interest is due with the final installment in 2019. The note is secured by a deed of trust on the land and building. Maturities of the note payable are as follows for the years ending September 30:

| | | |
|------|----|----------------|
| 2017 | \$ | 7,569 |
| 2018 | | 8,077 |
| 2019 | | 163,890 |
| | | <hr/> |
| | \$ | <u>179,536</u> |

Note 7. Retirement Plan

FHP sponsored a tax deferred 401(k) Profit Sharing Plan under Section 401(k) of the Internal Revenue Code during the years ended September 30, 2016 and 2015. Employees who are age 21 or older and have completed one year of service (defined as 1,000 hours of service) are eligible to make elective deferrals under the plan. FHP may make matching contributions to employee deferrals. FHP made no matching contributions during the years ended September 30, 2016 or 2015.