

HARMONY FOUNDATION INTERNATIONAL, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

SEPTEMBER 30, 2015 AND 2014

HARMONY FOUNDATION INTERNATIONAL, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Harmony Foundation International, Inc.
Nashville, Tennessee

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Harmony Foundation International, Inc. which comprise the statements of financial position as of September 30, 2015 and 2014, 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 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 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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harmony Foundation International, Inc. as of September 30, 2015 and 2014, 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.

Knyff CPAs PLLC

Nashville, Tennessee
January 25, 2016

HARMONY FOUNDATION INTERNATIONAL, INC.

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Operating assets:		
Cash	\$ 261,662	\$ 26,527
Contributions receivable, net	1,920,102	1,520,856
Accrued interest receivable	2,651	1,937
Prepaid expenses and other assets	21,862	18,537
Investments -		
Endowment funds	1,756,790	1,169,955
Held for the Barbershop Harmony Society	266,804	865,669
Property and equipment, net	24,759	32,650
Other non-operating assets:		
Beneficial interests in charitable remainder trusts	347,600	339,600
Cash surrender value of life insurance	<u>167,000</u>	<u>163,400</u>
 TOTAL ASSETS	 <u>\$ 4,769,230</u>	 <u>\$ 4,139,131</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 87,030	\$ 60,832
Accounts payable - Barbershop Harmony Society	16,477	79,209
Due to Barbershop Harmony Society chapters and districts	87,894	97,644
Refundable advance	250,000	-
Line of credit	-	147,000
Notes payable	-	40,000
Funds held for Barbershop Harmony Society	<u>262,948</u>	<u>985,190</u>
 TOTAL LIABILITIES	 <u>704,349</u>	 <u>1,409,875</u>
NET ASSETS		
Unrestricted	1,040,582	1,303
Temporarily restricted	1,248,848	1,000,434
Permanently restricted	<u>1,775,451</u>	<u>1,727,519</u>
 TOTAL NET ASSETS	 <u>4,064,881</u>	 <u>2,729,256</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 4,769,230</u>	 <u>\$ 4,139,131</u>

See accompanying notes to financial statements.

HARMONY FOUNDATION INTERNATIONAL, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions, net:				
Annual giving programs	\$ 3,499,656	\$ 537,387	\$ -	\$ 4,037,043
Endowment funds	-	-	159,196	159,196
Special events	1,480	-	-	1,480
Investment income (loss)	(5,327)	-	(68,935)	(74,262)
Investment income on endowment funds available for spending	30,218	-	(30,218)	-
Administrative fees	15,563	-	(11,086)	4,477
Miscellaneous	613	-	-	613
Net assets released from restrictions:				
Satisfaction of program restrictions	289,998	(288,973)	(1,025)	-
TOTAL REVENUE AND SUPPORT	3,832,201	248,414	47,932	4,128,547
EXPENSES				
Program Services:				
Grants provided to:				
Barbershop Harmony Society and related operating programs	827,092	-	-	827,092
Barbershop Harmony Society chapters and districts from donor choice contributions	414,440	-	-	414,440
Barbershop Harmony Society chapters and districts from Associates Funds	23,163	-	-	23,163
Harmony Fellows Award event	9,840	-	-	9,840
Youth events	8,841	-	-	8,841
Oversight expenses related to grants and endowments	184,571	-	-	184,571
Visionary program	122,557	-	-	122,557
Total Program Services	1,590,504	-	-	1,590,504
Supporting Services:				
Management and administration	366,458	-	-	366,458
Fundraising	835,960	-	-	835,960
Total Supporting Services	1,202,418	-	-	1,202,418
TOTAL EXPENSES	2,792,922	-	-	2,792,922
CHANGE IN NET ASSETS	1,039,279	248,414	47,932	1,335,625
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	1,303	1,000,434	1,727,519	2,729,256
NET ASSETS - END OF YEAR	\$ 1,040,582	\$ 1,248,848	\$ 1,775,451	\$ 4,064,881

See accompanying notes to financial statements.

2014

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 2,577,409	\$ 405,943	\$ -	\$ 2,983,352
-	-	37,928	37,928
1,820	-	-	1,820
675	-	78,169	78,844
17,930	-	(17,930)	-
10,673	-	(7,753)	2,920
921	-	-	921
<u>190,493</u>	<u>(127,264)</u>	<u>(63,229)</u>	<u>-</u>
<u>2,799,921</u>	<u>278,679</u>	<u>27,185</u>	<u>3,105,785</u>
427,534	-	-	427,534
418,077	-	-	418,077
11,477	-	-	11,477
8,098	-	-	8,098
22,005	-	-	22,005
122,239	-	-	122,239
90,835	-	-	90,835
<u>1,100,265</u>	<u>-</u>	<u>-</u>	<u>1,100,265</u>
392,323	-	-	392,323
902,136	-	-	902,136
<u>1,294,459</u>	<u>-</u>	<u>-</u>	<u>1,294,459</u>
<u>2,394,724</u>	<u>-</u>	<u>-</u>	<u>2,394,724</u>
405,197	278,679	27,185	711,061
<u>(403,894)</u>	<u>721,755</u>	<u>1,700,334</u>	<u>2,018,195</u>
<u>\$ 1,303</u>	<u>\$ 1,000,434</u>	<u>\$ 1,727,519</u>	<u>\$ 2,729,256</u>

HARMONY FOUNDATION INTERNATIONAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Program Services				Supporting Services			
	Grants Provided	Oversight Expenses Related to Grants and Endowments	Visionary Program	Total Program Services	Management and Administration	Fundraising	Total Supporting Services	Total
Salaries	\$ -	\$ 116,841	\$ 59,008	\$ 175,849	\$ 162,442	\$ 452,439	\$ 614,881	\$ 790,730
Contract labor	-	-	446	446	5,930	-	5,930	6,376
Payroll taxes	-	8,736	4,376	13,112	12,651	33,750	46,401	59,513
Employee benefits	-	24,497	11,422	35,919	37,588	86,233	123,821	159,740
Total personnel costs	-	150,074	75,252	225,326	218,611	572,422	791,033	1,016,359
Grants to Barbershop Harmony Society and related operating programs	827,092	-	-	827,092	-	-	-	827,092
Grants to Barbershop Harmony Society chapters and districts from donor choice contributions	414,440	-	-	414,440	-	-	-	414,440
Grants to Barbershop Harmony Society chapters and districts from Associates Funds	23,163	-	-	23,163	-	-	-	23,163
Harmony Fellows Award event	9,840	-	-	9,840	-	-	-	9,840
Youth events	8,841	-	-	8,841	-	-	-	8,841
Professional and contract fees	-	7,200	1,768	8,968	19,929	8,555	28,484	37,452
Cultivation, stewardship and related donor costs	-	-	-	-	-	20,640	20,640	20,640
Facilities and equipment	-	-	3,565	3,565	19,834	27,531	47,365	50,930
Interest	-	-	380	380	5,044	-	5,044	5,424
Marketing	-	-	1,186	1,186	-	19,266	19,266	20,452
Miscellaneous	-	-	69	69	3,302	-	3,302	3,371
Office supplies, postage, shipping and printing	-	3,962	1,305	5,267	44,529	18,860	63,389	68,656
Planned giving premium expense	-	-	-	-	-	5,796	5,796	5,796
Convention	-	23,306	28,606	51,912	-	79,601	79,601	131,513
Staff development	-	-	2,871	2,871	19,456	18,676	38,132	41,003
Travel and meeting expenses	-	29	6,866	6,895	26,601	64,613	91,214	98,109
Total other operating expenses	1,283,376	34,497	46,616	1,364,489	138,695	263,538	402,233	1,766,722
Depreciation	-	-	689	689	9,152	-	9,152	9,841
Total functional expenses	<u>\$ 1,283,376</u>	<u>\$ 184,571</u>	<u>\$ 122,557</u>	<u>\$ 1,590,504</u>	<u>\$ 366,458</u>	<u>\$ 835,960</u>	<u>\$ 1,202,418</u>	<u>\$ 2,792,922</u>

See accompanying notes to financial statements.

HARMONY FOUNDATION INTERNATIONAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Program Services				Supporting Services			
	Grants Provided	Oversight Expenses Related to Grants and Endowments	Visionary Program	Total Program Services	Management and Administration	Fundraising	Total Supporting Services	Total
Salaries	\$ -	\$ 86,553	\$ 37,713	\$ 124,266	\$ 169,603	\$ 472,262	\$ 641,865	\$ 766,131
Contract labor	-	-	-	-	29,991	1,550	31,541	31,541
Payroll taxes	-	6,079	2,846	8,925	11,775	34,440	46,215	55,140
Employee benefits	-	20,010	5,830	25,840	39,894	86,964	126,858	152,698
Total personnel costs	-	112,642	46,389	159,031	251,263	595,216	846,479	1,005,510
Grants to Barbershop Harmony Society and related operating programs	427,534	-	-	427,534	-	-	-	427,534
Grants to Barbershop Harmony Society chapters and districts from donor choice contributions	418,077	-	-	418,077	-	-	-	418,077
Grants to Barbershop Harmony Society chapters and districts from Associates Funds	11,477	-	-	11,477	-	-	-	11,477
Harmony Fellows Award event	8,098	-	-	8,098	-	-	-	8,098
Youth events	22,005	-	-	22,005	-	-	-	22,005
Special events	-	-	124	124	-	5,381	5,381	5,505
Professional and contract fees	-	7,200	2,178	9,378	19,744	15,458	35,202	44,580
Cultivation, stewardship and related donor costs	-	-	-	-	-	33,527	33,527	33,527
Facilities and equipment	-	-	2,165	2,165	20,130	20,986	41,116	43,281
Interest	-	-	-	-	10,987	-	10,987	10,987
Marketing	-	-	254	254	250	14,234	14,484	14,738
Miscellaneous	-	-	599	599	2,583	-	2,583	3,182
Office supplies, postage, shipping and printing	-	2,397	1,630	4,027	43,313	25,054	68,367	72,394
Planned giving premium expense	-	-	-	-	-	4,967	4,967	4,967
Convention	-	-	30,066	30,066	-	90,204	90,204	120,270
Staff development	-	-	656	656	8,165	4,294	12,459	13,115
Travel and meeting expenses	-	-	5,897	5,897	19,220	92,815	112,035	117,932
Total other operating expenses	887,191	9,597	43,569	940,357	124,392	306,920	431,312	1,371,669
Depreciation	-	-	877	877	16,668	-	16,668	17,545
Total functional expenses	\$ 887,191	\$ 122,239	\$ 90,835	\$ 1,100,265	\$ 392,323	\$ 902,136	\$ 1,294,459	\$ 2,394,724

See accompanying notes to financial statements.

HARMONY FOUNDATION INTERNATIONAL, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,335,625	\$ 711,061
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Provision for bad debt	48,000	30,630
Depreciation	9,841	17,545
Loss on disposal of property and equipment	-	754
Realized and unrealized (gain) loss on investments	91,620	(61,664)
Increase in beneficial interests in charitable remainder trusts	(8,000)	(7,500)
Increase in cash surrender value of life insurance	(9,185)	(11,072)
Contributions - life insurance policy	-	(5,498)
Contributions - permanently restricted	(159,196)	(37,928)
(Increase) decrease in:		
Contributions receivable	(447,246)	(432,843)
Accrued interest receivable	(714)	(41)
Prepaid expenses and other assets	(3,325)	1,921
Increase (decrease) in:		
Accounts payable and accrued expenses	26,198	(1,172)
Accounts payable to Barbershop Harmony Society	(62,732)	(225,245)
Due to Barbershop Harmony Society chapters and districts	(9,750)	25,708
Refundable advance	250,000	-
TOTAL ADJUSTMENTS	(274,489)	(706,405)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,061,136	4,656
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from liquidation of life insurance policy	5,585	-
Purchase of property and equipment	(1,950)	(1,417)
Proceeds from sales and maturities of investments	962,371	758,493
Purchase of investments	(1,041,961)	(959,689)
NET CASH USED IN INVESTING ACTIVITIES	(75,955)	(202,613)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on line of credit	(147,000)	(10,264)
Payments on notes payable	(40,000)	(4,234)
Increase (decrease) in funds held for Barbershop Harmony Society	(722,242)	59,654
Proceeds from contributions restricted for endowment funds	159,196	37,928
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(750,046)	83,084
NET INCREASE (DECREASE) IN CASH	235,135	(114,873)
CASH - BEGINNING OF YEAR	26,527	141,400
CASH - END OF YEAR	\$ 261,662	\$ 26,527
SUPPLEMENTAL CASH FLOWS DISCLOSURES:		
Interest expense paid	\$ 5,424	\$ 10,987
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Contribution of life insurance policy	\$ -	\$ 5,498

See accompanying notes to financial statements.

HARMONY FOUNDATION INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015 AND 2014

NOTE 1 - GENERAL

Harmony Foundation International, Inc. (the "Foundation") was incorporated as a not-for-profit organization in 1959 to raise funds in support of charities such as Society for the Preservation and Encouragement of Barber Shop Quartet Singing in America, Incorporated (the "Society" or "Barbershop Harmony Society"). The Foundation supports the philanthropic efforts of the Society through grants for music camps for teachers, children and young adults, leadership training, choral director and performance programs, and donations of Barbershop sheet music to schools nationwide. In addition, the Foundation assists the local chapters and districts of the Society with their training and mentoring programs and technical support to develop fundraising expertise and provides tuition subsidies for adult and youth Barbershop harmony camps.

The Foundation's Board consists of nine Trustees that are elected by the Board of the Barbershop Harmony Society. Therefore, the two organizations are considered to be financially interrelated. Accordingly, the Foundation is included in the consolidated financial statements of the Barbershop Harmony Society, which is the principal reporting entity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements present the financial position and changes in net assets of the Foundation on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Resources are classified as unrestricted, temporarily restricted and permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used in accordance with the provisions of the agreement.

HARMONY FOUNDATION INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions.

Cash

Cash consists principally of checking account balances and money funds. Cash and other short-term investments held in brokerage accounts are classified as investments.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. The discount rate was 2.5% for the years ended September 30, 2015 and 2014. Conditional promises to give are not included as support until such time as the conditions are substantially met.

An allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends. Pledges deemed to be uncollectible are charged off against the allowance in the period of determination.

HARMONY FOUNDATION INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are carried at the quoted market value of the securities on the last business day of the reporting period. Changes in unrealized gains and losses are recognized currently in the Statement of Activities.

Charitable Remainder Trusts

The Foundation has remainder interests in certain charitable trusts. A charitable remainder trust is a split-interest agreement in which the charitable beneficiary receives its beneficial interest in the donated assets after the noncharitable beneficiary has received benefits for a specified time period. At the termination of the agreement, the remaining assets in the trust pass to the charitable beneficiary for its use. A contribution and the related asset are recognized in the period the trust is established based on the fair value at the date of the gift and is adjusted annually for the change in the present value discount. The present value of the charitable remainder trusts is based on the actuarial life expectancy of the life income recipient using the discount rate in existence at the time of notification by the trustee of the Foundation's remainder interest. A discount rate of 5% was used for all trusts. Corresponding changes in the value of split interest agreements are recognized currently and included in temporarily restricted contributions, until such time that the underlying assets are received and the donor restricted purpose has been fulfilled (if any).

Endowment Funds

The Foundation has established several endowment funds. Distributions from the General Endowment and the Foundation's Program-Restricted Endowments benefit the heritage, music, scholarship, outreach or youth programs. Distributions from the Associates Funds provide grants to the Barbershop Harmony Society chapters and districts or other Associates of the Foundation. The Foundation's Program-Restricted Endowments and Associates Funds are based on signed donor agreements which outline the spending policies.

Property and Equipment

Property and equipment are reported at cost at the date of purchase or at estimated fair value at date of gift to the Foundation. The Foundation's policy is to capitalize purchases with a cost of \$1,000 or more and an estimated useful life greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets, which range from two to ten years for equipment and furniture.

HARMONY FOUNDATION INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Program Services

Grants - economic support to the Society and its chapters and districts, including related oversight expenses on donor choice grants and managing the endowment funds.

Visionary - outreach efforts that bring the harmony singing message to new audiences paving the way for the future of the Society by visiting chapters, conventions, youth camps and workshops, schools and Harmony University; sharing the art of Barbershop with the community and the camaraderie that it offers; and promoting the message of why Barbershop singing improves lives and transforms four voices into something greater. Barbershop must be experienced live and in person to be fully appreciated.

Supporting Services

Management and Administration - relates to the overall direction of the Foundation. These expenses are not identifiable with a particular program but are indispensable to the conduct of those activities and are essential to the Foundation. Such activities include organization oversight, business management, recordkeeping, budgeting, financing and other administrative activities.

Fundraising - consists of costs of activities directed toward appeals for financial support, including special events. Other activities include creation and distribution of fundraising materials.

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on management determined financial and nonfinancial data.

Income Taxes

The Foundation qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

HARMONY FOUNDATION INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The Foundation files a U.S. Federal Form 990 for organizations exempt from income tax.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Foundation's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

Fair Value Measurements

The Foundation classifies its investments measured at fair value based on a hierarchy consisting of: Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market but for which observable market inputs are readily available), and Level 3 (securities valued based on significant unobservable inputs).

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

Investments:

U.S. government and agency securities and corporate bonds - domestic - Securities valued on the basis of information provided by pricing services that employ valuation matrices that may incorporate both broker/dealer-supplied valuations as well as valuation models reflecting such factors as benchmark yields, reported trades, broker/dealer quotes, bid/offer data and other relevant elements, and are classified within Level 2 of the valuation hierarchy.

Equities - Securities for which quotations are readily available in active markets are valued at the most recent quote in the principal market in which such securities are normally traded, and are classified within Level 1 of the valuation hierarchy.

Mutual funds - Investments in these funds are valued using the net asset value per unit as quoted in active markets at the valuation date, and are classified within Level 1 of the valuation hierarchy.

HARMONY FOUNDATION INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

No changes in the valuation methodologies have been made since the prior measurement date.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP 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.

Events Occurring After Reporting Date

The Foundation has evaluated events and transactions that occurred between September 30, 2015 and January 25, 2016, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist of cash, investments and contributions receivable. Credit risk with respect to promises to give is limited because the Foundation deals with a large number of donors throughout a wide geographic area. Contributions receivable from a single donor amounted to 12% and 16% of the total contributions receivable at September 30, 2015 and 2014, respectively.

HARMONY FOUNDATION INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2015 AND 2014

NOTE 3 - CONCENTRATION OF CREDIT RISK (CONTINUED)

The Foundation maintains cash balances at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. The Foundation's cash balances may, at times, exceed statutory limits. The Foundation has not experienced any losses in such accounts and management considers this to be a normal business risk.

Investments are subject to market risk, the risk inherent in a fluctuating market. The broker/dealer that is the custodian of the Foundation's securities is covered by the Securities Investor Protection Corporation ("SIPC"), which provides protection to investors in certain circumstances such as fraud or failure of the institution. Coverage is limited to \$500,000, including up to \$250,000 in cash. The SIPC does not insure against market risk.

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at September 30:

	2015	2014
Due in less than one year	\$ 1,550,467	\$ 1,248,607
Due in one to five years	594,165	438,179
	2,144,632	1,686,786
Less discount to present value	(46,900)	(36,300)
Less allowance for doubtful accounts	(177,630)	(129,630)
Contributions receivable, net	<u>\$ 1,920,102</u>	<u>\$ 1,520,856</u>

NOTE 5 - INVESTMENTS

Investments consisted of the following at September 30:

	2015	2014
Fixed income	\$ 464,383	\$ 447,549
Mutual funds	994,773	1,056,534
Equities	475,857	417,154
Cash and money funds	88,581	114,387
Total	<u>\$ 2,023,594</u>	<u>\$ 2,035,624</u>

HARMONY FOUNDATION INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2015 AND 2014

NOTE 5 - INVESTMENTS (CONTINUED)

Investments are classified as follows at September 30:

	2015	2014
Endowment funds	\$ 1,756,790	\$ 1,169,955
Held for the Barbershop Harmony Society	<u>266,804</u>	<u>865,669</u>
Total	<u>\$ 2,023,594</u>	<u>\$ 2,035,624</u>

In 2008, the Foundation borrowed \$141,500 from the Society Program Funds for the development of a proposed Heritage Museum (S!NG) to be built on the first floor at the headquarters. The remaining balance due at September 30, 2014 was \$119,491. This amount was repaid during the year ending September 30, 2015.

Investment income consists of the following for the years ended September 30:

	2015	2014
Unrestricted:		
Dividends and interest	\$ 649	\$ 285
Realized losses	(5,644)	(298)
Unrealized gains (losses)	<u>(332)</u>	<u>688</u>
	<u>(5,327)</u>	<u>675</u>
Restricted:		
Dividends and interest	34,723	25,297
Realized gains	31,936	89,046
Unrealized losses	(123,556)	(27,382)
Less investment fees	<u>(12,038)</u>	<u>(8,792)</u>
	<u>(68,935)</u>	<u>78,169</u>
Investment income (loss), net	<u>\$ (74,262)</u>	<u>\$ 78,844</u>

HARMONY FOUNDATION INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2015 AND 2014

NOTE 6 - FAIR VALUE MEASUREMENTS

Financial assets measured at fair value on a recurring basis include the following at September 30, 2015:

	2015			
	Level 1	Level 2	Level 3	Total
<u>Investments measured at fair value:</u>				
U.S. government and agency securities	\$ -	\$ 266,221	\$ -	\$ 266,221
Corporate bonds - domestic	-	198,162	-	198,162
Equities:				
Consumer	45,851	-	-	45,851
Finance	87,200	-	-	87,200
Industrial	13,432	-	-	13,432
Services	87,098	-	-	87,098
Technology	111,521	-	-	111,521
Healthcare	83,400	-	-	83,400
Basic Materials	31,333	-	-	31,333
Other	16,022	-	-	16,022
Total equities	475,857	464,383	-	940,240
Mutual funds:				
Midcap Fund	231,691	-	-	231,691
Foreign Large Blend Fund	406,847	-	-	406,847
Emerging Markets Fund	82,413	-	-	82,413
Small Blend Fund	114,442	-	-	114,442
Aggregate Bond Fund	119,557	-	-	119,557
High Yield Bond Fund	39,823	-	-	39,823
Total mutual funds	994,773	-	-	994,773
Total Investments	\$ 1,470,630	\$ 464,383	\$ -	\$ 1,935,013

HARMONY FOUNDATION INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2015 AND 2014

NOTE 6 - FAIR VALUE MEASUREMENTS (CONTINUED)

Financial assets measured at fair value on a recurring basis include the following at September 30, 2014:

	2014			
	Level 1	Level 2	Level 3	Total
<u>Investments measured at fair value:</u>				
U.S. government and agency securities	\$ -	\$ 236,377	\$ -	\$ 236,377
Corporate bonds - domestic	-	211,172	-	211,172
<u>Equities:</u>				
Consumer	48,641	-	-	48,641
Finance	79,129	-	-	79,129
Industrial	11,470	-	-	11,470
Services	81,167	-	-	81,167
Technology	96,699	-	-	96,699
Healthcare	57,750	-	-	57,750
Basic Materials	30,963	-	-	30,963
Conglomerates	11,335	-	-	11,335
Total equities	417,154	447,549	-	864,703
<u>Mutual funds:</u>				
Midcap Fund	242,714	-	-	242,714
EAFE Value Index Fund	434,093	-	-	434,093
Emerging Markets Fund	96,835	-	-	96,835
Small Blend Fund	116,458	-	-	116,458
Aggregate Bond Fund	124,820	-	-	124,820
High Yield Bond Fund	41,614	-	-	41,614
Total mutual funds	1,056,534	-	-	1,056,534
Total Investments	\$ 1,473,688	\$ 447,549	\$ -	\$ 1,921,237

HARMONY FOUNDATION INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2015 AND 2014

NOTE 7 - BENEFICIAL INTERESTS IN CHARITABLE REMAINDER TRUSTS

The Foundation is beneficiary of three irrevocable charitable remainder trusts, established in 2003, 2005 and 2009. Two of the trusts were funded with real estate to the trusts, valued at \$427,000 and \$123,500. The third trust provides for a cash distribution of \$50,000 upon the termination of the agreement.

The Foundation's beneficial interests in these trusts consisted of the following at September 30:

	<u>2015</u>	<u>2014</u>
Promises to give receivable	\$ 600,500	\$ 600,500
Less unamortized discount	<u>(252,900)</u>	<u>(260,900)</u>
Total	<u>\$ 347,600</u>	<u>\$ 339,600</u>

A reconciliation of changes in beneficial interests in charitable remainder trusts follows for the years ended September 30:

	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 339,600	\$ 332,100
Change in value of beneficial interests	<u>8,000</u>	<u>7,500</u>
Balance, end of year	<u>\$ 347,600</u>	<u>\$ 339,600</u>

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30:

	<u>2015</u>	<u>2014</u>
Equipment and furniture	\$ 177,499	\$ 175,548
Less: accumulated depreciation	<u>(152,740)</u>	<u>(142,898)</u>
Property and equipment, net	<u>\$ 24,759</u>	<u>\$ 32,650</u>

The Foundation's offices are located at the Society's headquarters and are provided at no rental cost to the Foundation.

HARMONY FOUNDATION INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2015 AND 2014

NOTE 9 - REFUNDABLE ADVANCE

During the year ended September 30, 2015, the Foundation received a \$250,000 conditional contribution that contained donor matching fund requirements. These matching fund requirements had not been met at September 30, 2015 and thus the amount is being recorded as a refundable advance and will be recognized as contribution revenue when donor conditions are met.

NOTE 10 - NOTES PAYABLE AND LINE OF CREDIT

Notes payable consist of the following at September 30:

	2015	2014
Unsecured loans with three individuals, interest payable at 5%, with terms through October 2015.	\$ -	\$ 40,000

The Foundation had a revolving line of credit agreement with a bank that provided for borrowings up to a maximum outstanding amount of \$200,000. The line of credit required monthly principal payments of \$1,000 plus interest at the lender's index rate plus 1.75%, with an interest rate floor of 5.5% (5.5% at September 30, 2014). At September 30, 2014, the balance outstanding on the line of credit was \$147,000. Borrowings under the line of credit agreement were collateralized by the contributions receivable of the Foundation. The principal balance and accrued interest were repaid during the year ending September 30, 2015.

NOTE 11 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at September 30:

	2015	2014
Operating contributions receivable, net - due in future periods	\$ 707,805	\$ 403,559
Beneficial interest in charitable remainder trusts	347,600	339,600
Contributions for Youth Chorus Festival	180,000	190,000
Quartet College Tour project	10,255	63,229
Contributions for Jim Miller memorial scholarship	2,345	2,985
Contribution for youth camps and workshops	-	218
Tufts University/Ken Rose Estate	843	843
Total	<u>\$ 1,248,848</u>	<u>\$ 1,000,434</u>

HARMONY FOUNDATION INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2015 AND 2014

NOTE 11 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Permanently Restricted Net Assets - Donor Restricted Endowment Funds

The Foundation has established several endowment funds. Distributions from the General Endowment and the Foundation's Program-Restricted Endowments benefit the heritage, music, outreach, scholarship or youth programs. Distributions from the Associates Funds provide grants to the Barbershop Harmony Society chapters and districts or other Associates of the Foundation. The Foundation's Program-Restricted Endowments and Associates Funds are based on signed donor agreements which outline the spending policies and classification of the investment earnings (losses). The donor agreements provide that investment income (loss) increases (decreases) the endowment corpus (principal balance). In the absence of such donor restrictions, the Foundation would follow the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") and Tennessee's State Uniform Prudent Management of Institutional Funds Act ("SUPMIFA").

Investment return objective, risk parameters and strategies - The Foundation has adopted investment policies, approved by the Board of Directors, to establish asset allocation targets, investment objectives and guidelines and the degree of investment risk the Board deems acceptable. The goal of the investment program is to achieve a rate of return that will allow the Foundation to respond to current needs while also maintaining long-term growth to respond to future needs. Allocation targets are set for those assets not expected to be withdrawn within twelve months to broadly diversify the funds held and reduce the impact of losses in individual investments. Investment allocations are spread between U.S. Fixed Income Portfolios, U.S. Equity Portfolios, International Equity and Emerging Markets Portfolios and Cash Equivalents.

Spending policy - The annual allowable distribution from each of the endowment funds is based on the lesser of 5% of the prior year's investable funds or the actual interest and dividend income earned in the prior calendar year. If the maximum allowable distribution is not made for any year, the balance remains in the corpus of that endowment fund. The Foundation charges each endowment fund an annual administrative fee equal to 5% of each contribution received for the year, subject to a maximum charge of \$3,000 per contribution, plus 5% of all interest and dividend income and net realized gains or losses.

HARMONY FOUNDATION INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2015 AND 2014

NOTE 11 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Permanently restricted net assets consisted of the following at September 30:

	<u>2015</u>	<u>2014</u>
General Endowment Fund	\$ 562,597	\$ 562,780
Other Endowments:		
Associates Funds	748,571	787,241
Program-Restricted Endowments:		
Heritage Funds	83,739	91,024
Music Funds	8,140	8,624
Outreach	115,506	-
Scholarship Funds	195,147	210,969
Youth Funds	<u>61,751</u>	<u>66,881</u>
Total	<u>\$ 1,775,451</u>	<u>\$ 1,727,519</u>

A summary of changes in permanently restricted net assets follows for the years ended September 30:

	<u>2015</u>	<u>2014</u>
Permanently restricted net assets - beginning of period	\$ 1,727,519	\$ 1,700,334
Contributions, net	159,196	37,928
Donor release of permanent restriction	(1,025)	(63,229)
Investment income, less related fees	22,685	16,505
Realized gains	31,936	89,046
Unrealized losses	(123,556)	(27,382)
Annual allowable distributions	(30,218)	(17,930)
Administrative fees	<u>(11,086)</u>	<u>(7,753)</u>
Permanently restricted net assets - end of period	<u>\$ 1,775,451</u>	<u>\$ 1,727,519</u>

During 2014, the donors of the Jim and Anne Mallet Endowment Fund removed the permanent restriction on their original gift and the growth in corpus which were previously categorized as program-restricted scholarship funds. The donors then temporarily restricted the amounts to be used on Quartet College Tours. The Foundation transferred \$63,229 from permanently restricted net assets to temporarily restricted net assets as a result of the release of the donor-imposed permanent restriction in 2014 and \$1,025 of remaining growth in corpus on the Jim and Anne Mallet Endowment Fund in 2015.

HARMONY FOUNDATION INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2015 AND 2014

NOTE 11 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

As of September 30, 2014, the Foundation had borrowed against the General Endowment and the Foundation's Program-Restricted Endowments investments in the amount of \$515,397. These borrowings were repaid during the year ending September 30, 2015.

NOTE 12 - GRANTS

The Foundation provided grants to benefit the Barbershop Harmony Society and its related programs as follows for the year ended September 30, 2015:

	Paid directly to:		
	Barbershop Harmony Society	Chapters and districts	Total
Harmony University scholarships	\$ 130,680	\$ -	\$ 130,680
Outreach grants	305,062	-	305,062
Youth chorus festival	200,000	-	200,000
College tours	54,000	-	54,000
Collegiate quartet competition	42,500	-	42,500
Chapter initiative programs	40,000	-	40,000
Music for schools	50,000	-	50,000
Other programs	750	4,100	4,850
	822,992	4,100	827,092
Grants from donor choice contributions	-	414,440	414,440
Grants from Associates Funds in the permanently restricted endowments	-	23,163	23,163
Harmony Fellows Award event	-	9,840	9,840
Youth events	-	8,841	8,841
Total	\$ 822,992	\$ 460,384	\$ 1,283,376

HARMONY FOUNDATION INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2015 AND 2014

NOTE 12 - GRANTS (CONTINUED)

The Foundation provided grants to benefit the Barbershop Harmony Society and its related programs as follows for the year ended September 30, 2014:

	Paid directly to:		
	Barbershop Harmony Society	Chapters and districts	Total
Harmony University scholarships	\$ 45,440	\$ -	\$ 45,440
Outreach grants	-	99,164	99,164
Youth chorus festival	200,000	-	200,000
Collegiate quartet competition	42,500	-	42,500
Music for schools	250	-	250
Other programs	8,380	31,800	40,180
	296,570	130,964	427,534
Grants from donor choice contributions	-	418,077	418,077
Grants from Associates Funds in the permanently restricted endowments	-	11,477	11,477
Harmony Fellows Award event	-	8,098	8,098
Youth events	-	22,005	22,005
Total	\$ 296,570	\$ 590,621	\$ 887,191

Oversight expenses related to these grants amounted to \$184,571 and \$122,239 for the fiscal years ended September 30, 2015 and 2014, respectively.

HARMONY FOUNDATION INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2015 AND 2014

NOTE 13 - CONTRACTED SERVICES

The Foundation's staff was leased from the Society until May 1, 2014, at which time the individuals became employees of the Foundation. Payroll processing for the Foundation's staff was being performed by the Society until February 2015, at which point the Foundation began processing the payroll. During the period the Society was processing the Foundation's payroll, the Foundation reimbursed the Society for the salaries and related fringe benefits, which included payroll taxes, insurance and retirement benefits.

NOTE 14 - RETIREMENT PLAN

Prior to May 1, 2014, the Foundation's staff participated in the Society's retirement plan, and the Foundation reimbursed the Society for a proportionate share of the related costs. Effective January 1, 2014, the Foundation began sponsoring a Section 401(k) plan (the "Plan") consistent with that of the Society which allows for employer matching contributions and employer profit sharing contributions, both of which vest on a pro rata (20%) basis each year of service. An employee must work at least 1,000 hours in a calendar year to receive credit for a year of service. The Plan covers substantially all employees. For the year ended September 30, 2015, amounts contributed to the Plan for the Foundation's staff totaled \$87,847 (\$83,216 for the year ended September 30, 2014).

NOTE 15 - RELATED PARTY TRANSACTIONS

During the year ended September 30, 2015, the Society contributed approximately \$745,000 to the Foundation from the Society's investments held by the Foundation. This contribution was restricted to be used to pay off the Foundation's outside debt (Note 10) and to reimburse the General Endowment Borrowings (Note 11). This contribution accounted for 17% of the total contributions to the Foundation for the year.

Additionally, the Foundation received \$222,225 in contributions from one board member during the year ended September 30, 2015.