

HARMONY FOUNDATION INTERNATIONAL, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

SEPTEMBER 30, 2019 AND 2018

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, 2019 and 2018, 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, 2019 and 2018, 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.

Kraft CPAs PLLC

Nashville, Tennessee
March 20, 2020

HARMONY FOUNDATION INTERNATIONAL, INC.

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Cash	\$ 207,962	\$ 212,037
Contributions receivable, net:		
Due in less than one year	804,799	982,043
Due in one to five years	210,028	334,908
Prepaid expenses and other assets	55,026	57,509
Investments:		
Endowment funds	2,819,804	2,642,354
Held for the Barbershop Harmony Society	357,436	345,618
Operations	58,195	85,564
Property and equipment, net	25,982	21,689
Beneficial interests in charitable remainder trusts	377,000	370,600
Cash surrender value of life insurance	<u>187,000</u>	<u>184,000</u>
 TOTAL ASSETS	 <u>\$ 5,103,232</u>	 <u>\$ 5,236,322</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 73,032	\$ 77,802
Accounts payable - Barbershop Harmony Society	5,165	978
Due to Barbershop Harmony Society chapters and districts	98,071	90,972
Funds held for Barbershop Harmony Society	<u>357,436</u>	<u>345,618</u>
 TOTAL LIABILITIES	 <u>533,704</u>	 <u>515,370</u>
<u>NET ASSETS</u>		
Net assets without donor restrictions	822,679	985,200
Net assets with donor restrictions	<u>3,746,849</u>	<u>3,735,752</u>
 TOTAL NET ASSETS	 <u>4,569,528</u>	 <u>4,720,952</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 5,103,232</u>	 <u>\$ 5,236,322</u>

See accompanying notes to financial statements.

HARMONY FOUNDATION INTERNATIONAL, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Contributions, net:			
Annual giving programs	\$ 2,107,732	\$ 222,755	\$ 2,330,487
Endowment funds	-	134,318	134,318
Special events	1,440	-	1,440
Investment income (loss), net	(1,076)	94,823	93,747
Investment income on endowment funds available for spending	69,715	(69,715)	-
Administrative fees	14,027	(13,333)	694
Miscellaneous	1,578	-	1,578
Net assets released from restrictions	<u>357,751</u>	<u>(357,751)</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>2,551,167</u>	<u>11,097</u>	<u>2,562,264</u>
EXPENSES			
Program Services:			
Connect.	149,333	-	149,333
Enrich.	119,770	-	119,770
Sing.	<u>1,167,359</u>	<u>-</u>	<u>1,167,359</u>
Total Program Services	<u>1,436,462</u>	<u>-</u>	<u>1,436,462</u>
Supporting Services:			
Management and administration	401,560	-	401,560
Fundraising	<u>875,666</u>	<u>-</u>	<u>875,666</u>
Total Supporting Services	<u>1,277,226</u>	<u>-</u>	<u>1,277,226</u>
TOTAL EXPENSES	<u>2,713,688</u>	<u>-</u>	<u>2,713,688</u>
CHANGE IN NET ASSETS	(162,521)	11,097	(151,424)
NET ASSETS - BEGINNING OF YEAR	<u>985,200</u>	<u>3,735,752</u>	<u>4,720,952</u>
NET ASSETS - END OF YEAR	<u>\$ 822,679</u>	<u>\$ 3,746,849</u>	<u>\$ 4,569,528</u>

See accompanying notes to financial statements.

HARMONY FOUNDATION INTERNATIONAL, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions, net:			
Annual giving programs	\$ 2,285,837	\$ 336,806	\$ 2,622,643
Endowment funds	-	381,974	381,974
Special events	1,575	-	1,575
Investment income, net	3,556	173,433	176,989
Investment income on endowment funds available for spending	50,105	(50,105)	-
Administrative fees	38,984	(36,819)	2,165
Miscellaneous	165	-	165
Net assets released from restrictions	<u>335,322</u>	<u>(335,322)</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>2,715,544</u>	<u>469,967</u>	<u>3,185,511</u>
EXPENSES			
Program Services:			
Connect.	154,447	-	154,447
Enrich.	115,553	-	115,553
Sing.	<u>1,173,977</u>	<u>-</u>	<u>1,173,977</u>
Total Program Services	<u>1,443,977</u>	<u>-</u>	<u>1,443,977</u>
Supporting Services:			
Management and administration	386,711	-	386,711
Fundraising	<u>953,821</u>	<u>-</u>	<u>953,821</u>
Total Supporting Services	<u>1,340,532</u>	<u>-</u>	<u>1,340,532</u>
TOTAL EXPENSES	<u>2,784,509</u>	<u>-</u>	<u>2,784,509</u>
CHANGE IN NET ASSETS	(68,965)	469,967	401,002
NET ASSETS - BEGINNING OF YEAR	<u>1,054,165</u>	<u>3,265,785</u>	<u>4,319,950</u>
NET ASSETS - END OF YEAR	<u>\$ 985,200</u>	<u>\$ 3,735,752</u>	<u>\$ 4,720,952</u>

See accompanying notes to financial statements.

HARMONY FOUNDATION INTERNATIONAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Program Services				Supporting Services			Total
	Connect.	Enrich.	Sing.	Total Program Services	Management and Administration	Fundraising	Total Supporting Services	
Salaries	\$ 81,174	\$ 91,831	\$ 55,184	\$ 228,189	\$ 176,935	\$ 493,391	\$ 670,326	\$ 898,515
Contract labor	3,239	-	-	3,239	32,317	-	32,317	35,556
Payroll taxes	6,012	2,696	8,210	16,918	13,152	36,753	49,905	66,823
Employee benefits	17,160	5,374	23,290	45,824	29,636	106,311	135,947	181,771
Total personnel costs	107,585	99,901	86,684	294,170	252,040	636,455	888,495	1,182,665
Grants to Barbershop Harmony Society programs	-	-	619,505	619,505	-	-	-	619,505
Grants to Barbershop Harmony Society chapters and districts from donor choice contributions	-	-	429,692	429,692	-	-	-	429,692
Grants to Barbershop Harmony Society chapters and districts from Associates Funds	-	-	16,231	16,231	-	-	-	16,231
Harmony Fellows Award event	-	-	7,581	7,581	-	-	-	7,581
Bad debt expense	-	-	-	-	6,500	-	6,500	6,500
Conventions	-	-	-	-	-	53,418	53,418	53,418
Cultivation, stewardship and related donor costs	-	-	-	-	-	7,000	7,000	7,000
Engagement and impact activities	-	3,725	-	3,725	-	-	-	3,725
Facilities and equipment	4,727	-	-	4,727	22,689	24,476	47,165	51,892
Governance	2,753	-	-	2,753	27,374	-	27,374	30,127
Legal filings	704	-	-	704	4,833	-	4,833	5,537
Marketing	2,505	-	-	2,505	-	35,360	35,360	37,865
Miscellaneous	162	-	-	162	1,144	616	1,760	1,922
Office expenses, supplies, postage, shipping and printing	5,771	-	2,075	7,846	41,673	15,748	57,421	65,267
Planned giving premium expense	-	-	-	-	-	4,236	4,236	4,236
Professional and contract fees	2,523	-	-	2,523	25,167	-	25,167	27,690
Singing awareness and education events	3,784	-	-	3,784	-	-	-	3,784
Singing participation activities	-	-	3,135	3,135	-	-	-	3,135
Staff recruitment and development	1,859	-	-	1,859	15,734	2,813	18,547	20,406
Travel and meeting expenses	16,504	16,144	-	32,648	2,310	95,544	97,854	130,502
Total other operating expenses	41,292	19,869	1,078,219	1,139,380	147,424	239,211	386,635	1,526,015
Depreciation	456	-	2,456	2,912	2,096	-	2,096	5,008
Total functional expenses	\$ 149,333	\$ 119,770	\$ 1,167,359	\$ 1,436,462	\$ 401,560	\$ 875,666	\$ 1,277,226	\$ 2,713,688

See accompanying notes to financial statements.

HARMONY FOUNDATION INTERNATIONAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Program Services				Supporting Services			Total
	Connect.	Enrich.	Sing.	Total Program Services	Management and Administration	Fundraising	Total Supporting Services	
Salaries	\$ 85,262	\$ 60,519	\$ 60,520	\$ 206,301	\$ 187,621	\$ 525,706	\$ 713,327	\$ 919,628
Contract labor	1,736	-	-	1,736	17,014	-	17,014	18,750
Payroll taxes	6,460	4,557	4,557	15,574	14,045	39,791	53,836	69,410
Employee benefits	17,563	12,257	12,257	42,077	39,743	109,400	149,143	191,220
Total personnel costs	111,021	77,333	77,334	265,688	258,423	674,897	933,320	1,199,008
Grants to Barbershop Harmony Society programs	-	-	613,463	613,463	-	-	-	613,463
Grants to Barbershop Harmony Society chapters and districts from donor choice contributions	-	-	440,163	440,163	-	-	-	440,163
Grants to Barbershop Harmony Society chapters and districts from Associates Funds	-	-	24,942	24,942	-	-	-	24,942
Harmony Fellows Award event	-	-	6,552	6,552	-	-	-	6,552
Conventions	-	-	-	-	-	62,429	62,429	62,429
Cultivation, stewardship and related donor costs	-	-	-	-	-	15,548	15,548	15,548
Engagement and impact activities	-	8,260	-	8,260	-	-	-	8,260
Facilities and equipment	5,001	-	-	5,001	20,064	28,952	49,016	54,017
Governance	1,497	312	-	1,809	14,675	-	14,675	16,484
Legal filings	514	-	-	514	5,041	-	5,041	5,555
Marketing	2,759	-	-	2,759	-	37,546	37,546	40,305
Miscellaneous	183	-	-	183	1,272	522	1,794	1,977
Office expenses, supplies, postage, shipping and printing	5,538	-	3,558	9,096	43,006	24,165	67,171	76,267
Planned giving premium expense	-	-	-	-	-	5,440	5,440	5,440
Professional and contract fees	2,506	7,200	-	9,706	24,546	-	24,546	34,252
Singing awareness and education events	4,425	-	-	4,425	-	-	-	4,425
Singing participation activities	-	9,124	7,965	17,089	-	-	-	17,089
Staff recruitment and development	923	-	-	923	8,281	727	9,008	9,931
Travel and meeting expenses	19,224	13,324	-	32,548	3,016	103,595	106,611	139,159
Total other operating expenses	42,570	38,220	1,096,643	1,177,433	119,901	278,924	398,825	1,576,258
Depreciation	856	-	-	856	8,387	-	8,387	9,243
Total functional expenses	\$ 154,447	\$ 115,553	\$ 1,173,977	\$ 1,443,977	\$ 386,711	\$ 953,821	\$ 1,340,532	\$ 2,784,509

See accompanying notes to financial statements.

HARMONY FOUNDATION INTERNATIONAL, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (151,424)	\$ 401,002
Adjustments to reconcile change in net assets to net cash used in operating activities		
Provision for bad debt	(25,000)	5,000
Depreciation	5,008	9,243
Realized and unrealized gain on investments	(33,812)	(151,513)
Increase in beneficial interests in charitable remainder trusts	(6,400)	(6,900)
Increase in cash surrender value of life insurance	(10,857)	(7,678)
Contributions - with donor restrictions	(134,318)	(381,974)
(Increase) decrease in:		
Contributions receivable, net	296,464	(1,243)
Accrued interest receivable	-	3,251
Prepaid expenses and other assets	2,483	(12,068)
Increase (decrease) in:		
Accounts payable and accrued expenses	(4,770)	7,415
Accounts payable to Barbershop Harmony Society	4,187	(15,565)
Due to Barbershop Harmony Society chapters and districts	7,099	(9,442)
TOTAL ADJUSTMENTS	<u>100,084</u>	<u>(561,474)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(51,340)</u>	<u>(160,472)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from liquidation of life insurance policy	7,857	16,678
Purchase of property and equipment	(9,301)	(20,202)
Proceeds from sales and maturities of investments	308,025	2,631,798
Purchase of investments	(436,112)	(3,032,647)
NET CASH USED IN INVESTING ACTIVITIES	<u>(129,531)</u>	<u>(404,373)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in funds held for Barbershop Harmony Society	11,818	22,616
Contributions restricted for endowment funds	134,318	381,974
Proceeds from pledges receivable in endowment funds	30,660	21,325
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>176,796</u>	<u>425,915</u>
NET DECREASE IN CASH	(4,075)	(138,930)
CASH - BEGINNING OF YEAR	<u>212,037</u>	<u>350,967</u>
CASH - END OF YEAR	<u>\$ 207,962</u>	<u>\$ 212,037</u>

See accompanying notes to financial statements.

HARMONY FOUNDATION INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

NOTE 1 - GENERAL

Harmony Foundation International, Inc. (the “Foundation”) was incorporated as a not-for-profit organization in 1959, founded by the Society for the Preservation and Encouragement of Barber Shop Quartet Singing in America, Incorporated (the “Society” or “Barbershop Harmony Society”). The Foundation is designed to connect people and enrich lives through charitable giving in support of community singing because its core value is that singing in community with others transforms lives. Those who experience the joy of singing do better in school, in their jobs, and family and social relationships. Through its Connect and Enrich Educational Programs, the Foundation educates and promotes these individual and societal benefits to both singers and non-singers. The Foundation raises awareness and connects resources to initiatives of organizations to financially enable exceptional programs that stimulate interest in, share, nurture, and perpetuate the love of lifelong singing. The Foundation's goal is to be the most powerful influencer of singing in the world, envisioning stronger communities when individuals engage with others to create something greater together when they connect in harmony.

The Foundation’s Board consists of nine Trustees that are elected by the Board of Directors of 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 net assets without donor restrictions and with donor restrictions based on the existence or absence of donor-imposed restrictions, as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation’s management and the Board of Trustees.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Statement of Activities.

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

SEPTEMBER 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support

Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions, 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. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as net assets with donor restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

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.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional contributions receivable 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, 2019 and 2018. Conditional promises to give are not included as support until such time as the conditions are substantially met.

An allowance for doubtful accounts is provided based on management's estimate of uncollectible receivables and historical trends. Contributions receivable deemed to be uncollectible are charged off against the allowance in the period of determination.

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 in the current period in the Statement of Activities.

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

SEPTEMBER 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 in the current period and included in contributions with donor restrictions, 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 music/music education, outreach, scholarship or youth programs. In addition, the Program-Restricted heritage funds benefit preservation projects of the Barbershop genre and historical collections. Distributions from the Associates Funds provide grants to the Associates of the Foundation that relate to the Foundation's mission. 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 Trustees, 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.

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

SEPTEMBER 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Funds (Continued)

Spending policy - The Foundation has formally adopted an endowment spending policy to be used, unless the signed donor agreements outline a different policy. The annual allowable distribution from each of the endowment funds under this policy is based on 5% of the average fair value of the Endowment investments for the prior 3 years. 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.

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.

Program and Supporting Services

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

Program Services

Connect. Enrich. Sing. That is the work of the Foundation and its programs.

Connect.

The Foundation's core belief is that singing enriches lives and communities, transforming voices from many backgrounds into one harmonious voice. As proud ambassadors for philanthropy, we link those who desire to be catalysts for singing programs directly to the impact partners providing programs that enrich lives through singing. The Foundation raises awareness and educates singer and non-singer populations to the benefits of singing in harmony with others. By raising awareness and encouraging people from all backgrounds to participate in singing with one another, we are encouraging a generation to break down barriers and actively engage and include people in an activity that creates not only harmony with their voices, but perhaps a step toward more harmony in their neighborhoods, schools, workplaces, homes and our world. By use of multiple mediums of communication, including personal visits to singing communities all across the country, we share programs that make true differences in the lives of participants and investors to grow stronger communities.

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

SEPTEMBER 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

Program Services (Continued)

Enrich.

Harmony Foundation supports sharing the gift of singing as an extraordinary means of self-expression and self-actualization, making lives more enjoyable, satisfying, meaningful and purposeful. Even in times of dire circumstances in someone's life, singing can help provide strength, hope and inspiration to persevere. The Foundation attends and interacts with singers at conventions and other community engagements, and gathers data from the singing community and programs it supports to ensure the execution and the quality impact of the programs it supports, including the related oversight of programs such as endowment and donor choice grants.

Sing.

The Foundation provides grant funding for singing participation activities and education programs for students in middle school, high school, and college, as well as outreach programs throughout the country that promote, develop and advance opportunities for lifelong singing to people of all ages and background.

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.

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

SEPTEMBER 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statement of functional expenses presents the natural classification detail of expenses by function. 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 objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management. The expenses that are allocated include personnel costs, conventions, facilities and equipment, governance, legal filings, marketing, miscellaneous, office expenses, supplies, postage, shipping and printing, professional and contract fees, staff recruitment and development, travel and meetings, and depreciation, which are allocated on the basis of estimates of time and effort.

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.

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.

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

SEPTEMBER 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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

Investments:

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.

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.

Adoption of New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Additionally, ASU 2016-14 requires all not-for-profit entities to present expenses by their natural and functional expense classification. The Foundation adopted the standard effective October 1, 2018, the first day of the Foundation’s fiscal year, and applied the standard on a retrospective basis.

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

SEPTEMBER 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The adoption of this guidance is not expected to have a material impact on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. In October 2019, the FASB voted to delay the effective date of the new standard to fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The adoption of this guidance is not expected to have a material impact on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where the organization is a resource recipient, the ASU is effective for annual periods beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2019. Where the organization is a resource provider, the ASU is effective for annual periods beginning after December 15, 2019 and interim periods within annual periods beginning after December 15, 2020. The Foundation is currently evaluating the impact of the adoption of this guidance on its financial statements.

Events Occurring After Reporting Date

The Foundation has evaluated events and transactions that occurred between September 30, 2019 and March 20, 2020, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Reclassification

Certain amounts have been reclassified for comparative purposes to conform to current year presentation. The reclassifications had no effect on prior year's change in net assets.

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

SEPTEMBER 30, 2019 AND 2018

NOTE 3 - LIQUIDITY

The Foundation's financial assets available within one year of September 30, 2019 are as follows:

Financial assets at year end:	
Cash	\$ 207,962
Contributions receivable, net	1,014,827
Investments	<u>3,235,435</u>
	<u>4,458,224</u>
Endowment spending-rate distributions and appropriations to be received in the next twelve months	<u>45,000</u>
Less amounts not available to be used within one year:	
Multi-year contributions receivable, due after one year, net	(171,180)
Contributions receivable for endowment, net	(41,253)
Investments held for endowment	(2,819,805)
Funds held for Barbershop Harmony Society	(357,436)
Amounts received or receivable for specific purposes	<u>(251,601)</u>
	<u>(3,641,275)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 861,949</u>

Endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use.

Additionally, the Foundation has the availability to draw from a line of credit to meet cash flow needs.

NOTE 4 - 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. There were no significant concentrations of contributions receivable at September 30, 2019 and 2018.

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

SEPTEMBER 30, 2019 AND 2018

NOTE 4 - CONCENTRATION OF CREDIT RISK (CONTINUED)

The Foundation maintains cash balances at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation 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 5 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at September 30:

	<u>2019</u>	<u>2018</u>
Due in less than one year	\$ 897,587	\$ 1,092,206
Less allowance for doubtful accounts	<u>(92,788)</u>	<u>(110,163)</u>
	<u>804,799</u>	<u>982,043</u>
Due in one to five years	354,240	506,745
Less allowance for doubtful accounts	(122,212)	(129,837)
Less discount to present value	<u>(22,000)</u>	<u>(42,000)</u>
	<u>210,028</u>	<u>334,908</u>
Contributions receivable, net	<u>\$ 1,014,827</u>	<u>\$ 1,316,951</u>

NOTE 6 - INVESTMENTS

Investments consist of the following at September 30:

	<u>2019</u>	<u>2018</u>
Mutual funds	\$ 3,152,369	\$ 3,058,498
Cash and money funds	<u>83,066</u>	<u>15,038</u>
Total	<u>\$ 3,235,435</u>	<u>\$ 3,073,536</u>

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

SEPTEMBER 30, 2019 AND 2018

NOTE 7 - FAIR VALUE MEASUREMENTS

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

	2019			Total
	Level 1	Level 2	Level 3	
<u>Investments measured at fair value:</u>				
Mutual funds:				
Real Estate Fund	\$ 97,079	\$ -	\$ -	\$ 97,079
Midcap Fund	459,205	-	-	459,205
Foreign Large Blend Fund	636,001	-	-	636,001
Emerging Markets Fund	189,838	-	-	189,838
Corporate Bond	250,545	-	-	250,545
World Bond	112,777	-	-	112,777
Intermediate Government Fund	443,244	-	-	443,244
Small Growth Fund	220,074	-	-	220,074
Large Blend Fund	700,328	-	-	700,328
High Yield Bond Fund	43,278	-	-	43,278
Total mutual funds	3,152,369	-	-	3,152,369
Total investments measured at fair value	\$ 3,152,369	\$ -	\$ -	\$ 3,152,369

	2018			Total
	Level 1	Level 2	Level 3	
<u>Investments measured at fair value:</u>				
Mutual funds:				
Midcap Fund	\$ 471,258	\$ -	\$ -	\$ 471,258
Foreign Large Blend Fund	602,405	-	-	602,405
Emerging Markets Fund	170,090	-	-	170,090
Corporate Bond	254,599	-	-	254,599
World Bond	135,641	-	-	135,641
Intermediate Government Fund	452,854	-	-	452,854
Small Growth Fund	226,608	-	-	226,608
Large Blend Fund	699,332	-	-	699,332
High Yield Bond Fund	45,711	-	-	45,711
Total mutual funds	3,058,498	-	-	3,058,498
Total investments measured at fair value	\$ 3,058,498	\$ -	\$ -	\$ 3,058,498

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

SEPTEMBER 30, 2019 AND 2018

NOTE 8 - 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 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 consist of the following at September 30:

	<u>2019</u>	<u>2018</u>
Promises to give receivable	\$ 600,500	\$ 600,500
Less unamortized discount	<u>(223,500)</u>	<u>(229,900)</u>
Total	<u>\$ 377,000</u>	<u>\$ 370,600</u>

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

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 370,600	\$ 363,700
Change in value of beneficial interests	<u>6,400</u>	<u>6,900</u>
Balance, end of year	<u>\$ 377,000</u>	<u>\$ 370,600</u>

NOTE 9 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30:

	<u>2019</u>	<u>2018</u>
Equipment and furniture	\$ 211,426	\$ 202,125
Less: accumulated depreciation	<u>(185,444)</u>	<u>(180,436)</u>
Property and equipment, net	<u>\$ 25,982</u>	<u>\$ 21,689</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, 2019 AND 2018

NOTE 10 - LINE OF CREDIT

The Foundation has a revolving line of credit agreement with a bank that provides for borrowings up to a maximum outstanding amount of \$200,000. The line of credit requires monthly interest payments based on the lender's index rate plus 1.00% (6.00% at September 30, 2019). The principal and unpaid accrued interest is due on September 30, 2021. Borrowings under the line of credit agreement are collateralized by substantially all of the assets of the Foundation. At September 30, 2019 and 2018, there were no borrowings outstanding under the line of credit.

NOTE 11 - NET ASSETS

Net assets consist of the following at September 30:

	<u>2019</u>	<u>2018</u>
Net assets without donor restrictions	\$ 822,679	\$ 985,200
Specific Purpose:		
Contributions for Next Gen Barbershop Junior and Varsity Chorus Programs/Youth Chorus Festival	200,000	199,200
Contributions for Jim Miller memorial scholarship	3,925	4,625
Mission related programs	18,834	35,674
Outreach programs	20,000	20,000
Harmony, Inc. Directors First Harmony University Scholarship program	<u>8,842</u>	<u>2,372</u>
	251,601	261,871
Passage of Time:		
Multi-year contributions receivable	189,191	320,317
Beneficial interest in charitable remainder trusts	<u>377,000</u>	<u>370,600</u>
	566,191	690,917
Endowments:		
Contributions receivable, net	41,253	68,610
Investments	2,819,804	2,642,354
Cash surrender value of life insurance	<u>68,000</u>	<u>72,000</u>
	<u>2,929,057</u>	<u>2,782,964</u>
Total net assets with donor restrictions	<u>3,746,849</u>	<u>3,735,752</u>
Total	<u>\$ 4,569,528</u>	<u>\$ 4,720,952</u>

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

SEPTEMBER 30, 2019 AND 2018

NOTE 12 - ENDOWMENT FUNDS

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

	<u>2019</u>	<u>2018</u>
Endowment funds - beginning of period	\$ 2,782,964	\$ 2,314,481
Contributions, net	134,318	381,974
Investment income, less related fees	94,823	173,433
Annual allowable distributions	(69,715)	(50,105)
Administrative fees	<u>(13,333)</u>	<u>(36,819)</u>
Endowment funds - end of period	<u>\$ 2,929,057</u>	<u>\$ 2,782,964</u>

Endowment funds consisted of the following at September 30:

	<u>2019</u>	<u>2018</u>
Endowments:		
General Endowment Fund	906,516	835,970
Other Endowments:		
Associates Funds	1,347,607	1,270,300
Program-Restricted Endowments:		
Barbershop Preservation and Heritage Projects Funds	102,782	103,990
Music Funds	11,588	11,248
Outreach Funds	142,252	140,798
Scholarship Funds	342,519	343,974
Youth Funds	<u>75,793</u>	<u>76,684</u>
	<u>\$ 2,929,057</u>	<u>\$ 2,782,964</u>

Endowment funds are all considered perpetual in nature at September 30, 2019 and 2018.

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

SEPTEMBER 30, 2019 AND 2018

NOTE 13 - GRANTS

The Foundation provided grants to benefit programs that stimulate interest in, share, nurture, and perpetuate the love of lifelong singing for years ended September 30:

	2019	2018
<u>Barbershop Harmony Society</u>		
Harmony University scholarships	\$ 110,000	\$ 103,900
Outreach grants	100,000	100,000
Next Generation Barbershop Junior		
Chorus Invitational/Youth Chorus Festival	220,000	212,000
Next Generation Barbershop Varsity		
Quartet Contest/Youth quartet competition	70,000	70,000
Chapter initiative programs	100,000	100,000
Partnership and advocacy	-	10,000
Music for schools	10,000	10,000
Barbershop Preservation	4,740	2,409
Other programs	4,765	5,154
 Total Barbershop Harmony Society	 619,505	 613,463
 Donor Choice Grants Program	 429,692	 440,163
 Grants to other singing groups and organizations	 16,231	 24,942
 Harmony Fellows Award event	 7,581	 6,552
 Total Grants	 \$ 1,073,009	 \$ 1,085,120

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

SEPTEMBER 30, 2019 AND 2018

NOTE 14 - RETIREMENT PLAN

The Foundation sponsors a Section 401(k) plan (the “Plan”) 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, 2019, amounts contributed to the Plan totaled \$98,711 (\$98,167 for the year ended September 30, 2018).

NOTE 15 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, Foundation and Society board members may make substantial contributions to the Foundation in support of its mission. During 2019 and 2018, the Foundation received donations from board members totaling approximately \$155,000 and \$173,000, respectively.