

HARMONY FOUNDATION INTERNATIONAL, INC.

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

SEPTEMBER 30, 2016 AND 2015

HARMONY FOUNDATION INTERNATIONAL, INC.

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TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT .....	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position .....	3
Statements of Activities .....	4
Statement of Functional Expenses for the Year Ended September 30, 2016.....	5
Statement of Functional Expenses for the Year Ended September 30, 2015.....	6
Statements of Cash Flows .....	7
Notes to Financial Statements .....	8 - 25

## 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, 2016 and 2015, 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Kraft CPAs PLLC*

Nashville, Tennessee  
March 1, 2017

HARMONY FOUNDATION INTERNATIONAL, INC.

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Operating assets:		
Cash	\$ 177,954	\$ 261,662
Contributions receivable, net:		
Due in less than one year	1,336,500	1,424,259
Due in one to five years	601,431	495,843
Accrued interest receivable	2,634	2,651
Prepaid expenses and other assets	40,427	21,862
Investments:		
Endowment funds	1,887,610	1,756,790
Held for the Barbershop Harmony Society	285,049	266,804
Property and equipment, net	15,717	24,759
Other non-operating assets:		
Beneficial interests in charitable remainder trusts	355,000	347,600
Cash surrender value of life insurance	<u>209,000</u>	<u>167,000</u>
 TOTAL ASSETS	 <u>\$ 4,911,322</u>	 <u>\$ 4,769,230</u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 85,999	\$ 87,030
Accounts payable - Barbershop Harmony Society	89,763	16,477
Due to Barbershop Harmony Society chapters and districts	102,548	87,894
Refundable advance	-	250,000
Funds held for Barbershop Harmony Society	<u>284,850</u>	<u>262,948</u>
 TOTAL LIABILITIES	 <u>563,160</u>	 <u>704,349</u>
NET ASSETS		
Unrestricted	988,578	1,040,582
Temporarily restricted	1,424,272	1,248,848
Permanently restricted	<u>1,935,312</u>	<u>1,775,451</u>
 TOTAL NET ASSETS	 <u>4,348,162</u>	 <u>4,064,881</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 4,911,322</u>	 <u>\$ 4,769,230</u>

See accompanying notes to financial statements.

## HARMONY FOUNDATION INTERNATIONAL, INC.

## STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions, net:				
Annual giving programs	\$ 2,792,787	\$ 494,991	\$ -	\$ 3,287,778
Endowment funds	-	-	44,025	44,025
Special events	2,690	-	-	2,690
Investment income (loss)	(386)	-	150,802	150,416
Investment income on endowment funds available for spending	30,539	-	(30,539)	-
Administrative fees	4,870	-	(4,427)	443
Miscellaneous	3,970	-	-	3,970
Net assets released from restrictions:				
Satisfaction of program restrictions	319,567	(319,567)	-	-
TOTAL REVENUE AND SUPPORT	3,154,037	175,424	159,861	3,489,322
EXPENSES				
Program Services:				
Grants provided to:				
Barbershop Harmony Society and related operating programs	945,099	-	-	945,099
Barbershop Harmony Society chapters and districts from donor choice contributions	424,157	-	-	424,157
Barbershop Harmony Society chapters and districts from Associates Funds	21,519	-	-	21,519
Choral programs	23,000	-	-	23,000
Harmony Fellows Award event	12,962	-	-	12,962
Youth events	1,797	-	-	1,797
Oversight expenses related to grants and endowments	241,286	-	-	241,286
Visionary program	169,483	-	-	169,483
Total Program Services	1,839,303	-	-	1,839,303
Supporting Services:				
Management and administration	412,981	-	-	412,981
Fundraising	953,757	-	-	953,757
Total Supporting Services	1,366,738	-	-	1,366,738
TOTAL EXPENSES	3,206,041	-	-	3,206,041
CHANGE IN NET ASSETS	(52,004)	175,424	159,861	283,281
NET ASSETS - BEGINNING OF YEAR	1,040,582	1,248,848	1,775,451	4,064,881
NET ASSETS - END OF YEAR	\$ 988,578	\$ 1,424,272	\$ 1,935,312	\$ 4,348,162

See accompanying notes to financial statements.

2015

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 3,499,656	\$ 537,387	\$ -	\$ 4,037,043
-	-	159,196	159,196
1,480	-	-	1,480
(5,327)	-	(68,935)	(74,262)
30,218	-	(30,218)	-
15,563	-	(11,086)	4,477
613	-	-	613
<u>289,998</u>	<u>(288,973)</u>	<u>(1,025)</u>	<u>-</u>
<u>3,832,201</u>	<u>248,414</u>	<u>47,932</u>	<u>4,128,547</u>
827,092	-	-	827,092
414,440	-	-	414,440
23,163	-	-	23,163
-	-	-	-
9,840	-	-	9,840
8,841	-	-	8,841
184,571	-	-	184,571
<u>122,557</u>	<u>-</u>	<u>-</u>	<u>122,557</u>
<u>1,590,504</u>	<u>-</u>	<u>-</u>	<u>1,590,504</u>
366,458	-	-	366,458
<u>835,960</u>	<u>-</u>	<u>-</u>	<u>835,960</u>
<u>1,202,418</u>	<u>-</u>	<u>-</u>	<u>1,202,418</u>
<u>2,792,922</u>	<u>-</u>	<u>-</u>	<u>2,792,922</u>
1,039,279	248,414	47,932	1,335,625
<u>1,303</u>	<u>1,000,434</u>	<u>1,727,519</u>	<u>2,729,256</u>
<u>\$ 1,040,582</u>	<u>\$ 1,248,848</u>	<u>\$ 1,775,451</u>	<u>\$ 4,064,881</u>

## HARMONY FOUNDATION INTERNATIONAL, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	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	\$ -	\$ 123,706	\$ 86,116	\$ 209,822	\$ 177,551	\$ 518,159	\$ 695,710	\$ 905,532
Contract labor	-	-	-	-	-	-	-	-
Payroll taxes	-	9,216	6,437	15,653	13,335	38,819	52,154	67,807
Employee benefits	-	27,130	17,489	44,619	40,041	112,416	152,457	197,076
Total personnel costs	-	160,052	110,042	270,094	230,927	669,394	900,321	1,170,415
Grants to Barbershop Harmony Society programs	945,099	-	-	945,099	-	-	-	945,099
Grants to Barbershop Harmony Society chapters and districts from donor choice contributions	424,157	-	-	424,157	-	-	-	424,157
Grants to Barbershop Harmony Society chapters and districts from Associates Funds	21,519	-	-	21,519	-	-	-	21,519
Choral programs	23,000	-	-	23,000	-	-	-	23,000
Harmony Fellows Award event	12,962	-	-	12,962	-	-	-	12,962
Youth events	1,797	-	-	1,797	-	-	-	1,797
Special events	-	7,451	-	7,451	-	-	-	7,451
Professional and contract fees	-	7,200	3,002	10,202	28,741	1,597	30,338	40,540
Cultivation, stewardship and related donor costs	-	-	-	-	-	20,136	20,136	20,136
Facilities and equipment	-	-	4,910	4,910	20,095	29,546	49,641	54,551
Legal filings	-	-	-	-	5,452	-	5,452	5,452
Marketing	-	-	1,748	1,748	-	39,052	39,052	40,800
Miscellaneous	-	-	5	5	42	-	42	47
Office supplies, postage, shipping and printing	-	1,460	3,987	5,447	47,443	36,275	83,718	89,165
Planned giving premium expense	-	-	-	-	-	5,120	5,120	5,120
Conventions	-	54,293	21,393	75,686	1,242	66,569	67,811	143,497
Staff development	-	-	1,947	1,947	17,049	2,634	19,683	21,630
Travel and meeting expenses	-	10,830	21,635	32,465	53,762	83,434	137,196	169,661
Total other operating expenses	1,428,534	81,234	58,627	1,568,395	173,826	284,363	458,189	2,026,584
Depreciation	-	-	814	814	8,228	-	8,228	9,042
Total functional expenses	\$ 1,428,534	\$ 241,286	\$ 169,483	\$ 1,839,303	\$ 412,981	\$ 953,757	\$ 1,366,738	\$ 3,206,041

See accompanying notes to financial statements.



## 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
Conventions	-	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	\$ 1,283,376	\$ 184,571	\$ 122,557	\$ 1,590,504	\$ 366,458	\$ 835,960	\$ 1,202,418	\$ 2,792,922

See accompanying notes to financial statements.

## HARMONY FOUNDATION INTERNATIONAL, INC.

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 283,281	\$ 1,335,625
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Provision for bad debt	(630)	48,000
Depreciation	9,042	9,841
Realized and unrealized (gain) loss on investments	(120,411)	97,596
Increase in beneficial interests in charitable remainder trusts	(7,400)	(8,000)
Increase in cash surrender value of life insurance	(30,994)	(9,185)
Contributions - life insurance policy	(16,192)	-
Contributions - permanently restricted	(44,025)	(159,196)
(Increase) decrease in:		
Contributions receivable	(17,199)	(447,246)
Accrued interest receivable	17	(714)
Prepaid expenses and other assets	(18,565)	(3,325)
Increase (decrease) in:		
Accounts payable and accrued expenses	(1,031)	26,198
Accounts payable to Barbershop Harmony Society	73,286	(62,732)
Due to Barbershop Harmony Society chapters and districts	14,654	(9,750)
Refundable advance	(250,000)	250,000
TOTAL ADJUSTMENTS	(409,448)	(268,513)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(126,167)	1,067,112
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from liquidation of life insurance policy	5,186	5,585
Purchase of property and equipment	-	(1,950)
Proceeds from sales and maturities of investments	405,982	956,395
Purchase of investments	(434,636)	(1,041,961)
NET CASH USED IN INVESTING ACTIVITIES	(23,468)	(81,931)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on line of credit	-	(147,000)
Payments on notes payable	-	(40,000)
Increase (decrease) in funds held for Barbershop Harmony Society	21,902	(722,242)
Proceeds from contributions restricted for endowment funds	44,025	159,196
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	65,927	(750,046)
NET INCREASE (DECREASE) IN CASH	(83,708)	235,135
CASH - BEGINNING OF YEAR	261,662	26,527
CASH - END OF YEAR	\$ 177,954	\$ 261,662
SUPPLEMENTAL CASH FLOWS DISCLOSURES:		
Interest expense paid	\$ -	\$ 5,424
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Contribution of life insurance policy	\$ 16,192	\$ -

See accompanying notes to financial statements.

# HARMONY FOUNDATION INTERNATIONAL, INC.

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016 AND 2015

### 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 Directors 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, 2016 AND 2015

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, 2016 and 2015. 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, 2016 AND 2015

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 in the current period 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 in the current period 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, 2016 AND 2015

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, 2016 AND 2015

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, 2016 AND 2015

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.

Recent authoritative accounting guidance

In May 2014, the Financial Accounting Standards Board (“FASB”) issued guidance on revenue from contracts with customers, 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 Accounting Standards Update (“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. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The adoption of this guidance is not expected to have a material impact on the financial statements.



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

SEPTEMBER 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent authoritative accounting guidance (Continued)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Foundation is currently evaluating the impact the adoption of this guidance will have on its financial statements.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on the change in net assets or net assets as previously reported.

Events Occurring After Reporting Date

The Foundation has evaluated events and transactions that occurred between September 30, 2016 and March 1, 2017, 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 11% and 12% of the total contributions receivable at September 30, 2016 and 2015, respectively.

HARMONY FOUNDATION INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2016 AND 2015

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:

	<u>2016</u>	<u>2015</u>
Due in less than one year	\$ 1,451,612	\$ 1,550,467
Less allowance for doubtful accounts	<u>(115,112)</u>	<u>(126,208)</u>
	<u>1,336,500</u>	<u>1,424,259</u>
Due in one to five years	720,119	594,165
Less allowance for doubtful accounts	(61,888)	(51,422)
Less discount to present value	<u>(56,800)</u>	<u>(46,900)</u>
	<u>601,431</u>	<u>495,843</u>
Contributions receivable, net	<u><u>\$ 1,937,931</u></u>	<u><u>\$ 1,920,102</u></u>

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

SEPTEMBER 30, 2016 AND 2015

NOTE 5 - INVESTMENTS

Investments consisted of the following at September 30:

	<u>2016</u>	<u>2015</u>
Fixed income	\$ 518,565	\$ 464,383
Mutual funds	1,063,326	994,773
Equities	533,932	475,857
Cash and money funds	<u>56,836</u>	<u>88,581</u>
Total	<u>\$ 2,172,659</u>	<u>\$ 2,023,594</u>

Investments are classified as follows at September 30:

	<u>2016</u>	<u>2015</u>
Endowment funds	\$ 1,887,610	\$ 1,756,790
Held for the Barbershop Harmony Society	<u>285,049</u>	<u>266,804</u>
Total	<u>\$ 2,172,659</u>	<u>\$ 2,023,594</u>

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

	<u>2016</u>	<u>2015</u>
Unrestricted:		
Dividends and interest	\$ 388	\$ 649
Realized losses	(959)	(5,644)
Unrealized gains (losses)	<u>185</u>	<u>(332)</u>
	<u>(386)</u>	<u>(5,327)</u>
Restricted:		
Dividends and interest	44,035	34,723
Realized gains	1,800	31,936
Unrealized gains (losses)	119,385	(123,556)
Less investment fees	<u>(14,418)</u>	<u>(12,038)</u>
	<u>150,802</u>	<u>(68,935)</u>
Investment income (loss), net	<u>\$ 150,416</u>	<u>\$ (74,262)</u>

## HARMONY FOUNDATION INTERNATIONAL, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2016 AND 2015

## NOTE 6 - FAIR VALUE MEASUREMENTS

Financial assets measured at fair value on a recurring basis include the following at September 30, 2016:

	Level 1	Level 2	Level 3	Total
<u>Investments measured at fair value:</u>				
Fixed income:				
U.S. government and agency securities	\$ -	\$ 285,854	\$ -	\$ 285,854
Corporate bonds - domestic	-	232,711	-	232,711
Total fixed income	-	518,565	-	518,565
Equities:				
Consumer	65,470	-	-	65,470
Finance	78,971	-	-	78,971
Industrial	20,723	-	-	20,723
Services	73,378	-	-	73,378
Technology	151,475	-	-	151,475
Healthcare	97,287	-	-	97,287
Basic Materials	33,362	-	-	33,362
Other	13,266	-	-	13,266
Total equities	533,932	-	-	533,932
Mutual funds:				
Midcap Fund	270,588	-	-	270,588
Foreign Large Blend Fund	473,046	-	-	473,046
Emerging Markets Fund	107,275	-	-	107,275
Small Blend Fund	140,978	-	-	140,978
Aggregate Bond Fund	30,596	-	-	30,596
High Yield Bond Fund	40,843	-	-	40,843
Total mutual funds	1,063,326	-	-	1,063,326
Total Investments measured at fair value	\$ 1,597,258	\$ 518,565	\$ -	\$ 2,115,823

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

SEPTEMBER 30, 2016 AND 2015

NOTE 6 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Investments measured at fair value:</u>				
Fixed income:				
U.S. government and agency securities	\$ -	\$ 266,221	\$ -	\$ 266,221
Corporate bonds - domestic	-	198,162	-	198,162
	<u>-</u>	<u>198,162</u>	<u>-</u>	<u>198,162</u>
Total fixed income	-	464,383	-	464,383
	<u>-</u>	<u>464,383</u>	<u>-</u>	<u>464,383</u>
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
	<u>475,857</u>	<u>-</u>	<u>-</u>	<u>475,857</u>
Total equities	475,857	-	-	475,857
	<u>475,857</u>	<u>-</u>	<u>-</u>	<u>475,857</u>
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
	<u>994,773</u>	<u>-</u>	<u>-</u>	<u>994,773</u>
Total mutual funds	994,773	-	-	994,773
	<u>994,773</u>	<u>-</u>	<u>-</u>	<u>994,773</u>
Total Investments measured at fair value	<u>\$ 1,470,630</u>	<u>\$ 464,383</u>	<u>\$ -</u>	<u>\$ 1,935,013</u>

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

SEPTEMBER 30, 2016 AND 2015

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 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>2016</u>	<u>2015</u>
Promises to give receivable	\$ 600,500	\$ 600,500
Less unamortized discount	<u>(245,500)</u>	<u>(252,900)</u>
Total	<u>\$ 355,000</u>	<u>\$ 347,600</u>

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

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 347,600	\$ 339,600
Change in value of beneficial interests	<u>7,400</u>	<u>8,000</u>
Balance, end of year	<u>\$ 355,000</u>	<u>\$ 347,600</u>

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30:

	<u>2016</u>	<u>2015</u>
Equipment and furniture	\$ 177,499	\$ 177,499
Less: accumulated depreciation	<u>(161,782)</u>	<u>(152,740)</u>
Property and equipment, net	<u>\$ 15,717</u>	<u>\$ 24,759</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, 2016 AND 2015

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 was recorded as a refundable advance and was recognized as contribution revenue during the year ending September 30, 2016 when donor conditions were met.

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 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, 2016). Borrowings under the line of credit agreement are collateralized by the contributions receivable of the Foundation. At September 30, 2016 and 2015, there were no borrowings outstanding under the line of credit.

NOTE 11 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2016</u>	<u>2015</u>
Multi-year contributions receivable, net - due in:		
less than one year	\$ 237,411	\$ 201,962
one to five years	601,431	495,843
Beneficial interest in charitable remainder trusts	355,000	347,600
Contributions for Youth Chorus Festival	227,500	190,000
Quartet College Tour project	-	10,255
Contributions for Jim Miller memorial scholarship	1,780	2,345
Larry Ajer Scholarship	1,150	-
Tufts University/Ken Rose Estate	<u>-</u>	<u>843</u>
Total	<u>\$ 1,424,272</u>	<u>\$ 1,248,848</u>

HARMONY FOUNDATION INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2016 AND 2015

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 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.

*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, 2016 AND 2015

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

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

	<u>2016</u>	<u>2015</u>
General Endowment Fund	\$ 617,920	\$ 562,597
Other Endowments:		
Associates Funds	822,207	748,571
Program-Restricted Endowments:		
Heritage Funds	89,385	83,739
Music Funds	8,687	8,140
Outreach	122,548	115,506
Scholarship Funds	208,651	195,147
Youth Funds	<u>65,914</u>	<u>61,751</u>
Total	<u>\$ 1,935,312</u>	<u>\$ 1,775,451</u>

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

	<u>2016</u>	<u>2015</u>
Permanently restricted net assets - beginning of period	\$ 1,775,451	\$ 1,727,519
Contributions, net	44,025	159,196
Donor release of permanent restriction	-	(1,025)
Investment income, less related fees	29,617	22,685
Realized gains	1,800	31,936
Unrealized gains (losses)	119,385	(123,556)
Annual allowable distributions	(30,539)	(30,218)
Administrative fees	<u>(4,427)</u>	<u>(11,086)</u>
Permanently restricted net assets - end of period	<u>\$ 1,935,312</u>	<u>\$ 1,775,451</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, 2016 AND 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, 2016:

	Paid directly to:		
	Barbershop Harmony Society	Chapters, districts and other recipients	Total
Harmony University scholarships	\$ 102,225	\$ -	\$ 102,225
Outreach grants	300,000	-	300,000
Youth chorus festival	200,000	-	200,000
College tours	25,000	-	25,000
Collegiate quartet competition	70,000	-	70,000
Chapter initiative programs	160,000	-	160,000
Better World Singing Day	30,000	-	30,000
Partnership & advocacy	50,000	-	50,000
Other choral programs	-	23,000	23,000
Other programs	7,874	-	7,874
	945,099	23,000	968,099
Grants from donor choice contributions	-	424,157	424,157
Grants from Associates Funds in the permanently restricted endowments	-	21,519	21,519
Harmony Fellows Award event	-	12,962	12,962
Youth events	-	1,797	1,797
Total	\$ 945,099	\$ 483,435	\$ 1,428,534

## HARMONY FOUNDATION INTERNATIONAL, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2016 AND 2015

## 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, 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

Oversight expenses related to these grants amounted to \$241,286 and \$184,571 for the fiscal years ended September 30, 2016 and 2015, respectively.

HARMONY FOUNDATION INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2016 AND 2015

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

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, 2016, amounts contributed to the Plan for the Foundation's staff totaled \$100,318 (\$87,847 for the year ended September 30, 2015).

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 and to reimburse the General Endowment Borrowings. This contribution accounted for 17% of the total contributions to the Foundation for the year.

In the ordinary course of business, Foundation and Society board members may make substantial contributions to the Foundation in support of its mission. During 2016 and 2015, the Foundation received donations from board members totaling approximately \$158,000 and \$371,000, respectively.