



# **Houston Ballet Foundation and Houston Ballet Guild, Inc.**

## **Combined Financial Statements**

As of and for the Year Ended June 30, 2018

**Houston Ballet Foundation and  
Houston Ballet Guild, Inc.**

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Combined Financial Statements

As of and for the Year Ended June 30, 2018

# Houston Ballet Foundation and Houston Ballet Guild, Inc.

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## Independent Auditor's Report

To the Board of Trustees of the  
Houston Ballet Foundation and Houston Ballet Guild, Inc.  
Houston, Texas

We have audited the accompanying combined financial statements of the Houston Ballet Foundation and its affiliate, Houston Ballet Guild, Inc. (collectively, the "Foundation"), which comprise the combined statement of financial position as of June 30, 2018, and the related combined statement of activities, cash flows and functional expenses for the year then ended, and the related notes to the combined financial statements.

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

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audit. We conducted our audit 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Foundation as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

September 25, 2018

## Combined Financial Statements

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## Houston Ballet Foundation and Houston Ballet Guild, Inc.

### Combined Statement of Financial Position

<i>June 30, 2018</i>	General Fund	Endowment Fund	Plant Fund	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 6,198,446	\$ 3,081,421	\$ 8,170,001	\$ 17,449,868
Pledges receivable	2,826,702	1,285,000	-	4,111,702
Other receivables	177,025	-	-	177,025
Prepaid and deferred production expenses	1,108,110	-	-	1,108,110
Investments, at fair value	868,087	73,826,781	-	74,694,868
Fixed assets, net	1,861,410	-	42,787,587	44,648,997
<b>Total Assets</b>	<b>\$ 13,039,780</b>	<b>\$ 78,193,202</b>	<b>\$ 50,957,588</b>	<b>\$ 142,190,570</b>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 2,520,445	\$ -	\$ -	\$ 2,520,445
Deferred revenue	4,945,077	-	-	4,945,077
Due to (from) other funds	17,604	(8,810)	(8,794)	-
<b>Total Liabilities</b>	<b>7,483,126</b>	<b>(8,810)</b>	<b>(8,794)</b>	<b>7,465,522</b>
<b>Commitments and Contingencies (Notes 9 and 10)</b>				
<b>Net Assets</b>				
Unrestricted	1,000,131	42,713,331	50,601,382	94,314,844
Temporarily restricted	4,556,523	-	365,000	4,921,523
Permanently restricted	-	35,488,681	-	35,488,681
<b>Total Net Assets</b>	<b>5,556,654</b>	<b>78,202,012</b>	<b>50,966,382</b>	<b>134,725,048</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 13,039,780</b>	<b>\$ 78,193,202</b>	<b>\$ 50,957,588</b>	<b>\$ 142,190,570</b>

*See accompanying notes to combined financial statements.*

# Houston Ballet Foundation and Houston Ballet Guild, Inc.

## Combined Statement of Activities

<i>Year Ended June 30, 2018</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating Income</b>				
Performance	\$ 7,531,518	\$ -	\$ -	\$ 7,531,518
Tuition	4,075,500	-	-	4,075,500
Special events	9,977,674	-	-	9,977,674
Investment	1,423,756	-	-	1,423,756
Other	6,666,277	-	-	6,666,277
<b>Total Operating Income</b>	<b>29,674,725</b>	<b>-</b>	<b>-</b>	<b>29,674,725</b>
<b>Operating Expenses</b>				
Production and company	18,622,663	-	-	18,622,663
Ballet academy	4,638,462	-	-	4,638,462
Marketing and public relations	3,958,327	-	-	3,958,327
Fund-raising	2,090,821	-	-	2,090,821
General and administrative	2,577,962	-	-	2,577,962
Special events	4,306,545	-	-	4,306,545
<b>Total Operating Expenses</b>	<b>36,194,780</b>	<b>-</b>	<b>-</b>	<b>36,194,780</b>
<b>Decrease in Net Assets from Operating Activities Before Public and Private Support, Releases from Restrictions and Transfers</b>	<b>(6,520,055)</b>	<b>-</b>	<b>-</b>	<b>(6,520,055)</b>
<b>Public and Private Support Contributions</b>	<b>5,142,182</b>	<b>4,556,523</b>	<b>-</b>	<b>9,698,705</b>
<b>Increase (Decrease) in Net Assets from Operating Activities Before Releases from Restrictions and Transfers</b>	<b>(1,377,873)</b>	<b>4,556,523</b>	<b>-</b>	<b>3,178,650</b>
<b>Net Assets Released from Restrictions</b>	<b>2,724,736</b>	<b>(2,724,736)</b>	<b>-</b>	<b>-</b>
<b>Increase in Net Assets from Operating Activities Before Interfund Transfers</b>	<b>1,346,863</b>	<b>1,831,787</b>	<b>-</b>	<b>3,178,650</b>
<b>Interfund Reclassification</b>	<b>(1,322,892)</b>	<b>-</b>	<b>-</b>	<b>(1,322,892)</b>
<b>Increase in Net Assets from Operating Activities</b>	<b>23,971</b>	<b>1,831,787</b>	<b>-</b>	<b>1,855,758</b>
<b>Endowment Activities</b>				
Contributions	-	-	52,623	52,623
Investment income	-	-	1,512	1,512
Net appreciation on investments	4,861,416	-	-	4,861,416
Investment expenses, net	(239,815)	-	(13,729)	(253,544)
Interfund reclassification	(2,000,000)	-	-	(2,000,000)
<b>Increase in Net Assets from Endowment Activities</b>	<b>2,621,601</b>	<b>-</b>	<b>40,406</b>	<b>2,662,007</b>
<b>Plant Activities</b>				
Contributions	20,750	365,000	-	385,750
Gain on disposal of assets	167,929	-	-	167,929
Interest and other income, net	33,057	-	-	33,057
Depreciation expense	(1,562,875)	-	-	(1,562,875)
Interfund reclassification	3,322,892	-	-	3,322,892
<b>Increase in Net Assets from Plant Activities</b>	<b>1,981,753</b>	<b>365,000</b>	<b>-</b>	<b>2,346,753</b>
<b>Total Increase in Net Assets</b>	<b>4,627,325</b>	<b>2,196,787</b>	<b>40,406</b>	<b>6,864,518</b>
<b>Net Assets, beginning of year</b>	<b>89,687,519</b>	<b>2,724,736</b>	<b>35,448,275</b>	<b>127,860,530</b>
<b>Net Assets, end of year</b>	<b>\$ 94,314,844</b>	<b>\$ 4,921,523</b>	<b>\$ 35,488,681</b>	<b>\$ 134,725,048</b>

*See accompanying notes to combined financial statements.*

# Houston Ballet Foundation and Houston Ballet Guild, Inc.

## Combined Statement of Cash Flows

<i>Year Ended June 30, 2018</i>	General Fund	Endowment Fund	Plant Fund	Total
<b>Cash Flows from Operating Activities</b>				
Total increase in net assets	\$ 1,855,758	\$ 2,662,007	\$ 2,346,753	\$ 6,864,518
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Gain on disposal of assets	-	-	(167,929)	(167,929)
Net realized and unrealized gains on investments	(74,651)	(4,861,417)	-	(4,936,068)
Depreciation expense	1,994,610	-	1,562,875	3,557,485
Changes in operating assets and liabilities:				
Pledges receivable	(199,779)	1,226,814	71,080	1,098,115
Other receivables	14,867	-	-	14,867
Prepaid and deferred production expenses	(243,309)	-	-	(243,309)
Accounts payable and accrued liabilities	1,025,963	(15,983)	(4,791)	1,005,189
Deferred revenue	(632,261)	-	-	(632,261)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>3,741,198</b>	<b>(988,579)</b>	<b>3,807,988</b>	<b>6,560,607</b>
<b>Cash Flows from Investing Activities</b>				
Capital expenditures	(116,696)	-	(884,805)	(1,001,501)
Purchase of investments	(985,601)	(10,349,939)	-	(11,335,540)
Proceeds from sale of assets	-	-	290,789	290,789
Proceeds from sales and maturities of investments	960,269	13,905,891	-	14,866,160
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>(142,028)</b>	<b>3,555,952</b>	<b>(594,016)</b>	<b>2,819,908</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>3,599,170</b>	<b>2,567,373</b>	<b>3,213,972</b>	<b>9,380,515</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>2,599,276</b>	<b>514,048</b>	<b>4,956,029</b>	<b>8,069,353</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 6,198,446</b>	<b>\$ 3,081,421</b>	<b>\$ 8,170,001</b>	<b>\$ 17,449,868</b>

*See accompanying notes to combined financial statements.*



## Houston Ballet Foundation and Houston Ballet Guild, Inc.

### Combined Statement of Functional Expenses

<i>Year Ended June 30, 2018</i>	Program Services		Support Services				Total
	Production and Company	Ballet Academy	Marketing and Public Relations	General and Administrative	Fund- Raising	Special Events	
Advertising	\$ -	\$ 115,495	\$ 1,691,419	\$ -	\$ 166,167	\$ -	\$ 1,973,081
Computer maintenance, software	25,216	37,416	37,416	37,417	25,216	-	162,681
Costumes, scenery and designers	659,107	-	-	-	-	-	659,107
Depreciation	2,541,616	547,006	156,288	156,287	156,288	-	3,557,485
Donor benefit expenses	-	-	-	-	-	4,306,545	4,306,545
Equipment rentals	1,230	1,230	351	354	351	-	3,516
Insurance	62,714	62,714	17,918	17,917	17,918	-	179,181
Investment expense	-	-	-	253,544	-	-	253,544
Music and royalties	140,712	-	-	-	-	-	140,712
Office supplies	7,668	4,152	9,214	48,739	9,624	-	79,397
Postage and handling	5,405	4,076	15,216	5,184	12,661	-	42,542
Printing	-	-	585,174	-	9,540	-	594,714
Professional fees	-	-	-	270,943	-	-	270,943
Repairs and maintenance	1,081,369	165,775	47,364	47,361	47,364	-	1,389,233
Salaries, payroll taxes and employee benefits	12,581,065	2,060,255	1,042,092	1,931,264	1,621,190	-	19,235,866
Scholarships	-	875,610	-	-	-	-	875,610
Shipping and freight	241,724	-	-	-	-	-	241,724
Shoes and tights	169,339	-	-	-	-	-	169,339
Stage equipment and supplies	228,827	-	-	-	-	-	228,827
Stipends and subsidized housing	-	336,069	-	-	-	-	336,069
Summer housing	-	495,624	-	-	-	-	495,624
Telephone and utilities	161,645	161,645	46,184	46,183	46,184	-	461,841
Theater costs	1,010,980	-	-	-	-	-	1,010,980
Ticket service, booking fees	-	-	156,704	-	-	-	156,704
Travel and entertainment	231,357	128,635	24,833	32,230	29,985	-	447,040
Miscellaneous	19,695	189,766	284,442	140,370	104,621	-	738,894
	<b>\$ 19,169,669</b>	<b>\$ 5,185,468</b>	<b>\$ 4,114,615</b>	<b>\$ 2,987,793</b>	<b>\$ 2,247,109</b>	<b>\$ 4,306,545</b>	<b>\$ 38,011,199</b>

*See accompanying notes to combined financial statements.*

# Houston Ballet Foundation and Houston Ballet Guild, Inc.

## Notes to Combined Financial Statements

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### 1. Nature of Operations

The Houston Ballet Foundation was founded in 1955 for educational purposes, namely, spreading an appreciation of ballet in general. The Foundation created the Academy to provide professional ballet training for dancers and, subsequently, in 1969, created a resident professional ballet Company.

The Houston Ballet Guild, Inc. (the "Guild") is a not-for profit corporations established in 1974 to provide aid and support to Houston Ballet Foundation. The Guild consists of members who volunteer their services to support the Houston Ballet Foundation.

The accompanying combined financial statements include the accounts of Houston Ballet Foundation and its affiliated support organization, Houston Ballet Guild, Inc. (collectively, the "Foundation"). The by-laws of the Guild provide that all funds raised be distributed to Houston Ballet Foundation.

### 2. Summary of Significant Accounting Policies

The combined financial statements of the Foundation have been prepared on the accrual basis of accounting. The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Significant accounting policies followed by the Foundation are described below.

#### ***Basis of Presentation***

The Foundation's net assets and its revenue, expenses, gains and losses are classified within the statements based on the existence or absence of donor-imposed restrictions as permanently restricted, temporarily restricted or unrestricted. All significant interfund accounts between The Houston Ballet Foundation and the Guild have been eliminated.

#### ***Preproduction Expenses and Advance Ticket Sales***

Program revenues and expenses are recognized in the program year to which they apply. Ticket sales and preproduction costs for future season's programs are recorded as deferred revenue and deferred production expenses, respectively.

#### ***Pledges Receivable***

Pledges made by donors are initially considered to be temporarily restricted and become unrestricted upon satisfaction of such restriction, which is typically a stipulated time restriction or purpose restriction. Pledges receivable are primarily from large foundations and corporations.

Pledges receivable represent unconditional promises to give and are monitored by the Foundation for potential losses.

Pledges deemed uncollectible are written off against related revenue or contributions. The Foundation has determined, through review of its donors' pledge payment history, that no allowance for uncollectible amounts is necessary as of June 30, 2018.

# Houston Ballet Foundation and Houston Ballet Guild, Inc.

## Notes to Combined Financial Statements

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### ***Contributions***

The Foundation accounts for contributions received, including unconditional promises to give, as revenue in the period received at their fair values. The Foundation also distinguishes between contributions that increase permanently restricted, temporarily restricted and unrestricted net assets. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

### ***Fixed Assets***

Fixed assets include land, building, equipment and costumes and sets related to full-length productions and are recorded at cost. Depreciation of building and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Depreciation of costumes and sets related to full-length productions is provided on a straight-line basis over three years, beginning in the year the production is initially performed. Depreciation expense for the year ended June 30, 2018 totaled \$3,557,485.

### ***Production and Foundation Costs***

Production costs for ballet performances include the salaries of performers, cost of costumes, stage sets, theater rental, orchestra fees and other related expenses. All such costume and stage set costs related to full-length productions are capitalized and depreciated as described above. All other production expenses such as the salaries of performers, theater rental and orchestra fees are expensed in the year of the performance.

Foundation costs include salaries and benefits for dancers, artistic staff and music staff, costs for guest artists and guest music conductors and other miscellaneous expenses.

### ***Functional Expenses***

Costs related to the operation and maintenance of the building, including depreciation, are allocated to program and supporting activities based upon the approximate square footage of utilized facilities.

### ***Advertising***

All costs of advertising that relate to the current year are expensed as incurred. Costs related to productions or events in the subsequent year are recorded as prepaid expense and are expensed at the time the performance or event takes place.

### ***Cash Equivalents***

For purposes of the combined statement of cash flows, the Foundation considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents.

# Houston Ballet Foundation and Houston Ballet Guild, Inc.

## Notes to Combined Financial Statements

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### ***Investments and Investment Income***

The Foundation accounts for investments in equity securities with readily determinable fair market values and all investments in debt securities at fair market value with gains and losses included in the combined statement of activities.

Endowment funds, which consist primarily of marketable securities, are pooled for investment management purposes. Income from investments is allocated to each endowment based upon the relative market value and the type of endowment.

Investment income, including realized and unrealized gains or losses on investments, is recorded as unrestricted for all funds because there are no donor-imposed restrictions. For the year ended June 30, 2018, as stipulated by the Foundation's investment policy, up to 5.5% of the market value of endowment investments and cash may be used for general operating activities. Realized and unrealized gains or losses on endowment investments were reinvested and recorded in endowment activities on the combined statement of activities.

### ***Donated Services and Materials***

A substantial number of volunteers have donated time in connection with program services and administration of the Foundation. No value has been reflected in the financial statements for these services because the services would not typically be purchased if they had not been provided by donation. When outside services are donated to the Foundation and the services received (a) create or enhance non-financial assets, or (b) require specialized skills and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation, a contribution is recorded in the period received. Such contribution is valued at the estimated cost to the Foundation had the services and/or materials cost been purchased. The Foundation recorded \$2,711,567 in the General Fund for donated services and materials during the year ended June 30, 2018, including \$2,142,217 of donated services and materials for special events.

### ***Non-Monetary Transactions***

During the year ended June 30, 2018, \$236,023 of Houston Ballet Foundation performance tickets were traded in exchange for marketing, public relations, production and development purposes. Such amounts are recorded as both performance income and operating expenses.

### ***Concentrations of Credit Risk***

The Foundation is subject to concentrations of credit risk relating primarily to cash, pledges receivable, and marketable securities. The Foundation's cash and cash equivalent deposits are held in major financial institutions in excess of the federally insured limit. The Foundation has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents. Pledges receivable represent unconditional promises to give and are monitored by the Foundation for potential losses. Marketable securities consist primarily of domestic corporate stocks, which could subject the Foundation to losses in the event of a general downturn in the stock market. The Foundation has reduced its risk relating to investment in corporate stocks and bonds through diversification into investments in a variety of industries.

# Houston Ballet Foundation and Houston Ballet Guild, Inc.

## Notes to Combined Financial Statements

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### *Estimates*

The preparation of the Foundation's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

### *Income Taxes*

Houston Ballet Foundation and Houston Ballet Guild, Inc. are both nonprofit organizations which have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and neither are private foundations. For the year ended June 30, 2018, the cost of employee parking benefits, which are taxable as of January 1, 2018 as unrelated business income, is expected to result in an immaterial amount of income tax. While no income tax was paid during the year ended June 30, 2018, the expected amount of tax due is reflected in the accompanying combined statement of activities.

The Foundation follows current guidance in accounting for uncertainty in income taxes. This guidance clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. The Foundation had no uncertain tax positions as of June 30, 2018.

The income tax position taken by the Foundation, for any years open under the various statutes of limitations, is that the Foundation continues to be exempt from income taxes by virtue of being a nonprofit organization. Management believes this tax position meets the more-likely-than-not threshold and, accordingly, the tax benefit of this income tax position (no income tax liability) has been recognized for the years ended on or before June 30, 2018.

The Foundation will record income tax related interest and penalties, if applicable, as a component of the provision for income tax expense. However, there were no amounts recognized relating to interest and penalties in the statement of activities for the year ended June 30, 2018. The Foundation's federal exempt organization business tax returns (Form 990) for 2014 and later are subject to examination by the Internal Revenue Service.

### **3. Fair Value Disclosure**

The Foundation follows current guidance on fair value measurements which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements.

# Houston Ballet Foundation and Houston Ballet Guild, Inc.

## Notes to Combined Financial Statements

Current guidance establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are defined as follows:

**Level 1** - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

**Level 2** - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

**Level 3** - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The following table presents information about the Foundation's assets measured at fair value on a recurring basis, and indicates the fair value hierarchy of the valuation techniques utilized by the Foundation to determine such fair value:

	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Items (Level 2)	Significant Unobservable Items (Level 3)	Balance at June 30, 2018
<b>General Fund</b>				
Corporate stocks and mutual funds	\$ 868,087	\$ -	\$ -	\$ 868,087
<b>Endowment Fund</b>				
Corporate stocks and mutual funds	66,613,394	-	-	66,613,394
<b>Total Investments at Fair Value</b>	<b>\$ 67,481,481</b>	<b>\$ -</b>	<b>\$ -</b>	<b>67,481,481</b>
<b>Investments Measured at Net Asset Value *</b>	-	-	-	7,213,387
<b>Total Fair Value of Investments</b>	<b>\$ 67,481,481</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 74,694,868</b>

\* Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Statements of Net Assets Available for Benefits.

For the investment measured at net asset value, there is no unfunded commitments, redemption frequency, or redemption notice period.

# Houston Ballet Foundation and Houston Ballet Guild, Inc.

## Notes to Combined Financial Statements

### 4. Investments

Investment returns for all funds are classified as unrestricted on the combined statement of activities. The components of investment returns for each fund for the year ended June 30, 2018 were as follows:

	General Fund	Endowment Fund	Plant Fund	Total
Interest and dividend income	\$ 100,092	\$ 1,250,525	\$ 33,057	\$ 1,383,674
Net realized gains	31,693	1,567,528	-	1,599,221
Net unrealized gains	42,958	3,293,888	-	3,336,846
	174,743	6,111,941	33,057	6,319,741
Amounts designated for general operating activities	(174,743)	(1,249,013)	-	(1,423,756)
<b>Excess of amounts designated for general operating activities</b>	<b>\$ -</b>	<b>\$ 4,862,928</b>	<b>\$ 33,057</b>	<b>\$ 4,895,985</b>

Total cumulative net unrealized gains on General Fund and Endowment Fund investments held at June 30, 2018 were \$265,264 and \$21,784,002, respectively.

Investments consisted of the following as of June 30, 2018:

	General Fund		Endowment Fund	
	Cost	Market	Cost	Market
Domestic Equity Securities	\$ 602,823	\$ 868,087	\$ 18,962,306	\$ 35,937,118
Government Bonds	-	-	6,092,334	6,046,418
International Equity securities	-	-	12,408,272	14,630,567
Hedged Equity securities	-	-	8,579,867	9,999,291
Absolute Return Fund	-	-	6,000,000	7,213,387
	\$ 602,823	\$ 868,087	\$ 52,042,779	\$ 73,826,781

# Houston Ballet Foundation and Houston Ballet Guild, Inc.

## Notes to Combined Financial Statements

### 5. Fixed Assets

The following components are included in land, building, equipment, and costumes and sets at June 30, 2018:

	Estimated Useful Life	
Buildings and improvements	25-39 years	\$ 39,854,830
Office furniture and equipment	5-15 years	3,967,898
Costumes and sets	3 years	12,401,040
		56,223,768
Less: accumulated depreciation		(21,376,450)
		34,847,318
Land	N/A	9,689,178
Costumes and sets-production in progress		112,501
		\$ 44,648,997

### 6. Special Events

The Houston Ballet Guild (the “Guild”) is an affiliated, nonprofit organization that sponsors various fund-raising activities throughout the year for the benefit of the Foundation. The Guild’s largest fund-raising event includes operating the annual Nutcracker Market in November. The revenues and expenses of the Guild are presented as special events on the combined statement of activities.

### 7. Pledges

The Foundation continues its pursuit of endowment funds to guarantee future financial security. Multi-year pledges receivable are recorded at present value on the date of the pledge for the amount of discounted cash flows using the prime rate at the date of pledge. The Foundation also receives pledges for annual operations, which are recorded in the General Fund.

As of June 30, 2018, pledges receivable were:

	General Fund	Plant Fund	Endowment Fund	Total
Less than one year	\$ 409,373	\$ -	\$ 1,250,000	\$ 1,659,373
One to five years	2,417,329	-	-	2,417,329
Greater than five years	-	-	35,000	35,000
	\$ 2,826,702	\$ -	\$ 1,285,000	\$ 4,111,702



# Houston Ballet Foundation and Houston Ballet Guild, Inc.

## Notes to Combined Financial Statements

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### 8. Endowments

The Foundation follows current guidance on net asset classification of endowments. This guidance clarifies the accounting for donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). This guidance also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

Balances of the funds included in permanently restricted net assets at June 30, 2018 were as follows:

<b>Endowment Funds:</b>	
Use of income is unrestricted	\$ 35,292,584
Use of income is restricted for:	
Dancer Career Transition - Artists Reserve Fund	196,097
<b>Total Endowment Funds</b>	<b>\$ 35,488,681</b>

Endowment funds with unrestricted use of income are as follows:

- *The Endowed Artistic Positions Fund* - assists Houston Ballet in attracting talented artists.
- *The Fayez Sarofim & Co. Touring Fund* - sponsors Houston Ballet's domestic and international tours.
- *The Carolyn Lee and Frederick Adrian Lee Production Fund* - supports the creation of new productions and the restoration of existing works.
- *The Margaret Wiess Elkins Young Artist Fund* - trains talented young people for careers in dance.
- *The AIG American General/AIG VALIC Education and Community Outreach Programs Fund* - helps Houston Ballet reach a broad population of all ages and economic levels.
- The Albert and Margaret Alkek Foundation endowed the *Margaret Alkek Williams Jubilee of Dance*, Houston Ballet's annual gala performance.
- *The Billie Bath Perlman Scholarship Fund; The Roy M. Huffington Scholarship Fund; The Ben Stevenson Scholarship Fund; The Winifred Wallace Scholarship Fund; The Anita Borges Stude Scholarship Fund; The C.C. Conner Scholarship Fund*- each provides the full cost for training one Houston Ballet II dancer each year.
- *The Ira and Myra Brown Young Dancer Scholarship Fund* - provides the full cost for training for five Academy students each year.

The Foundation's endowments consist of funds established for a variety of purposes. Its endowments include donor-restricted funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

# Houston Ballet Foundation and Houston Ballet Guild, Inc.

## Notes to Combined Financial Statements

The Foundation's Board has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, the purposes of the Foundation and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the Foundation, and the investment policies of the Foundation.

The endowment net asset composition by type of fund as of June 30, 2018 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment Funds:</b>				
Unrestricted	\$ 37,739,997	\$ -	\$ -	\$ 37,739,997
Donor-restricted	-	-	35,488,681	35,488,681
Board-designated	4,973,334	-	-	4,973,334
<b>Total Endowment Funds</b>	<b>\$ 42,713,331</b>	<b>\$ -</b>	<b>\$ 35,488,681</b>	<b>\$ 78,202,012</b>

The changes in endowment net assets for the year ended June 30, 2018 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment net assets, beginning of year</b>	<b>\$ 40,091,730</b>	<b>\$ -</b>	<b>\$ 35,448,275</b>	<b>\$ 75,540,005</b>
<b>Investment return:</b>				
Investment income	1,249,013	-	1,512	1,250,525
Net realized and unrealized appreciation	4,861,416	-	-	4,861,416
<b>Total investment return</b>	<b>6,110,429</b>	<b>-</b>	<b>1,512</b>	<b>6,111,941</b>
Contributions	-	-	52,623	52,623
Investment expenses	(239,815)	-	(13,729)	(253,544)
Appropriation of endowment assets for expenditures	(3,249,013)	-	-	(3,249,013)
<b>Endowment net assets, end of year</b>	<b>\$ 42,713,331</b>	<b>\$ -</b>	<b>\$ 35,488,681</b>	<b>\$ 78,202,012</b>

# Houston Ballet Foundation and Houston Ballet Guild, Inc.

## Notes to Combined Financial Statements

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From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, there were no deficiencies of this nature as of June 30, 2018.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period.

### 9. Employee Benefits

The Foundation contributes to a defined contribution retirement plan represented by Variable Annuity Life Insurance Company (“VALIC”) for the benefit of all dancers and all qualified, nonunion employees. This plan is administered by VALIC. Contributions to the VALIC plan aggregated \$532,511 for the year ended June 30, 2018.

The Foundation contributes to a defined contribution retirement plan for the benefit of all musicians represented by American Federation of Musicians (“AFM”). Contributions to this plan, administered by AFM, aggregated \$97,582 for the year ended June 30, 2018.

The Foundation has a tax-sheltered annuity program for the benefit of its employees. Participating employees may contribute up to 20% of their annual income to one of the programs. All contributed amounts are managed by an independent trustee and are exempt from federal income taxes until such time as they are withdrawn.

The Foundation provides health insurance for all union dancers and qualified, nonunion employees through American Guild of Musical Artists (“AGMA”). Premiums paid by the Foundation for such insurance were \$1,859,413 for the year ended June 30, 2018.

The Foundation provides dental insurance for qualified nonunion employees. Premiums paid by the Foundation for such insurance were \$40,639 for the year ended June 30, 2018.

The Foundation has an agreement to pay a lifetime retirement benefit of \$55,000 per year, to a former employee. The actuarially determined liability for this obligation was recalculated assuming a life expectancy of 18.4 years and an investment return of 7.5%. The balance of the liability of \$77,695 for this obligation and the fair market value of the related investment assets of \$295,821 are included in the combined statement of financial position as of June 30, 2018. The employee retired and was vested in the plan as of July 1, 2003. Distributions in the aggregate amount of \$37,908, net of tax, were paid during the year ended June 30, 2018.

# Houston Ballet Foundation and Houston Ballet Guild, Inc.

## Notes to Combined Financial Statements

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The Foundation has an agreement to pay a current employee deferred compensation of \$20,000 per annum plus 5% interest beginning July 1, 2010 over the duration of employment. The deferred compensation amounts will vest at 75% four years after the effective date and payments began on July 1, 2014. If the employee is still employed on his 55<sup>th</sup> birthday or acting in his service capacity with the Foundation on either his retirement date or on his involuntary termination date, all amounts will vest 100%. In addition, all amounts will become 100% vested on date of death or disability, as applicable. The balance of the liability of \$138,021 for this obligation is included in the combined statement of financial position as of June 30, 2018 and the vested amounts will be paid out of general assets of the Foundation, although a separate investment account to fund the liability was established in July 2011.

The Foundation entered into an agreement to pay a 15-year retirement benefit of \$30,000 per year, cost of living adjusted annually at a rate of 3.0%, beginning in March 2015 to a former employee. The actuarially determined liability for this obligation was calculated using an investment return of 4.5%. The balance of the liability of \$223,292 for this obligation is included in the combined statements of financial position as of June 30, 2018 and will be paid out of general assets of the Foundation.

The Foundation entered into an agreement to contribute to a section 457(b) "top hat" plan on behalf of three current employees in an amount equal to the maximum amount allowed by IRS guidelines, currently \$18,500 per calendar year. The net balance of the liability for these obligations as of June 30, 2018 is \$448,461 and is included in the combined statement of financial position and will be paid out of general assets of the Foundation.

### 10. Commitments and Contingencies

Grants, bequests and endowments require the fulfillment of certain conditions as set forth in the instructions of the gift. The Foundation intends to fulfill the conditions of all bequests, grants and endowments, recognizing that failure to fulfill the conditions could result in the return of the funds to donors. The Foundation, by accepting the gifts and their terms, has agreed to the conditions of the donor. Management believes that the Foundation has complied with all donors' conditions.

The Foundation entered into a lease agreement with the Wortham Theater Foundation in May 1987, and the Foundation has the right to terminate the lease at any time, after giving six months written notice. Box office space is also leased. During fiscal year ended June 30, 2018, the Wortham Theater sustained significant hurricane damage to its facilities. Due to damages, the Foundation was unable to perform at the Wortham Theater and required to find temporary rental facilities for the production season. No long-term contracts were signed for future years and the Foundation plans to return to the Wortham Theater for fiscal year ended June 30, 2019 performance season. In December 2016, the Foundation entered into a six month lease agreement for temporary warehouse space. That lease agreement was extended for one month to include July 2017 before being terminated. In July 2016, the Foundation entered into an apartment lease with an initial term of 6 months for a temporary employee. That lease extended for an additional six months and was terminated in early July 2017. Rent expense for the year ended June 30, 2018 for these leases was \$823,780, which includes donated rent by the Hobby Center of \$232,304.

In June 2016, the Foundation entered into an agreement to lease 10 apartments to use as subsidized housing for upper level students at Houston Ballet. The 56-month lease term began in November 2016. Lease payments relating to these leases were \$201,604 and the related rent expense, recognized on a straight-line basis, was \$214,678 during the fiscal year ended June 30, 2018.

# Houston Ballet Foundation and Houston Ballet Guild, Inc.

## Notes to Combined Financial Statements

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The scheduled future minimum lease payments under operating leases as of June 30, 2018 are:

<i>Year Ending June 30,</i>	
2019	\$ 218,663
2020	226,417
2021	231,069
	<hr/>
	\$ 676,149

### ***General Liability Claims***

The Foundation is, from time to time, subject to claims and suits arising in the ordinary course of business, including claims for damages for personal injuries and employment related claims. In certain of these actions, plaintiffs request punitive or other damages against the Foundation which may be covered by insurance. The Foundation is currently not a party to any proceeding which, in management's opinion, would have a material adverse effect on the Foundation's business, financial condition or results of operations.

### **11. Hurricane Damage**

During the fiscal year ended June 30, 2018, the Foundation's facilities located in Houston, Texas were damaged by hurricane activities. As of June 30, 2018, the Company had actual costs incurred of \$575,758 for damages to the Foundation's facilities and \$122,860 of impaired fixed assets. In addition, the Foundation recorded and received insurance recoveries of \$1,679,781 for damages and \$5,100,000 for covered business interruption income. The net gain on insurance proceeds of \$6,081,163 is included within other operating income and gain on disposal of assets in the amounts of \$5,913,234 and \$167,929, respectively, in the accompanying combined statement of activities. The Foundation expects to incur additional replacement expenses in future fiscal years, however has collected substantially all expected insurance proceeds during current fiscal year.

### **12. Subsequent Events**

The Foundation has evaluated subsequent events through September 25, 2018 for recognition or disclosure, which is the date these combined financial statements were available for issuance.