



Houston Ballet Foundation and Houston Ballet Guild, Inc.

**Combined Financial Statements
Year Ended June 30, 2023**

The report accompanying these financial statements was issued by BDO USA, P.C., a Virginia professional corporation, and the U.S. member of BDO International Limited, a UK company limited by guarantee.



Houston Ballet Foundation and Houston Ballet Guild, Inc.

Combined Financial Statements
Year Ended June 30, 2023

Houston Ballet Foundation and Houston Ballet Guild, Inc.

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Independent Auditor's Report

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

Report on the Audit of the Combined Financial Statements

Opinion

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, 2023, and the related combined statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2023, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the combined financial statements are issued or available to be issued.



Auditor's Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS a, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, P.C.

December 11, 2023

Combined Financial Statements

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Combined Statement of Financial Position

June 30, 2023

| | General Fund | Endowment Fund | Plant Fund | Total |
|---|----------------------|-----------------------|----------------------|-----------------------|
| Assets | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 8,297,489 | \$ 3,350,108 | \$ 3,894,483 | \$ 15,542,080 |
| Pledges receivable | 381,851 | 500,000 | - | 881,851 |
| Other receivables | 135,958 | - | - | 135,958 |
| Prepaid and deferred production expenses | 1,271,458 | - | - | 1,271,458 |
| Total Current Assets | 10,086,756 | 3,850,108 | 3,894,483 | 17,831,347 |
| Pledges Receivable | - | 6,461,803 | - | 6,461,803 |
| Right-of-Use Asset | 758,516 | - | - | 758,516 |
| Investments, at fair value | 964,134 | 94,139,123 | 10,509,548 | 105,612,805 |
| Fixed Assets, Net | - | - | 39,260,867 | 39,260,867 |
| Total Assets | \$ 11,809,406 | \$ 104,451,034 | \$ 53,664,898 | \$ 169,925,338 |
| Liabilities and Net Assets | | | | |
| Current Liabilities | | | | |
| Accounts payable and accrued liabilities | \$ 2,110,619 | \$ - | \$ - | \$ 2,110,619 |
| Lease liability | 270,229 | - | - | 270,229 |
| Deferred revenue | 5,448,771 | 217 | - | 5,448,988 |
| Due to (from) other funds | (4,742) | 3,105 | 1,637 | - |
| Total Current Liabilities | 7,824,877 | 3,322 | 1,637 | 7,829,836 |
| Lease Liability, net of current | 559,469 | - | - | 559,469 |
| Total Liabilities | 8,384,346 | 3,322 | 1,637 | 8,389,305 |
| Commitments and Contingencies (Notes 12 and 13) | | | | |
| Net Assets | | | | |
| Without donor restrictions | 908,145 | 60,950,543 | 53,663,261 | 115,521,949 |
| With donor restrictions | 2,516,915 | 43,497,169 | - | 46,014,084 |
| Total Net Assets | 3,425,060 | 104,447,712 | 53,663,261 | 161,536,033 |
| Total Liabilities and Net Assets | \$ 11,809,406 | \$ 104,451,034 | \$ 53,664,898 | \$ 169,925,338 |

See accompanying notes to combined financial statements.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Combined Statement of Activities and Change in Net Assets

Year ended June 30, 2023

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|-----------------------|
| Operating Income | | | |
| Performance | \$ 11,422,623 | \$ - | \$ 11,422,623 |
| Tuition | 3,485,432 | - | 3,485,432 |
| Special events | 9,183,758 | - | 9,183,758 |
| Investment | 270,628 | - | 270,628 |
| Other | 1,780,009 | - | 1,780,009 |
| Contributions - nonfinancial assets | 1,651,377 | - | 1,651,377 |
| Appropriations from Endowment Fund to General Fund | 1,502,668 | - | 1,502,668 |
| Total Operating Income | 29,296,495 | - | 29,296,495 |
| Operating Expenses | | | |
| Production and company | 18,729,014 | - | 18,729,014 |
| Ballet academy | 5,624,443 | - | 5,624,443 |
| Marketing and public relations | 5,926,167 | - | 5,926,167 |
| General and administrative | 2,920,902 | - | 2,920,902 |
| Fundraising | 8,203,311 | - | 8,203,311 |
| Total Operating Expenses | 41,403,837 | - | 41,403,837 |
| Change in Net Assets from Operating Activities, before public and private support, releases from restrictions, and reclassifications | (12,107,342) | - | (12,107,342) |
| Contributions - Non-Financial Assets | 672,725 | - | 672,725 |
| Public and Private Support Contributions | 4,705,801 | 2,516,915 | 7,222,716 |
| Change in Net Assets from Operating Activities, before releases from restrictions and reclassifications | (6,728,816) | 2,516,915 | (4,211,901) |
| Net Assets Released from Restrictions | 2,436,859 | (2,436,859) | - |
| Change in Net Assets from Operating Activities, before interfund reclassifications | (4,291,957) | 80,056 | (4,211,901) |
| Interfund Reclassifications | 4,295,269 | - | 4,295,269 |
| Change in Net Assets from Operating Activities | 3,312 | 80,056 | 83,368 |
| Endowment Activities | | | |
| Contributions | 1,217,356 | - | 1,217,356 |
| Investment income (loss), net | 8,353,425 | 4,272 | 8,357,697 |
| Endowment expenses | - | (4,103) | (4,103) |
| Amounts appropriated for general operating activities | (1,502,668) | - | (1,502,668) |
| Change in Net Assets from Endowment Activities | 8,068,113 | 169 | 8,068,282 |
| Plant Activities | | | |
| Investment income, net | 1,010,621 | - | 1,010,621 |
| Depreciation expense | (1,634,029) | - | (1,634,029) |
| Interfund reclassification | (4,295,269) | - | (4,295,269) |
| Change in Net Assets from Plant Activities | (4,918,677) | - | (4,918,677) |
| Total Change in Net Assets | 3,152,748 | 80,225 | 3,232,973 |
| Net Assets, beginning of year | 112,369,201 | 45,933,859 | 158,303,060 |
| Net Assets, end of year | \$ 115,521,949 | \$ 46,014,084 | \$ 161,536,033 |

See accompanying notes to combined financial statements.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Combined Statement of Functional Expenses

Year ended June 30, 2023

| | Program Services | | Support Services | | | Total |
|--|------------------------|---------------------|--------------------------------|----------------------------|---------------------|----------------------|
| | Production and Company | Ballet Academy | Marketing and Public Relations | General and Administrative | Fundraising | |
| Advertising | \$ - | \$ 155,520 | \$ 2,126,202 | \$ - | \$ 233,570 | \$ 2,515,292 |
| Contributed nonfinancial assets - services | 31,438 | 38,395 | 155,565 | 94,005 | 353,322 | 672,725 |
| Contributed nonfinancial assets - goods | - | - | - | - | 1,651,377 | 1,651,377 |
| Computer maintenance and software | 115,492 | 171,376 | 171,376 | 171,375 | 115,492 | 745,111 |
| Costumes, scenery, and designers | 1,184,376 | - | - | - | - | 1,184,376 |
| Special event expenses | - | - | - | - | 2,530,156 | 2,530,156 |
| Equipment rentals | 799 | 799 | 228 | 230 | 228 | 2,284 |
| Insurance | 196,321 | 196,321 | 56,091 | 56,091 | 56,091 | 560,915 |
| Music and royalties | 267,519 | - | - | - | - | 267,519 |
| Office supplies | 11,232 | 14,016 | 20,997 | 15,551 | 12,663 | 74,459 |
| Postage and handling | 4,770 | 1,402 | 4,782 | 2,873 | 14,374 | 28,201 |
| Printing | - | - | 463,610 | - | 147,455 | 611,065 |
| Professional fees | - | - | - | 129,466 | - | 129,466 |
| Repairs and maintenance | 395,875 | 217,216 | 62,061 | 62,062 | 62,061 | 799,275 |
| Salaries, payroll taxes, and employee benefits | 15,034,106 | 2,690,888 | 1,999,541 | 1,886,111 | 2,620,028 | 24,230,674 |
| Scholarships | - | 999,728 | - | - | - | 999,728 |
| Shipping and freight | 106,789 | - | - | - | - | 106,789 |
| Shoes and tights | 200,216 | - | - | - | - | 200,216 |
| Stage equipment and supplies | 158,703 | - | - | - | - | 158,703 |
| Stipends and subsidized housing | - | 370,356 | - | - | - | 370,356 |
| Summer housing | - | 308,281 | - | - | - | 308,281 |
| Telephone and utilities | 212,511 | 212,466 | 60,705 | 60,704 | 60,705 | 607,091 |
| Theater costs | 747,884 | - | - | - | - | 747,884 |
| Ticket service and booking fees | - | - | 338,957 | - | - | 338,957 |
| Travel and entertainment | 36,505 | 118,311 | 15,922 | 198,141 | 33,597 | 402,476 |
| Miscellaneous | 24,478 | 129,368 | 450,130 | 244,293 | 312,192 | 1,160,461 |
| Total Expenses, before depreciation | 18,729,014 | 5,624,443 | 5,926,167 | 2,920,902 | 8,203,311 | 41,403,837 |
| Endowment miscellaneous expenses | - | - | - | 4,103 | - | 4,103 |
| Depreciation of plant assets | 571,910 | 571,910 | 163,403 | 163,403 | 163,403 | 1,634,029 |
| Total Functional Expenses | \$ 19,300,924 | \$ 6,196,353 | \$ 6,089,570 | \$ 3,088,408 | \$ 8,366,714 | \$ 43,041,969 |

See accompanying notes to combined financial statements.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Combined Statement of Cash Flows

Year ended June 30, 2023

| | General Fund | Endowment Fund | Plant Fund | Total |
|---|---------------------|---------------------|---------------------|----------------------|
| Cash Flows from Operating Activities | | | | |
| Change in net assets | \$ 83,368 | \$ 8,068,282 | \$ (4,918,677) | \$ 3,232,973 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | | | |
| Net realized and unrealized loss on investments | (129,352) | (7,055,529) | (80,973) | (7,265,854) |
| Depreciation expense | - | - | 1,634,029 | 1,634,029 |
| Amortization of right-of-use asset | 241,119 | - | - | 241,119 |
| Changes in operating assets and liabilities: | | | | |
| Pledges receivable | 204,451 | 503,000 | - | 707,451 |
| Grant receivables | 1,326,471 | - | 408,180 | 1,734,651 |
| Other receivables | (121,605) | - | - | (121,605) |
| Prepaid and deferred production expenses | (328,917) | - | - | (328,917) |
| Accounts payable and accrued liabilities | 236,144 | 3,774 | 1,973 | 241,891 |
| Right of use liability | (264,846) | - | - | (264,846) |
| Deferred revenue | 297,856 | 217 | - | 298,073 |
| Net Cash Provided by (Used in) Operating Activities | 1,544,689 | 1,519,744 | (2,955,468) | 108,965 |
| Cash Flows from Investing Activities | | | | |
| Capital expenditures | - | - | (531,987) | (531,987) |
| Purchase of investments | (387,516) | (22,257,041) | (809,464) | (23,454,021) |
| Proceeds from sales and maturities of investments | 324,639 | 22,292,266 | - | 22,616,905 |
| Net Cash Provided by (Used in) Investing Activities | (62,877) | 35,225 | (1,341,451) | (1,369,103) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,481,812 | 1,554,969 | (4,296,919) | (1,260,138) |
| Cash and Cash Equivalents, beginning of year | 6,815,677 | 1,795,139 | 8,191,402 | 16,802,218 |
| Cash and Cash Equivalents, end of year | \$ 8,297,489 | \$ 3,350,108 | \$ 3,894,483 | \$ 15,542,080 |

See accompanying notes to combined financial statements.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

1. Nature of Operations

The Houston Ballet Foundation was founded in 1955 for educational purposes, namely, spreading an appreciation of ballet in general. Houston Ballet Foundation and its affiliated support organization, Houston Ballet Guild, Inc. (collectively, the Foundation) created the Ballet 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 corporation established in 1974 to provide aid and support to the 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 the Foundation. The by-laws of the Guild provide that all funds raised be distributed to the Houston Ballet Foundation. Each organization is operated by an independent Board of Directors.

2. Summary of Significant Accounting Policies

The combined financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). 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. All significant interfund accounts between the Houston Ballet Foundation and the Guild have been eliminated.

The classification of a not-for-profit organization's net assets and its support, revenue, and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the classes of net assets—with donor restrictions and without donor restrictions—be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

With Donor Restrictions - This class consists of net assets resulting from contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation, pursuant to those stipulations. When such stipulations end or are fulfilled, such donor-restricted net assets are reclassified to net assets without donor restrictions and reported in the combined statement of activities and change in net assets. Net assets resulting from contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation are classified as net assets with donor restrictions. The governing board may designate from net assets without donor restrictions for an operating reserve or board-designated endowment.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

Without Donor Restrictions - This class consists of the part of net assets that is not restricted by donor-imposed stipulations.

Deferred Revenue and Prepaid and Deferred Production Expenses

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

Pledges made by donors are initially considered to be net assets with donor restriction and become net assets without donor restriction upon satisfaction of such restriction, which is typically a stipulated time restriction or purpose restriction. Pledges receivable are primarily from large foundations and corporations. See Note 7.

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, 2023.

Revenue Recognition

The Foundation's primary exchange revenue streams are derived from providing ballet-related programs to audiences and customers and training for students and dancers (see Note 9).

Performance and Special Events

The Foundation provides ballet-related programs to audiences and revenue is recognized at a point in time in which the performances are delivered. The prices of programs are based on the market rate at the time in which the performances are delivered to the audiences. Programs that are provided to audiences are distinct performance obligations and revenue is recognized when the programs are delivered.

Merchandise is sold to the customers during the programs and special events. Revenue is recognized at a point in time in which the merchandise is transferred to the customers. The prices of merchandise are based on market rates at the time in which the control transferred to customers. Merchandise that is provided to customers is a distinct performance obligation and revenue is recognized when the merchandise is provided.

Tuition

The Foundation provides ballet-related training to students and dancers and is recognized over time, for which the training is provided. The price of training is based on the market rate at the time in which the control transfers to the students and dancers. Training that is provided to students and dancers is a distinct performance obligation and revenue is recognized over the period when the training is provided.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

Contributions

The Foundation recognizes contributions under ASU 2018-08, *Not-for-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves current guidance by providing criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred, which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. The ASU also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction.

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 net assets without donor restrictions and net assets with donor restrictions. 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—with donor restrictions net assets are reclassified to without donor restrictions net assets and reported in the combined statement of activities and change in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as without donor restrictions.

Fixed Assets

Fixed assets include land, building, equipment, 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. The cost of maintenance and repairs is charged to expense as incurred, whereas significant repairs or improvements that extend the life of the assets are capitalized. Depreciation expense for the year ended June 30, 2023 totaled \$1,634,029. Property, intangible assets, and certain other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The determination of recoverability is made based upon the estimated undiscounted future net cash flows, excluding interest expense. The amount of impairment loss, if any, is determined by comparing the fair value, as determined by a discounted cash flow analysis, with the carrying value of the related assets. The Foundation did not recognize any impairment charges in the fiscal year ended June 30, 2023.

| <u>Asset Category</u> | <u>Estimated Useful Life (Years)</u> |
|--------------------------------|--------------------------------------|
| Buildings and improvements | 15-39 |
| Office furniture and equipment | 3-7 |
| Costumes and sets | 3 |

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

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

The combined financial statements report certain categories of expenses that are attributable to one or more program or supporting functions. These expenses include depreciation, salaries, and payroll expenses of the artistic and executive directors, information technology, and facilities. Depreciation and facilities are allocated based on square footage. Salaries and payroll expenses of the artistic and executive directors are allocated based on estimates of time and effort. Information technology is allocated based on the numbers of the computers.

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.

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 and change in net assets.

Alternative investments are valued using net asset value (NAV) of the fund.

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 without donor restrictions for all funds because there are no donor-imposed restrictions. For the year ended June 30, 2023, 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 and change in net assets.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

Contributed Nonfinancial Assets

The Foundation received in-kind contributions of goods and services. Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. Contributed nonfinancial assets are reflected as contributions at their fair value at the date of donation and are reported as support without donor restrictions unless explicit donor stipulations specify how donated assets must be used. The amounts reflected in the accompanying financial statements as contributed nonfinancial assets are offset by like amounts included in expenses.

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 combined 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. All donated services and materials were utilized by the Foundation's programs and supporting services. There were no donor-imposed restrictions associated with the donated services and assets. Donated services of \$672,725 for 2023, were recorded at the value the Foundation would pay for a similar service. \$94,005 for 2023 and \$241,627 in 2023, was utilized for general and administrative expenses, \$353,322 in 2023, was utilized for fundraising and \$225,398 in 2023 was used in programs. Donated materials of \$1,651,377 for 2023, for special events used in fundraising are valued at the wholesale prices that would be received for selling similar products. Donated services and materials are recorded in the operating income and operating expense in the accompanying combined statement of activities and change in net assets.

During the year ended June 30, 2023, \$395,897 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.

Estimates

The preparation of the Foundation's combined financial statements in conformity GAAP 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.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

Income Taxes

The Houston Ballet Foundation and Houston Ballet Guild, Inc. are both nonprofit organizations that have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and neither are private foundations. Accordingly, no provision for federal income taxes is included in the accompanying combined financial statements.

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 combined 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 combined 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, 2023.

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 year ended on or before June 30, 2023.

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 combined statement of activities and change in net assets for the year ended June 30, 2023. The Foundation's federal exempt organization business tax returns (Form 990) for 2020 and later are subject to examination by the Internal Revenue Service.

Leases

The Foundation's apartment leases are the primary contracts in which it is the lessee. Upon adoption of *Leases (Topic 842)* on July 1, 2021, the Foundation had ten apartment leases that commenced on July 1, 2021 and were classified as operating leases. For periods beginning after July 1, 2021, the Foundation is now required to recognize a lease liability on the combined statement of financial position equal to the present value of the minimum future lease payments required in accordance with each lease, as well as a right-of-use (ROU) asset equal to the lease liability adjusted for above and below market intangibles and deferred leasing costs. The adoption of Topic 842 resulted in the recognition of ROU lease assets in the amount of \$1,116,374 on July 1, 2021. There was no material impact to the combined statement of activities and change in net assets or combined statement of cash flows as a result of adoption of this new guidance. For further information, refer to Note 12.

For leases where the Foundation is the lessee with a term of 12 months or less, the Foundation made an accounting policy election by class of underlying asset not to recognize ROU lease assets and lease liabilities. The Foundation recognizes lease expense for such leases generally on a straight-line basis over the lease term.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

Recent Accounting Pronouncements Not Yet Adopted

Credit Losses (Topic 326)

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, including subsequent amendments issued thereafter, which clarify the standard (collectively, Topic 326). This standard significantly changes the impairment model for most financial instruments. Current guidance requires the recognition of credit losses based on an incurred loss impairment methodology that reflects losses once the losses are probable. In accordance with Topic 326, the Foundation will be required to use a current expected credit loss model (CECL) that will immediately recognize an estimate of credit losses that are expected to occur over the life of the financial instruments that are within the scope of this update, including trade receivables. The CECL model uses a broader range of reasonable and supportable information in the development of credit loss estimates. This guidance becomes effective for the Foundation beginning the year ended June 30, 2023. The Foundation is still assessing the impact to the combined financial statements.

3. Fair Value Disclosure

The Foundation follows current guidance on fair value measurements that 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.

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.

The Foundation uses net asset value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, as a practical expedient to estimate the fair values of certain hedge funds, private equity funds, fund of funds, and limited partnerships, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

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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:

June 30, 2023

| | Level 1 | Level 2 | Level 3 | Balance |
|---|-----------------------|-------------|-------------|-----------------------|
| General Fund: | | | | |
| Domestic equity securities | \$ 964,134 | \$ - | \$ - | \$ 964,134 |
| Endowment Fund: | | | | |
| Domestic equity securities | 41,003,231 | - | - | 41,003,231 |
| Domestic fixed income securities | 12,105,183 | - | - | 12,105,183 |
| International equity securities | 18,423,377 | - | - | 18,423,377 |
| Hedge equity securities | 10,753,050 | - | - | 10,753,050 |
| Alternative investments | 9,287,811 | - | - | 9,287,811 |
| Plant Fund: | | | | |
| Domestic fixed-income security | 10,509,548 | - | - | 10,509,548 |
| Total Investments, at fair value | \$ 103,046,334 | \$ - | \$ - | \$ 103,046,334 |
| Investment, at NAV | | | | \$ 2,566,471 |

4. Investments

Investment returns for all funds are classified as without donor restrictions on the combined statement of activities and change in net assets. The components of investment returns for each fund were as follows:

Year ended June 30, 2023

| | General Fund | Endowment Fund | Plant Fund | Total |
|---|-------------------|---------------------|---------------------|---------------------|
| Interest and dividend income | \$ 141,276 | \$ 1,506,940 | \$ 938,504 | \$ 2,586,720 |
| Net realized gains (losses) | (2,627) | 4,170,709 | - | 4,168,082 |
| Net unrealized losses | 131,979 | 2,884,820 | 80,973 | 3,097,772 |
| Investment expenses | - | (204,772) | (8,856) | (213,628) |
| Total Investment Income, Net | \$ 270,628 | \$ 8,357,697 | \$ 1,010,621 | \$ 9,638,946 |
| Amounts appropriated for general operating activities | \$ - | \$ (1,502,668) | \$ - | \$ (1,502,668) |

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

5. Fixed Assets

The following are components of fixed assets:

June 30, 2023

| | |
|--------------------------------|----------------------|
| Buildings and improvements | \$ 42,585,943 |
| Office furniture and equipment | 3,811,588 |
| Costumes and sets | 13,087,393 |
| | <u>59,484,924</u> |
| Less: accumulated depreciation | (29,913,235) |
| | 29,571,689 |
| Land | 9,689,178 |
| Total | \$ 39,260,867 |

6. Special Events

The Guild is an affiliated, nonprofit organization that sponsors various fundraising activities throughout the year for the benefit of the Foundation. The Guild's largest fundraising event includes operating the annual Nutcracker Market in November and the annual Nutcracker Market Spring Spectacular in April. The revenues and expenses of the Guild are presented as special events on the combined statement of activities and change in net assets. Special event expenses totaled \$4,534,855 for the year ended June 30, 2023 which is included in the combined statement of functional expenses in contributed goods, contributed services, and special event expenses.

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 an interest rate of approximately 3.38%. For the year ended June 30, 2023, the discount recorded by the Foundation was \$2,530,156 due to one large endowment pledge to be paid annually until 2042. The Foundation also receives pledges for annual operations, which are recorded in the General Fund.

Pledges receivables were as follows:

June 30, 2023

| Years | General Fund | Plant Fund | Endowment Fund | Total |
|---------------|-------------------|-------------|---------------------|---------------------|
| Less than one | \$ 381,851 | \$ - | \$ 500,000 | \$ 881,851 |
| One to two | - | - | 467,840 | 467,840 |
| Two to three | - | - | 452,544 | 452,544 |
| Three to four | - | - | 437,748 | 437,748 |
| Four to five | - | - | 423,436 | 423,436 |
| Five to 20 | - | - | 4,680,235 | 4,680,235 |
| Total | \$ 381,851 | \$ - | \$ 6,961,803 | \$ 7,343,654 |

Houston Ballet Foundation and Houston Ballet Guild, Inc.

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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 with donor restriction net assets for perpetual purposes were as follows:

June 30, 2023

| | |
|---|----------------------|
| Endowment Funds | |
| Use of income without restrictions | \$ 43,253,971 |
| Use of income is restricted for: | |
| Dancer Career Transition - Artists Reserve Fund | 243,198 |
| Total Endowment Funds | \$ 43,497,169 |

Endowment funds with unrestricted use of income are as follows:

- *The Endowed Artistic Positions Fund* - This fund assists the Foundation in attracting talented artists.
- *The Fayez Sarofim & Co. Touring Fund* - This fund sponsors the Foundation's domestic and international tours.
- *The Carolyn Lee and Frederick Adrian Lee Production Fund* - This fund supports the creation of new productions and the restoration of existing works.
- *The Margaret Wiess Elkins Young Artist Fund* - This fund trains talented young people for careers in dance.
- *The AIG American General/AIG VALIC Education and Community Outreach Programs Fund* - This fund helps the Foundation reach a broad population of all ages and economic levels.
- The Albert and Margaret Alkek Foundation endowed the *Margaret Alkek Williams Jubilee of Dance*, the Foundation'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 Student Scholarship Fund; The C.C. Conner Scholarship Fund* - These funds each provide the full cost for training one Houston Ballet II dancer each year.
- *The Ira and Myra Brown Young Dancer Scholarship Fund* - This fund provides the full cost for training for five academy students each year.
- Margaret Alkek Williams/The Alkek and Williams Foundation endows the *Margaret Alkek Williams Center for Dance*.

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

The Foundation's Board of Directors has interpreted 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 net assets with donor restriction for perpetual purposes, the original value of subsequent gifts to the perpetual endowment, and accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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.

Board-designated funds are used to support program services and may be released for general operations when the Foundation approves the release.

The endowment net asset composition by type of fund was as follows:

June 30, 2023

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|----------------|
| Endowment Funds | | | |
| With donor restrictions: | | | |
| Purpose-restricted | \$ - | \$ 43,497,169 | \$ 43,497,169 |
| Total With Donor Restrictions | - | 43,497,169 | 43,497,169 |
| Without donor restrictions: | | | |
| Unrestricted | 54,923,271 | - | 54,923,271 |
| Board-designated | 6,027,272 | - | 6,027,272 |
| Total Without Donor Restrictions | 60,950,543 | - | 60,950,543 |
| Total Endowment Funds | \$ 60,950,543 | \$ 43,497,169 | \$ 104,447,712 |

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Notes to Combined Financial Statements

The changes in endowment net assets were as follows:

Year ended June 30, 2023

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|-----------------------|
| Endowment Net Assets, beginning of year | \$ 52,882,430 | \$ 43,497,000 | \$ 96,379,430 |
| Changes in Endowment Net Assets | | | |
| Investment return: | | | |
| Investment income | 1,502,668 | 4,272 | 1,506,940 |
| Net realized and unrealized losses | 7,055,529 | - | 7,055,529 |
| Total Investment Return | 8,558,197 | 4,272 | 8,562,469 |
| Contributions | 1,217,356 | - | 1,217,356 |
| Investment expenses | (204,772) | - | (204,772) |
| Other expenses | - | (4,103) | (4,103) |
| Amount appropriated for general operating activities | (1,502,668) | - | (1,502,668) |
| Total Activity, other than investment return | (490,084) | (4,103) | (494,187) |
| Endowment Net Assets, end of year | \$ 60,950,543 | \$ 43,497,169 | \$ 104,447,712 |

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 GAAP, there were no deficiencies of this nature as of June 30, 2023.

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. Description of Program and Supporting Services

The following program and supporting services are included in the accompanying combined statement of activities and change in net assets:

Program Services

Production and Company

The Foundation supports a professional company of dancers and engages audiences throughout the city of Houston and the world with its performances and programs each year. Production and company program services include expenditures for salaries of performers, production of stage sets and costumes, theater rental, and other related expenses in connection with producing and staging ballet performances and programs locally, nationally, and internationally.

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Notes to Combined Financial Statements

Ballet Academy

The Foundation's Ballet Academy trains over 1,000 unique students each year. The artistic team includes many teaching artists and live accompanists that work to conduct a variety of weekly classes for all levels, ranging from pre-school students to Houston Ballet II dancers, the Foundation's second company, as well as adult students. The Foundation's Education and Community Engagement programs captivate the imagination of kindergarten to 12th grade students, adults and children living with disabilities, and unite communities through a multitude of school and community programs.

Supporting Services

General and Administrative

General and administrative expenditures include those related to other areas and departments that ensure the success of the Foundation's performances, programs, professional company, academy, and community outreach efforts.

Marketing and Public Relations

Marketing and public relations services provide support in all brand identity and consistency matters, including marketing, advertising, and other promotional collateral designed to promote the activities, performances, and programs of the Foundation. These services also promote media and public relations by managing campaigns through production of video, television, radio, and print media and overseeing all activities relating to ticket sales and promotion of the Foundation's production performances.

Fundraising

Fundraising supporting services include expenditures that provide the structure necessary to encourage and secure both public and private financial support. Fundraising activities include expenses towards donor cultivation activities and donor benefits for their support, as well as benefits for corporate sponsors of production performances and education and community engagement programs. Fundraising supporting services both promote the Foundation and provide important support toward operations.

Special Events

This supporting service category includes expenditures for special events that both promote the Foundation and provide support for operations. These events help grow the Foundation's donor base, promote the Foundation's operations, and engage the Foundation's constituents and stakeholders in activities outside of performances.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

10. Net Assets - General and Plant Funds

Net assets - General and Plant Funds consist of the following:

June 30, 2023

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|----------------------|
| General Fund | | | |
| With donor restrictions: | | | |
| Time-restricted only, for periods after June 30, 2023 | \$ - | \$ 2,516,915 | \$ 2,516,915 |
| Without donor restrictions | 908,145 | - | 908,145 |
| Total General Fund | \$ 908,145 | \$ 2,516,915 | \$ 3,425,060 |
| Plant Fund | | | |
| Without donor restrictions | \$ 53,663,261 | \$ - | \$ 53,663,261 |
| Total Plant Fund | \$ 53,663,261 | \$ - | \$ 53,663,261 |

When the donor-imposed stipulations are either expired by passage of time or fulfilled by actions of the Foundation, pursuant to those stipulations, such donor-restricted net assets are reclassified to net assets without donor restrictions and reported in the combined statement of activities and change in net assets. At June 30, 2023, \$2,436,859 of time-restricted funds were released.

11. Employee Benefits

The Foundation contributes to a defined contribution retirement plan represented by Corebridge Financial for the benefit of all dancers and all qualified, nonunion employees. This plan is administered by Corebridge Financial. Contributions to the plan aggregated \$683,739 for the year ended June 30, 2023.

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 \$149,189 for the year ended June 30, 2023.

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 \$2,254,236 included in salaries, payroll taxes, and employee benefits in the statement of functional expenses for the year ended June 30, 2023.

The Foundation provides dental insurance for qualified nonunion employees. Premiums paid by the Foundation for such insurance were \$37,709 included in salaries, payroll taxes, and employee benefits in the statement of functional expenses for the year ended June 30, 2023.

The Foundation has an agreement to pay a current employee deferred compensation of \$20,000 per annum plus 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 60th birthday or acting in his service capacity with the Foundation on either his retirement date or on his involuntary termination date, all

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amounts will vest 100%. In addition, all amounts will become 100% vested on the date of death or disability, as applicable. The balance of the liability of \$172,868 for this obligation is included in accounts payable and accrued liabilities in the combined statement of financial position as of June 30, 2023 and the vested amounts will be paid out of general assets of the Foundation.

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 \$119,208 for this obligation is included in accounts payable and accrued liabilities in the combined statement of financial position as of June 30, 2023 and will be paid out of general assets of the Foundation.

The Foundation has an agreement to pay a current employee deferred compensation of \$46,500 per annum plus interest beginning September 1, 2020 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, 2021. If the employee is still employed on his 60th 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 the date of death or disability, as applicable. The balance of the liability of \$145,052 for this obligation is included in accounts payable and accrued liabilities in the combined statement of financial position as of June 30, 2023 and the vested amounts 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 up to or equal to the maximum amount allowed by Internal Revenue Service guidelines, currently \$20,500 per calendar year. Additionally, one current employee remains in the plan although, effective July 31, 2020, no future contributions on behalf of that employee will be made by the Foundation. The net balance of the liability for these obligations as of June 30, 2023 is \$979,884 and is included in accounts payable and accrued liabilities in the combined statement of financial position and will be paid out of general assets of the Foundation.

12. 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. Rent expense for the year ended June 30, 2023 for these leases was \$328,982 which is included in the production and company operating expenses on the combined statement of activities and change in net assets.

In January 2021, the Foundation entered into an agreement to renew the leases of ten apartments to use as subsidized housing for upper-level students at Houston Ballet and the 60-month lease term began on July 1, 2021. Lease payments relating to these leases were \$243,786 and the related amortization expense, recognized according to ASU 2016-02, was \$241,119 during the fiscal year ended June 30, 2023.

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Because the Foundation generally does not have access to the rate implicit in the lease, it utilizes its incremental borrowing rate as the discount rate. The discount rate associated with operating leases is 0.30%.

The lease obligation is reflected in the table below.

The following table displays a maturity analysis of the undiscounted cash flows related to operating leases as of June 30, 2023, along with a reconciliation to the discounted amount recorded on the June 30, 2023 statement of financial position:

Year ending June 30,

| | | |
|------------------------|-----------|----------------|
| 2024 | \$ | 272,166 |
| 2025 | | 278,937 |
| 2026 | | 282,142 |
| Less: imputed interest | | (3,547) |
| Total | \$ | 829,698 |

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 that 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.

13. Liquidity

The Foundation plans each year to provide funding for operating expenditures through a combination of earned income, special events net income, investment income, and interfund transfers, including an annual allocation from its Endowment Fund. The Foundation's investment policy allows a withdrawal for any fiscal year not to exceed 5.5% of the trailing three-year average of the total value of the Endowment Fund. The Foundation maintains high liquidity and low risk through cash and cash equivalents and longer-term investments in the General Fund, maintains cash and cash equivalents in the Plant Fund, and maintains cash and cash equivalents, as well as longer-term investments in the Endowment Fund.

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Financial assets available within one year of the combined statement of financial position date for general expenditure from the General and Plant Fund (except where noted) are as follows:

June 30, 2023

| | | |
|--|----|----------------------|
| Cash and cash equivalents | \$ | 12,191,972 |
| Other receivables | | 135,958 |
| Amounts due to General and Plant Funds | | (3,105) |
| Contributions receivable | | 381,851 |
| Investments appropriated for current use - General Fund and Plant Fund | | 11,473,682 |
| Investments appropriated for current use - Endowment Fund | | 4,993,225 |
| Financial Assets Available Within One Year of the Combined Statement of Financial Position Date for General Expenditure | | \$ 29,173,583 |

The investments appropriated for current use - Endowment Fund represent 5.5% of the trailing three-year average of cash and investments (net of due to/from other funds).

14. Subsequent Events

The Foundation has evaluated subsequent events through December 11, 2023 for recognition or disclosure, which is the date these combined financial statements were available for issuance.