



HOUSTON BALLET FOUNDATION AND AFFILIATE

Combined Financial Statements

June 30, 2015

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Independent Auditor's Report

To the Board of Trustees of the
Houston Ballet Foundation
Houston, Texas

We have audited the accompanying combined financial statements of the Houston Ballet Foundation and its affiliate, Houston Ballet Guild (collectively, the "Foundation"), which comprise the combined statement of financial position as of June 30, 2015, and the related combined statements 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, 2015, and the results of their operations 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 28, 2015

Combined Financial Statements

HOUSTON BALLET FOUNDATION AND AFFILIATE

Combined Statement of Financial Position

<i>June 30, 2015</i>	General Fund	Endowment Fund	Plant Fund	Total
Assets				
Cash and cash equivalents	\$ 5,032,475	\$ 614,443	\$ 1,935,521	\$ 7,582,439
Pledges receivable, net	685,311	35,000	-	720,311
Other receivables	63,551	-	-	63,551
Prepaid and deferred production expenses	953,757	-	-	953,757
Investments, at fair value	625,626	68,098,492	-	68,724,118
Land, building, equipment and costumes and sets, net	1,493,166	-	45,386,573	46,879,739
Total Assets	\$ 8,853,886	\$ 68,747,935	\$ 47,322,094	\$ 124,923,915
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued liabilities	\$ 1,416,040	\$ -	\$ -	\$ 1,416,040
Deferred revenue	4,987,557	-	-	4,987,557
Due to (from) other funds	(2,405,153)	(539)	2,405,692	-
Total Liabilities	3,998,444	(539)	2,405,692	6,403,597
Commitments and Contingencies				
Net Assets				
Unrestricted	942,083	36,699,072	44,916,402	82,557,557
Temporarily restricted	3,913,359	-	-	3,913,359
Permanently restricted	-	32,049,402	-	32,049,402
Total Net Assets	4,855,442	68,748,474	44,916,402	118,520,318
Total Liabilities and Net Assets	\$ 8,853,886	\$ 68,747,935	\$ 47,322,094	\$ 124,923,915

See accompanying notes to combined financial statements.

HOUSTON BALLET FOUNDATION AND AFFILIATE

Combined Statement of Activities

<i>Year Ended June 30, 2015</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue				
Performance	\$ 10,249,129	\$ -	\$ -	\$ 10,249,129
Tuition	2,996,628	-	-	2,996,628
Special events	7,385,514	-	-	7,385,514
Investment	1,108,824	-	-	1,108,824
Other	1,420,771	-	-	1,420,771
Total Operating Revenue	23,160,866	-	-	23,160,866
Operating Expenses				
Production and company	18,869,173	-	-	18,869,173
Ballet academy	3,639,941	-	-	3,639,941
Fund-raising	1,198,892	-	-	1,198,892
General and administrative	2,225,307	-	-	2,225,307
Special events	3,246,059	-	-	3,246,059
Total Operating Expenses	29,179,372	-	-	29,179,372
Decrease in Net Assets from Operating Activities Before Public and Private Support, Releases from Restrictions and Transfers	(6,018,506)	-	-	(6,018,506)
Public and Private Support Contributions	2,836,029	3,913,359	-	6,749,388
Increase (Decrease) in Net Assets from Operating Activities Before Releases from Restrictions and Transfers	(3,182,477)	3,913,359	-	730,882
Net Assets Released from Restrictions	3,866,555	(3,866,555)	-	-
Increase in Net Assets from Operating Activities Before Interfund Transfers	684,078	46,804	-	730,882
Interfund Reclassification	(680,000)	-	-	(680,000)
Increase in Net Assets from Operating Activities	4,078	46,804	-	50,882
Endowment Activities				
Contributions	-	-	81,983	81,983
Net appreciation (depreciation) on investments	(68,232)	-	120	(68,112)
Investment expenses, net	(150,867)	-	(7,696)	(158,563)
Interfund reclassification	(500,000)	-	-	(500,000)
Increase (Decrease) in Net Assets from Endowment Activities	(719,099)	-	74,407	(644,692)
Plant Activities				
Contributions	497,765	-	-	497,765
Interest and other income (expense), net	615	-	-	615
Depreciation	(1,355,408)	-	-	(1,355,408)
Interfund reclassification	1,180,000	-	-	1,180,000
Increase in Net Assets from Plant Activities	322,972	-	-	322,972
Total Increase (Decrease) in Net Assets	(392,049)	46,804	74,407	(270,838)
Net Assets, beginning of year	82,949,606	3,866,555	31,974,995	118,791,156
Net Assets, end of year	\$ 82,557,557	\$ 3,913,359	\$ 32,049,402	\$ 118,520,318

See accompanying notes to combined financial statements.

HOUSTON BALLET FOUNDATION AND AFFILIATE

Combined Statement of Cash Flows

<i>Year Ended June 30, 2015</i>	General Fund	Endowment Fund	Plant Fund	Total
Cash Flows from Operating Activities				
Total increase (decrease) in net assets	\$ 50,882	\$ (644,692)	\$ 322,972	\$ (270,838)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Net realized and unrealized gains (losses) on investments	(8,565)	68,232	-	59,667
Depreciation	677,959	-	1,355,408	2,033,367
Changes in operating assets and liabilities:				
Pledges receivable	(62,938)	-	-	(62,938)
Other receivables	690	3	-	693
Prepaid and deferred production expense	(473,240)			(473,240)
Accounts payable and accrued liabilities	1,213,120	(32,896)	(855,563)	324,661
Deferred revenue	282,996			282,996
Net Cash Provided by (Used in) Operating Activities	1,680,904	(609,353)	822,817	1,894,368
Cash Flows from Investing Activities				
Capital expenditures	(1,234,185)		(260,813)	(1,494,998)
Purchase of investments	(150,183)	(11,473,043)		(11,623,226)
Proceeds from sales and maturities of investments	120,684	12,473,268		12,593,952
Net Cash Provided by (Used in) Investing Activities	(1,263,684)	1,000,225	(260,813)	(524,272)
Net Increase in Cash and Cash Equivalents	417,220	390,872	562,004	1,370,096
Cash and Cash Equivalents, beginning of year	4,615,255	223,571	1,373,517	6,212,343
Cash and Cash Equivalents, end of year	\$ 5,032,475	\$ 614,443	\$ 1,935,521	\$ 7,582,439

See accompanying notes to combined financial statements.

HOUSTON BALLET FOUNDATION AND AFFILIATE

Combined Statement of Functional Expenses

<i>Year Ended June 30, 2015</i>	Program Services		Support Services			Total
	Production and Company	Ballet Academy	General and Administrative	Fund- Raising	Special Events	
Advertising	\$ 2,399,937	\$ 157,237	\$ -	\$ 141,516	\$ -	\$ 2,698,690
Computer maintenance, software	34,562	69,124	34,561			138,247
Costumes, scenery and designers	1,151,435	-	-			1,151,435
Depreciation	1,016,811	677,704	338,852			2,033,367
Donor benefit expenses	-	-	-		3,246,059	3,246,059
Equipment rentals	861	1,721	860			3,442
Insurance	40,124	80,247	40,122			160,493
Investment expense			150,867			150,867
Music and royalties	195,816	-	-			195,816
Office supplies	14,895	3,416	35,098	5,853		59,262
Postage and handling	16,999	2,723	3,420	5,170		28,312
Printing	570,144	-	-			570,144
Professional fees	-	-	103,964			103,964
Repairs and maintenance	384,138	165,056	82,527			631,721
Salaries, payroll taxes and employee benefits	11,356,172	1,364,537	1,564,991	965,071		15,250,771
Scholarships	-	672,000	-			672,000
Shipping and freight	170,604	-	-			170,604
Shoes and tights	203,393	-	-			203,393
Stage equipment and supplies	157,267	-	-			157,267
Stipends	-	174,092	-			174,092
Summer housing	-	447,535	-			447,535
Telephone and utilities	130,866	261,732	130,864			523,462
Theater costs	644,258	-	-			644,258
Ticket service, booking fees	240,345	-	-			240,345
Travel and entertainment	416,798	112,562	42,388			571,748
Miscellaneous	62,600	127,959	186,512	81,282		458,353
	\$ 19,208,025	\$ 4,317,645	\$ 2,715,026	\$ 1,198,892	\$ 3,246,059	\$ 30,685,647

See accompanying notes to combined financial statements.

HOUSTON BALLET FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements

1. Summary of Significant Accounting Policies

The combined financial statements of Houston Ballet Foundation and its affiliate, the Houston Ballet Guild, (collectively, 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.

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, 2015.

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.

Land, Building, Equipment and Costumes and Sets

Land, building, equipment and costumes and sets related to full-length productions 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, 2015 totaled \$2,033,367.

HOUSTON BALLET FOUNDATION AND AFFILIATE

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

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.

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, 2015, 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.

HOUSTON BALLET FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements

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 \$1,381,709 in the General Fund for donated services and materials during the year ended June 30, 2015, including \$1,223,783 of donated services and materials for special events.

Non-Monetary Transactions

During the year ended June 30, 2015, \$785,173 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. 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 through diversification into investments in a variety of industries.

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

The Foundation is a nonprofit organization and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. For the year ended June 30, 2015, the Foundation had no unrelated business income, and no income tax is expected to be due and payable by the Foundation.

HOUSTON BALLET FOUNDATION AND AFFILIATE

Notes to 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 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 did not recognize any uncertain tax positions upon adoption of the guidance and had no uncertain tax positions as of June 30, 2015.

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, 2015.

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, 2015. The Foundation's federal exempt organization business tax returns (Form 990) for 2011 and later are subject to examination by the Internal Revenue Service.

2. 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.

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.

HOUSTON BALLET FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements

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, 2014
General Fund				
Corporate stocks and mutual funds	\$ 625,626	\$ -	\$ -	\$ 625,626
Endowment Fund				
Corporate stocks and mutual funds	61,488,559	6,609,933	-	68,098,492
Total	\$ 62,114,185	\$ 6,609,933	\$ -	\$ 68,724,118

3. 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, 2015 were as follows:

	General Fund	Endowment Fund	Plant Fund	Total
Interest and dividend income	\$ 57,435	\$ 1,042,944	\$ 615	\$ 1,100,994
Net realized gains (losses)	27,235	1,743,206	-	1,770,441
Net unrealized gains (losses)	(18,670)	(1,811,438)	-	(1,830,108)
	66,000	974,712	615	1,041,327
Amounts designated for general operating activities	(66,000)	(1,542,824)	-	(1,608,824)
Excess of amounts designated for general operating activities	\$ -	\$ (568,112)	\$ 615	\$ (567,497)

Total cumulative net unrealized gains on General Fund and Endowment Fund investments held at June 30, 2015 were \$184,579 and \$18,955,652, respectively.

HOUSTON BALLET FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements

4. Land, Building, Equipment, and Costumes and Sets

The following components are included in land, building, equipment, and costumes and sets at June 30, 2015:

	Estimated Useful Life	
Buildings and improvements	25-39 years	\$ 39,357,271
Office furniture and equipment	5-15 years	3,305,932
Costumes and sets	3 years	6,660,647
		<hr/> 49,323,850
Less: accumulated depreciation		(12,500,314)
		<hr/> 36,823,536
Land	N/A	9,689,178
Costumes and sets-production in progress		367,025
		<hr/> 367,025
		<hr/> \$ 46,879,739

5. 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 events include operating the annual Nutcracker Market in November and hosting the Annual Ball. The revenues and expenses of the Guild are presented as special events on the combined statement of activities.

6. 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, 2015, pledges receivable were:

Less than one year	\$ 232,761
One to five years	452,550
Greater than five years	35,000
	<hr/> 35,000
	<hr/> \$ 720,311

HOUSTON BALLET FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements

7. 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, 2015 were as follows:

Endowment funds:	
Use of income is unrestricted	\$ 31,892,818
Use of income is restricted for:	
<u>Dancer Career Transition - Artists Reserve Fund</u>	<u>156,584</u>
Total Endowment Funds	\$ 32,049,402

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 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.

HOUSTON BALLET FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements

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.

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, 2015 was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Funds:				
Donor-restricted	\$ 31,725,738	\$ -	\$ 32,049,402	\$ 63,775,140
Board-designated	4,973,334	-	-	4,973,334
Total Endowment Funds	\$ 36,699,072	\$ -	\$ 32,049,402	\$ 68,748,474

The changes in endowment net assets for the year ended June 30, 2015 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 37,418,171	\$ -	\$ 31,974,995	\$ 69,393,166
Investment return:				
Investment income	1,042,824			1,042,824
Net realized and unrealized appreciation	(68,232)		120	(68,112)
Total investment return	974,592	-	120	974,712
Contributions			81,983	81,983
Investment expenses	(150,867)		(7,696)	(158,563)
Appropriation of endowment assets for expenditures	(1,542,824)			(1,542,824)
Endowment net assets, end of year	\$ 36,699,072	\$ -	\$ 32,049,402	\$ 68,748,474

HOUSTON BALLET FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements

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, 2015.

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.

8. Employee Benefits

The Foundation contributes to a defined contribution retirement plan for the benefit of all dancers represented by Variable Annuity Life Insurance Company (“VALIC”). This plan is administered by VALIC. Contributions to the VALIC plan aggregated \$209,268 for the year ended June 30, 2015.

The Foundation contributes to a defined contribution retirement plan for the benefit of all qualified, nonunion employees. Contributions to this plan, also administered by VALIC, aggregated \$213,928 for the year ended June 30, 2015.

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 \$82,543 for the year ended June 30, 2015.

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 qualified, nonunion employees through American Guild of Musical Artists (“AGMA”). Premiums paid by the Foundation for such insurance were \$824,224 for the year ended June 30, 2015.

The Foundation provides health insurance to union dancers through AGMA. Premiums paid by the Foundation for such insurance were \$534,522 for the year ended June 30, 2015.

The Foundation provides dental insurance for qualified nonunion employees. Premiums paid by the Foundation for such insurance were \$26,842 for the year ended June 30, 2015.

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 \$154,329 for this obligation and the fair market value of the related investment assets of \$320,593 are included in the combined statement of financial position as of June 30, 2015. 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, 2015.

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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 55th 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 \$116,896 for this obligation is included in the combined statement of financial position as of June 30, 2015 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 \$260,140 for this obligation is included in the combined statements of financial position as of June 30, 2015 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 \$18,000 per calendar year. The net balance of the liability for these obligation as of June 30, 2015 is \$209,631 and is included in the combined statement of financial position and will be paid out of general assets of the Foundation.

9. 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 30-year lease agreement with the Wortham Theater Foundation in May 1987.

Upon expiration of the lease term and agreement of both parties, the lease may be renewed for an additional 30 years. The Foundation has the right to terminate the lease at any time, after giving six months written notice. Box office space is also leased. In February 2015, the Foundation entered into a 2-year lease agreement for office space with an outside vendor providing telemarketing and telefunding services for the Foundation. Rent expense for the year ended June 30, 2015 for these leases was \$327,123.

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.

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Notes to Combined Financial Statements

10. Subsequent Events

The Foundation has evaluated subsequent events through September 28, 2015 for recognition or disclosure, which is the date these combined financial statements were available for issuance. There were no other subsequent events requiring recognition or disclosure in these combined financial statements other than those disclosed herein.