



Houston Ballet Foundation and Houston Ballet Guild, Inc.

Combined Financial Statements,
Independent Auditor's Reports Required by
Government Auditing Standards and
Uniform Guidance and Schedule of
Expenditures of Federal Awards

As of and for the Year Ended June 30, 2020

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Houston Ballet Guild, Inc.**

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Independent Auditor's Reports Required by
Government Auditing Standards and Uniform Guidance and
Schedule of Expenditures of Federal Awards

As of and for the Year Ended June 30, 2020

Houston Ballet Foundation and Houston Ballet Guild, Inc.

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Independent Auditor's Report

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

We have audited the accompanying combined financial statements of the Houston Ballet Foundation and its affiliate, Houston Ballet Guild, Inc. (collectively, the "Foundation"), which comprise the combined statement of financial position as of June 30, 2020, and the related combined statement of activities, cash flows and functional expenses for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2020, and the changes in their net assets and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2020 on our consideration of Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Foundation's internal control over financial reporting and compliance.

BDO USA, LLP

September 28, 2020

Combined Financial Statements

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Combined Statement of Financial Position

<i>June 30, 2020</i>	General Fund	Endowment Fund	Plant Fund	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 8,934,366	\$ 2,747,855	\$ 5,845,479	\$ 17,527,700
Pledges receivable	1,361,554	-	-	1,361,554
Grant receivables	-	-	1,318,762	1,318,762
Other receivables	82,656	48,000	-	130,656
Prepaid and deferred production expenses	730,186	-	-	730,186
Total Current Assets	11,108,762	2,795,855	7,164,241	21,068,858
Pledges receivable	-	35,000	-	35,000
Investments, at fair value	754,632	77,290,027	-	78,044,659
Fixed assets, net	228,784	-	42,972,086	43,200,870
Total Assets	\$ 12,092,178	\$ 80,120,882	\$ 50,136,327	\$ 142,349,387
Liabilities and Net Assets				
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	\$ 1,343,254	\$ -	\$ -	\$ 1,343,254
Deferred revenue	3,506,788	-	-	3,506,788
Due to (from) other funds	(1,907)	(2,550)	4,457	-
Total Current Liabilities	4,848,135	(2,550)	4,457	4,850,042
Note payable	3,466,803	-	-	3,466,803
Total Liabilities	8,314,938	(2,550)	4,457	8,316,845
Commitments and Contingencies (Notes 12 and 13)				
Net Assets				
Without donor restrictions	896,861	44,629,503	50,131,870	95,658,234
With donor restrictions	2,880,379	35,493,929	-	38,374,308
Total Net Assets	3,777,240	80,123,432	50,131,870	134,032,542
Total Liabilities and Net Assets	\$ 12,092,178	\$ 80,120,882	\$ 50,136,327	\$ 142,349,387

See accompanying notes to combined financial statements.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Combined Statement of Activities

<i>Year Ended June 30, 2020</i>	Without Donor Restrictions	With Donor Restrictions	Total
Operating Income			
Performance	\$ 8,329,254	\$ -	\$ 8,329,254
Tuition	3,901,180	-	3,901,180
Special events	10,043,709	-	10,043,709
Investment	2,140,434	-	2,140,434
Other	1,085,348	-	1,085,348
Total Operating Income	25,499,925	-	25,499,925
Operating Expenses			
Production and company	16,530,462	-	16,530,462
Ballet academy	4,856,912	-	4,856,912
Marketing and public relations	4,803,007	-	4,803,007
Fund-raising	2,729,139	-	2,729,139
General and administrative	2,240,651	-	2,240,651
Special events	3,639,177	-	3,639,177
Total Operating Expenses	34,799,348	-	34,799,348
Decrease in Net Assets from Operating Activities Before Public and Private Support, Releases from Restrictions and Transfers	(9,299,423)	-	(9,299,423)
Public and Private Support Contributions	4,950,069	2,622,046	7,572,115
(Decrease) Increase in Net Assets from Operating Activities Before Releases from Restrictions and Transfers	(4,349,354)	2,622,046	(1,727,308)
Net Assets Released from Restrictions	2,599,260	(2,599,260)	-
Decrease (Increase) in Net Assets from Operating Activities Before Interfund Transfers	(1,750,094)	22,786	(1,727,308)
Interfund Reclassification	1,632,689	-	1,632,689
(Decrease) Increase in Net Assets from Operating Activities	(117,405)	22,786	(94,619)
Endowment Activities			
Contributions	30,000	25,658	55,658
Investment income	-	2,654	2,654
Net appreciation on investments	1,038,986	-	1,038,986
Expenses	-	(31,834)	(31,834)
Interfund reclassification	(1,500,000)	-	(1,500,000)
Decrease in Net Assets from Endowment Activities	(431,014)	(3,522)	(434,536)
Plant Activities			
Contributions	1,447,017	-	1,447,017
Net assets released from restrictions	-	-	-
Interest and other income	80,264	-	80,264
Depreciation expense	(1,466,487)	-	(1,466,487)
Interfund reclassification	(132,689)	-	(132,689)
Decrease in Net Assets from Plant Activities	(71,895)	-	(71,895)
Total (Decrease) Increase in Net Assets	(620,314)	19,264	(601,050)
Net Assets, beginning of year	96,278,548	38,355,044	134,633,592
Net Assets, end of year	\$ 95,658,234	\$ 38,374,308	\$ 134,032,542

See accompanying notes to combined financial statements.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Combined Statement of Cash Flows

<i>Year Ended June 30, 2020</i>	General Fund	Endowment Fund	Plant Fund	Total
Cash Flows from Operating Activities				
Total increase (decrease) in net assets	\$ (94,619)	\$ (434,536)	\$ (71,895)	\$ (601,050)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Net realized and unrealized gains on investments	-	-	-	-
Depreciation expense	(22,334)	(1,018,987)	-	(1,041,321)
Changes in operating assets and liabilities:				
Pledges receivable	346,262	-	1,466,487	1,812,749
Grant receivables	1,001,200	1,250,000	-	2,251,200
Other receivables	-	-	(1,318,762)	(1,318,762)
Prepaid and deferred production expenses	(49,659)	(48,000)	-	(97,659)
Accounts payable and accrued liabilities	466,744	-	-	466,744
Deferred revenue	(328,852)	16,305	(6,776)	(319,323)
	(2,473,874)	-	-	(2,473,874)
Net Cash Provided by (Used in) Operating Activities	(1,155,132)	(235,218)	69,054	(1,321,296)
Cash Flows from Investing Activities				
Capital expenditures	-	-	(2,209,243)	(2,209,243)
Purchase of investments	(429,282)	(32,773,443)	-	(33,202,725)
Investment expense payments	(526)	(252,690)	-	(253,216)
Proceeds from sales and maturities of investments	663,724	33,518,754	-	34,182,478
Net Cash Provided by (Used in) Investing Activities	233,916	492,621	(2,209,243)	(1,482,706)
Net Cash Provided by Financing Activities				
Advances from notes payable	3,466,803	-	-	3,466,803
Net Increase (Decrease) in Cash and Cash Equivalents	2,545,587	257,403	(2,140,189)	662,801
Cash and Cash Equivalents, beginning of year	6,388,779	2,490,452	7,985,668	16,864,899
Cash and Cash Equivalents, end of year	\$ 8,934,366	\$ 2,747,855	\$ 5,845,479	\$ 17,527,700

See accompanying notes to combined financial statements.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Combined Statement of Functional Expenses

<i>Year Ended June 30, 2020</i>	Program Services		Support Services				Total
	Production and Company	Ballet Academy	Marketing and Public Relations	General and Administrative	Fund- Raising	Special Events	
Advertising	\$ 5,000	\$ 67,544	\$ 1,971,737	\$ -	\$ 172,466	\$ -	\$ 2,216,747
Computer maintenance, software	42,528	63,105	63,105	63,105	42,528	-	274,371
Costumes, scenery and designers	922,303	-	-	-	-	-	922,303
Depreciation	859,532	513,270	146,649	146,649	146,649	-	1,812,749
Donor benefit expenses	-	-	-	-	-	3,639,177	3,639,177
Equipment rentals	1,322	1,322	377	378	377	-	3,776
Insurance	158,066	158,066	45,161	45,163	45,161	-	451,617
Music and royalties	92,248	-	-	-	-	-	92,248
Office supplies	10,865	12,191	18,329	13,499	12,489	-	67,373
Postage and handling	5,332	1,827	7,374	3,320	11,653	-	29,506
Printing	-	-	436,527	-	11,552	-	448,079
Professional fees	-	-	-	200,453	-	-	200,453
Repairs and maintenance	349,237	164,433	46,981	46,977	46,981	-	654,609
Salaries, payroll taxes and employee benefits	13,185,343	2,572,120	1,547,097	1,527,599	2,208,684	-	21,040,843
Scholarships	-	709,306	-	-	-	-	709,306
Shipping and freight	65,395	-	-	-	-	-	65,395
Shoes and tights	147,705	-	-	-	-	-	147,705
Stage equipment and supplies	298,930	-	-	-	-	-	298,930
Stipends and subsidized housing	-	304,157	-	-	-	-	304,157
Summer housing	-	367,679	-	-	-	-	367,679
Telephone and utilities	156,585	156,585	44,739	44,739	44,739	-	447,387
Theater costs	578,196	-	-	-	-	-	578,196
Ticket service, booking fees	-	-	253,787	-	-	-	253,787
Travel and entertainment	140,292	121,208	11,360	21,823	17,815	-	312,498
Miscellaneous	24,853	157,369	356,433	305,429	114,694	-	958,778
	\$ 17,043,732	\$ 5,370,182	\$ 4,949,656	\$ 2,419,134	\$ 2,875,788	\$ 3,639,177	\$ 36,297,669

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. The Foundation created the Academy to provide professional ballet training for dancers and, subsequently, in 1969, created a resident professional ballet Company.

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

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

2. Summary of Significant Accounting Policies

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

Basis of Presentation

The Foundation's net assets and its revenue, expenses, gains and losses are classified within the statements based on the existence or absence of donor-imposed restrictions. 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 statement of activities. 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 other removed by actions of the Foundation are classified as net assets with donor restrictions- perpetual in nature.

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

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

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 and Grant Receivables

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.

Pledges receivable represents 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, 2020.

Grant receivable consists of amounts due from the Texas Division Of Emergency Management for Texas Hurricane Harvey related to the hurricane damage incurred during the year ended June 30, 2018. The Foundation has determined that no allowance for uncollectible amounts is necessary as of June 30, 2020.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services (collectively codified in "ASC 606"). ASC 606 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process that are required under existing GAAP. The standard is effective for annual periods beginning after December 15, 2018 for nonpublic entities (though early adoption is permitted), and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASC 606 recognized at the date of adoption (which includes additional footnote disclosures).

The Foundation adopted ASC 606 using the modified retrospective method, which was applied to all existing contracts for which all of the revenue had not been recognized under legacy revenue guidance as of the date of adoption, July 1, 2019. As a result of the adoption, there was no material impact to the nature and timing of revenue recognition.

The Foundation made a number of practical expedient elections related to the adoption of ASC 606, including: (i) recognize revenue when the Foundation has the right to invoice, (ii) for incremental costs to obtain a contract that would be recognized over one year or less, the Foundation expenses those costs as incurred, and (iii) at the implementation date, new guidance was applied only to contracts that were not completed as of the date of initial application.

The Foundation's primarily revenue streams are derived from providing ballet related programs to audiences and customers and training for students and dancers. See note 10.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

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

Tuition

The Foundation provides ballet related training to students and dancers and revenue 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 are distinct performance obligations and revenue is recognized when the training is provided.

Contributions

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. 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 ASU is effective for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. During the year ended June 30, 2020, the Foundation adopted ASU 2018-08. As a result of the adoption, there was no material impact to the nature and timing of contribution recognition.

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 statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as without donor restrictions.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

Fixed Assets

Fixed assets include land, building, equipment and costumes and sets related to full-length productions and are recorded at cost. Depreciation of building and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Depreciation of costumes and sets related to full-length productions is provided on a straight-line basis over three years, beginning in the year the production is initially performed. Depreciation expense for the year ended June 30, 2020 totaled \$1,812,749. The Foundation did not recognize any impairment charges in fiscal year ended June 30, 2020.

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 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.

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.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

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, 2020, as stipulated by the Foundation's investment policy, up to 5.5% of the market value of endowment investments and cash may be used for general operating activities. Realized and unrealized gains or losses on endowment investments were reinvested and recorded in endowment activities on the combined statement of activities.

Donated Services and Materials

A substantial number of volunteers have donated time in connection with program services and administration of the Foundation. No value has been reflected in the financial statements for these services because the services would not typically be purchased if they had not been provided by donation. When outside services are donated to the Foundation and the services received (a) create or enhance non-financial assets, or (b) require specialized skills and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation, a contribution is recorded in the period received. Such contribution is valued at the estimated cost to the Foundation had the services and/or materials cost been purchased. The Foundation recorded \$1,444,141 in the General Fund for donated services and materials during the year ended June 30, 2020, including \$1,234,608 of donated services and materials for special events in the operating income and operating expense in the accompanying combined statement of activities.

Non-Monetary Transactions

During the year ended June 30, 2020, \$313,359 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 financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

Income Taxes

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

Houston Ballet Foundation and Houston Ballet Guild, Inc.

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 had no uncertain tax positions as of June 30, 2020.

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, 2020.

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, 2020. The Foundation's federal exempt organization business tax returns (Form 990) for 2017 and later are subject to examination by the Internal Revenue Service.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU is effective for the Foundation's fiscal years beginning after December 15, 2021 with early adoption permitted. The Foundation is currently evaluating the impact of this ASU on its financial statements.

3. Fair Value Disclosure

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

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 Houston Ballet Guild, Inc.

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, 2020
General Fund				
Corporate stocks and mutual funds	\$ 754,632	\$ -	\$ -	\$ 754,632
Endowment Fund				
Corporate stocks and mutual funds	77,290,027	-	-	77,290,027
Total Fair Value of Investments	\$ 78,044,659	\$ -	\$ -	\$ 78,044,659

4. Investments

Investment returns for all funds are classified as without donor restrictions on the combined statement of activities. The components of investment returns for each fund for the year ended June 30, 2020 were as follows:

	General Fund	Endowment Fund	Plant Fund	Total
Interest and dividend income	\$ 596,247	\$ 1,524,507	\$ 80,264	\$ 2,201,018
Net realized gains	142,040	2,579,786	-	2,721,826
Net unrealized gains (losses)	(119,180)	(1,288,110)	-	(1,407,290)
Investment expenses	(526)	(252,690)	-	(253,216)
	618,581	2,563,493	80,264	3,262,338
Amounts designated for general operating activities	(618,581)	\$ (1,521,853)	-	(2,140,434)
Excess of amounts designated for general operating activities	\$ -	\$ 1,041,640	\$ 80,264	\$ 1,121,904

Total cumulative net unrealized gains on General Fund and Endowment Fund investments held at June 30, 2020 were \$178,207 and \$22,278,959, respectively.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

Investments consisted of the following as of June 30, 2020:

	General Fund		Endowment Fund	
	Cost	Market	Cost	Market
Domestic Equity Securities	\$ 576,425	\$ 754,632	\$ 21,294,926	\$ 39,753,413
Government Bonds	-	-	12,591,903	13,087,433
International Equity securities	-	-	12,452,634	13,671,986
Hedged Equity securities	-	-	8,671,605	10,777,195
Total	\$ 576,425	\$ 754,632	\$ 55,011,068	\$ 77,290,027

5. Fixed Assets

The following components are included in land, building, equipment, and costumes and sets at June 30, 2020:

	Estimated Useful Life	
Buildings and improvements	15-39 years	\$ 40,132,538
Office furniture and equipment	5-7 years	4,544,066
Costumes and sets	3 years	13,087,393
		57,763,997
Less: accumulated depreciation		(26,339,315)
		31,424,682
Land	N/A	9,689,178
Improvements in progress		2,087,010
Total		\$ 43,200,870

Subsequent to year ended June 30, 2020, the Foundation completed the mitigation work associated with the hurricane damage incurred during the year ended June 30, 2018 with total costs approximately \$2.2 million. As of June 30, 2020, the Foundation incurred and capitalized approximately \$2.0 million fixed assets as construction in process for the mitigation work and the estimated costs to complete was \$0.2 million.

6. Special Events

The Guild is an affiliated, nonprofit organization that sponsors various fund-raising activities throughout the year for the benefit of the Foundation. The Guild's largest fund-raising event include 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. Total special event expenses with a direct benefit to donors was \$686,661 for the year ended June 30, 2020.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

7. Pledges and Grant

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%. For the year ended June 30, 2020, the discount recorded by the Foundation was minimal due to the all material pledges being due within one year. The Foundation also receives pledges for annual operations, which are recorded in the General Fund. The Foundation recorded the grant due from Texas Division Of Emergency Management for the Texas Hurricane Harvey related to the hurricane damage incurred during the year ended June 30, 2018 in the Plant Fund.

As of June 30, 2020, pledges and grant receivables were:

	General Fund	Plant Fund	Endowment Fund	Total
Less than one year	\$ 1,361,554	\$ 1,318,762	\$ -	\$ 2,680,316
One to five years	-	-	35,000	35,000
Total	\$ 1,361,554	\$ 1,318,762	\$ 35,000	\$ 2,715,316

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 permanent purpose at June 30, 2020 were as follows:

Endowment Funds:	
Use of income is without restrictions	\$ 35,293,230
Use of income is restricted for:	
Dancer Career Transition - Artists Reserve Fund	200,699
Total Endowment Funds	\$ 35,493,929

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

Endowment funds with unrestricted use of income are as follows:

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

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

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 net assets with donor restriction for permanent purpose, 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. 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.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

The endowment net asset composition by type of fund as of June 30, 2020 was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Funds:			
With donor restrictions			
Purpose restricted	\$ -	\$ 35,493,929	\$ 35,493,929
Total with donor restrictions	-	35,493,929	35,493,929
Without donor restrictions			
Unrestricted	39,626,169	-	39,626,169
Board-designated	5,003,334	-	5,003,334
Total without donor restrictions	44,629,503	-	44,629,503
Total Endowment Funds	\$ 44,629,503	\$ 35,493,929	\$ 80,123,432

The changes in endowment net assets for the year ended June 30, 2020 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 45,060,517	\$ 35,497,451	\$ 80,557,968
Investment return:			
Investment income	1,521,853	2,654	1,524,507
Net realized and unrealized appreciation	1,291,676	-	1,291,676
Total investment return	2,813,529	2,654	2,816,183
Contributions	30,000	25,658	55,658
Investment expenses	(252,690)	-	(252,690)
Interfund transfers	(1,500,000)	-	(1,500,000)
Appropriation of endowment assets for expenditures	(1,521,853)	(31,834)	(1,553,687)
Endowment net assets, end of year	\$ 44,629,503	\$ 35,493,929	\$ 80,123,432

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, 2020.

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.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

9. Note Payable

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. On March 27, 2020, President Trump signed into law the “Coronavirus Aid, Relief, and Economic Security (“CARES”) Act”. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, and appropriated funds for SBA Paycheck Protection Program (“PPP”) loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19.

In April 2020, the Foundation entered into a promissory note agreement of \$3,466,803 with a bank with maturity date of April 5, 2022 under PPP loans. The loan bears interest rate of 0.98%. The application for these funds requires the Foundation to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operations of the Foundation. This certification further requires the Foundation to take into account its current business activity and its ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business. The receipt of these funds, and the forgiveness of the loan attendant to these funds, is dependent on the Foundation having initially qualified for the loan and qualifying for the forgiveness of such loan is based on the Foundation’s future adherence to the forgiveness criteria. The Foundation intends to meet the forgiveness requirements of the PPP loans.

The Foundation continues to examine the other impacts that the CARES Act may have on its business. Currently, the Foundation is unable to determine the full impact that the CARES Act will have on its financial condition, results of operation, or liquidity.

10. Description of Program and Supporting Services

The following program and supporting services are included in the accompanying consolidated statements of activities:

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.

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-12th grade students, adults and children living with disabilities, and unite communities through a multitude of school and community programs.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

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 provides 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 which 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 which 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.

11. Net Assets - General and Plant Funds

Net assets - general and plant funds consist of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
General Fund:			
With donor restrictions			
Time restricted only, for periods after June 30, 2020	\$ -	\$ 2,880,379	\$ 2,880,379
Without donor restrictions	896,861	-	896,861
Total General Fund	\$ 896,861	\$ 2,880,379	\$ 3,777,240
Plant Fund:			
Without donor restrictions	\$ 50,131,870	\$ -	\$ 50,131,870
Total Plant Fund	\$ 50,131,870	\$ -	\$ 50,131,870

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

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 statement of activities.

12. Employee Benefits

The Foundation contributes to a defined contribution retirement plan represented by Variable Annuity Life Insurance Company (“VALIC”) for the benefit of all dancers and all qualified, nonunion employees. This plan is administered by VALIC. Contributions to the VALIC plan aggregated \$638,073 for the year ended June 30, 2020.

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 \$115,075.

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

The Foundation provides health insurance for all union dancers and qualified, nonunion employees through American Guild of Musical Artists (“AGMA”). Premiums paid by the Foundation for such insurance were \$1,984,479 for the year ended June 30, 2020.

The Foundation provides dental insurance for qualified nonunion employees. Premiums paid by the Foundation for such insurance were \$43,870 for the year ended June 30, 2020.

The Foundation has an agreement to pay a 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 \$15,896 for this obligation is included in the combined statement of financial position as of June 30, 2020. 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, 2020.

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 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 date of death or disability, as applicable. The balance of the liability of \$151,576 for this obligation is included in the combined statement of financial position as of June 30, 2020 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 \$188,694 for this obligation is included in the combined statements of financial position as of June 30, 2020 and will be paid out of general assets of the Foundation.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

The Foundation entered into an agreement to contribute to a section 457(b) “top hat” plan on behalf of four current employees in an amount up to or equal to the maximum amount allowed by IRS guidelines, currently \$19,500 per calendar year. The net balance of the liability for these obligations as of June 30, 2020 is \$619,514 and is included in the combined statement of financial position and will be paid out of general assets of the Foundation.

13. 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, 2020 for these leases was \$255,430.

In June 2016, the Foundation entered into an agreement to lease 10 apartments to use as subsidized housing for upper level students at Houston Ballet. The 56-month lease term began in November 2016. Lease payments relating to these leases were \$226,417 and the related rent expense, recognized on a straight-line basis, was \$214,675 during the fiscal year ended June 30, 2020.

The scheduled future minimum lease payments under operating leases as of June 30, 2020 are:

<i>Year Ending June 30,</i>	
2021	\$ 231,069
	\$ 231,069

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.

14. Liquidity

On January 30, 2020, the WHO announced the COVID-19 outbreak and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

In response to recommendations established by the Center for Disease Control and Prevention, the Foundation has postponed or cancelled previously-scheduled events and activities during the year ended June 30, 2020, falling in the next fiscal year ending June 30, 2021. The postponement and cancellation of the events will have a material adverse effect on revenue, and the Foundation is likely to experience decline in revenue for fiscal year 2021. The Foundation's operations are dependent on private and public donations from individuals, foundations, and corporations. The outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of national economic slowdown. This situation is expected to depress donations during fiscal year 2021. As such, this may hinder our ability to advance our mission. As such, our financial condition and liquidity may be negatively impacted for the fiscal year 2021.

The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown, which could impair the Foundation's asset values, including investments and long-lived assets. The Foundations expects the decline in the Foundation's asset values to be temporary.

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.

Financial assets available within one year of the statement of financial position date for general expenditure are as follows:

Cash and cash equivalents	\$	14,779,845
Accounts and interest receivable		82,656
Amounts due to (from) general and plant funds		(2,550)
Contributions receivable		1,361,554
Grant receivable		1,318,762
Investments appropriated for current use - general fund		754,632
Investments appropriated for current use - endowment fund		4,201,642
Financial assets available within one year of the statement of financial position date for general expenditure		\$ 22,496,541

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).

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Combined Financial Statements

Financial assets available to meet cash needs for general expenditures within one year are as follows:

Financial assets at June 30, 2020	\$ 98,418,331
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(83,000)
Subject to appropriation and satisfaction of donor restrictions	(70,835,456)
Board designations:	
Endowment funds	(5,003,334)
<hr/>	
Financial assets available to meet cash needs for general expenditures within one year	\$ 22,496,541

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Foundation's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Foundation is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial position, or liquidity for fiscal year 2021.

15. Subsequent Events

The Foundation has evaluated subsequent events through September 28, 2020 for recognition or disclosure, which is the date these combined financial statements were available for issuance.

**Independent Auditor's Reports Required by
Government Auditing Standards and Uniform Guidance**



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Houston Ballet Foundation and Houston Ballet Guild, Inc. (the Foundation), which comprise the combined statement of financial position as of June 30, 2020, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated September 28, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Foundation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation's combined financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the combined financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

September 28, 2020



Independent Auditor’s Report on Compliance For The Major Federal Program; Report on Internal Control Over Compliance Required by Uniform Guidance; and Report on the Schedule of Expenditures of Federal Awards

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

Report on Compliance for The Major Federal Program

We have audited Houston Ballet Foundation and Houston Ballet Guild, Inc. (collectively, the “Foundation”) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Foundation’s major federal program for the year ended June 30, 2020. The Foundation’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the Foundation’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Foundation’s compliance.

Opinion on The Major Federal Program

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2020.



Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002 that we consider to be significant deficiencies.

The Foundation's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Foundation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the combined financial statements of the Foundation as of and for the year ended June 30, 2020, and have issued our report thereon dated September 28, 2020 which contained an unmodified opinion on those combined financial statements. Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the combined financial statements as a whole.

BDO USA, LLP

September 28, 2020

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

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA No.	Pass-Through or Award Number	Federal Expenditures
Federal Emergency Management Agency			
Pass Through:			
Texas Division of Emergency Management			
Disaster Grants-Public Assistance			
(Presidentially Declared Disasters)			
	97.036	4332DRTXP0000001	\$ 2,811,144
Total Expenditures of Federal Awards			\$ 2,811,144

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Foundation, under programs of the federal government for the year ended June 30, 2020. The information in the Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Foundation, it is not intended to, and does not, present the financial position, changes in net assets or cash flows of the Foundation. Therefore, some amounts presented in the Schedule may differ from amounts presented in the combined financial statements.

All of the Foundation's federal awards were in the form of cash assistance for the year ended June 30, 2020.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rates

The Foundation did not elect to use the 10-percent de minimis indirect cost rate as allowed by Uniform Guidance.

4. Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA 97.036)

After a presidentially declared disaster, FEMA provides Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA 97.036) to reimburse eligible costs associated with repair, replacement or restoration of disaster-damaged facilities. The federal government makes reimbursements in the form of cost-shared grants that require state matching funds. In 2020, The Foundation reported \$812,098 of expenditures that were incurred in the prior fiscal years and are included in SEFA.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Schedule of Findings and Questioned Costs

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported
- Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? X yes _____ none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes _____ no

Identification of major programs:

<u>CFDA/Contract Number</u>	<u>Name of Federal Program or Cluster</u>
97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ yes X no

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Schedule of Findings and Questioned Costs

Section II - Combined Financial Statement Findings

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards (GAGAS).

Section III - Federal Awards Findings and Questioned Costs

2020-001 Allowable Costs/Cost Principles

Information on Federal Program:

Disaster Grants-Public Assistance (Presidentially Declared Disasters)

Criteria or Specific Requirement: 2 CFR 200.303 of the Uniform Guidance requires that non-Federal entities receiving Federal awards establish and maintain internal control over the Federal awards that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal awards.

Condition: Five (5) of the thirty-seven (37) items selected for testing allowable costs/cost principles did not have any evidence of a review and approval of the transactions by the authorized official overseeing the grant compliance.

Questioned Cost: There are no questioned costs noted related to this finding.

Context: In reviewing the items selected for testing allowable costs/cost principles recorded, the Foundation was not able to provide any evidence that the grant related payroll expense transactions in question were reviewed and approved by the authorized official overseeing the grant compliance.

Effect: The failure to maintain evidence of review and approval of the expenses can lead to noncompliance with laws and regulations.

Cause: The Foundation failed to maintain evidence that the entries for grant related payroll expense transactions were reviewed and approved prior to recording the transaction.

Recommendation: We recommend that the Foundation maintain evidence of review and approval from an authorized official of all expenses recorded. We recommend that the Foundation implement a policy for alternative approvers in the absence of the CFO.

Management response: We agree with the finding. The transactions in question were reviewed and approved by the Chief Financial Officer or Special Advisor, but did not always include a signature approval by the Chief Financial Officer or Special Advisor. For fiscal year 2021, the Chief Financial Officer or Special Advisor will continue to review and approve all transactions and will include a signature approval on all payroll records related to grant expenditures.

Houston Ballet Foundation and Houston Ballet Guild, Inc.

Schedule of Findings and Questioned Costs

2020-002 Reporting

Information on Federal Program:

Disaster Grants-Public Assistance (Presidentially Declared Disasters)

Criteria or Specific Requirement: 2 CFR 200.303 of the Uniform Guidance requires that non-Federal entities receiving Federal awards establish and maintain internal control over the Federal awards that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal awards.

Condition: The two (2) quarterly reports selected for testing did not have any evidence of review and approval prior to the submission of the report.

The two (2) request for reimbursement reports tested did not have any evidence of review and approval prior to the submission of the report.

Questioned Cost: There are no questioned costs related to this finding.

Context: In testing the quarterly performance reports and the request for reimbursements reports submitted to the grantor under the reporting compliance requirement, the Foundation was not able to provide any evidence that such reports were reviewed and approved prior to submission.

Effect: The failure to maintain evidence of review and approval of a report may result in an inaccurate submission to the grantor which can lead to noncompliance with laws and regulations.

Cause: The Foundation failed to maintain evidence that the required reports submitted to the grantor were reviewed and approved by an authorized personnel prior to submission.

Recommendation: We recommend that the Foundation maintain evidence of review and approval by an authorized official of the quarterly reports and request for reimbursements prior to submission to the grantor.

Management response: We agree with the finding. The procedure of having the Chief Financial Officer or Special Advisor document approval prior to submitting them to the grantor will be implemented in fiscal year 2021.