Houston Symphony Society and Houston Symphony Endowment

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended May 31, 2014 and 2013

Blazek & Vetterling

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Governing Directors of
Houston Symphony Society:

We have audited the accompanying financial statements of Houston Symphony Society and Houston Symphony Endowment (collectively the Symphony), which comprise the consolidated statements of financial position as of May 31, 2014 and 2013 and the related consolidated statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Symphony as of May 31, 2014 and 2013 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The financial information by entity for Houston Symphony Society and Houston Symphony Endowment presented on the consolidated statements of financial position as of May 31, 2014 and 2013 is presented for purposes of additional analysis and is not a required part of the 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

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financial statements. The information has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Blazek & Vetterling

September 22, 2014

Houston Symphony Society and Houston Symphony Endowment

Consolidated Statements of Financial Position as of May 31, 2014 and 2013

	2014			2013		
	HOUSTON SYMPHONY SOCIETY	HOUSTON SYMPHONY ENDOWMENT	TOTAL	HOUSTON SYMPHONY SOCIETY	HOUSTON SYMPHONY ENDOWMENT	TOTAL
ASSETS						
Cash	$ 306,198		$ 306,198	$ 357,055		$ 357,055
Other receivables	367,402		367,402	313,117		313,117
Prepaid expenses	1,335,081		1,335,081	1,268,710		1,268,710
Pledges receivable, net *(Note 2)*	8,109,199	$ 1,325,908	9,435,107	8,516,616	$ 2,458,803	10,975,419
Property, net *(Note 3)*	590,981		590,981	624,903		624,903
Investments *(Notes 4 and 5)*	22,193	70,178,945	70,201,138	13,580	65,970,256	65,983,836
TOTAL ASSETS	$10,731,054	$71,504,853	$82,235,907	$11,093,981	$68,429,059	$79,523,040
LIABILITIES AND NET ASSETS						
Liabilities:						
Accounts payable	$ 1,742,442		$ 1,742,442	$ 1,229,942		$ 1,229,942
Accrued expenses	1,386,491		1,386,491	1,294,822		1,294,822
Deferred revenue	4,431,960		4,431,960	4,346,004		4,346,004
Due to (from) intercompany	2,224,789	$ (2,224,789)		2,847,631	$ (2,847,631)	
Note payable *(Note 6)*	5,297,448		5,297,448	4,170,448		4,170,448
Fair value of interest rate swap agreement *(Note 5)*				6,105		6,105
Accrued pension liability *(Note 9)*	4,468,597		4,468,597	6,287,776		6,287,776
Total liabilities	19,551,727	(2,224,789)	17,326,938	20,182,728	(2,847,631)	17,335,097
Net assets *(Note 8)*:						
Unrestricted by donors:						
Orchestra operations	(6,068,696)		(6,068,696)	(6,323,350)		(6,323,350)
Adjustment for pension liability *(Note 9)*	(7,881,542)		(7,881,542)	(9,817,472)		(9,817,472)
Total unrestricted by donors	(13,950,238)		(13,950,238)	(16,140,822)		(16,140,822)
Temporarily restricted by donors	5,129,565	4,725,863	9,855,428	7,052,075	2,343,004	9,395,079
Permanently restricted by donors		69,003,779	69,003,779		68,933,686	68,933,686
Total net assets	(8,820,673)	73,729,642	64,908,969	(9,088,747)	71,276,690	62,187,943
TOTAL LIABILITIES AND NET ASSETS	$10,731,054	$71,504,853	$82,235,907	$11,093,981	$68,429,059	$79,523,040

See accompanying notes to consolidated financial statements.

Houston Symphony Society and Houston Symphony Endowment

Consolidated Statement of Activities for the year ended May 31, 2014

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUE:				
Classical and pops series	$ 6,929,545			$ 6,929,545
Other concerts	3,297,862			3,297,862
Other operating income	319,036			319,036
Total operating revenue	10,546,443			10,546,443
OPERATING EXPENSES:				
Orchestra and concert production	19,379,163			19,379,163
Marketing, promotion and ticketing	4,460,499			4,460,499
General and administrative	3,108,882			3,108,882
Total operating expenses	26,948,544			26,948,544
Net deficit before contributed and endowment income	(16,402,101)			(16,402,101)
CONTRIBUTED AND ENDOWMENT INCOME:				
Annual and sustainability fund contributions	7,664,971	$ 2,186,514		9,851,485
Campaign for a Sound Future contributions			$ 76,808	76,808
Special events	3,285,889			3,285,889
Less cost of direct donor benefits	(916,401)			(916,401)
Government grants	930,450			930,450
Release of time and purpose restrictions	4,109,024	(4,109,024)		
Fundraising expenses	(2,547,599)			(2,547,599)
Net contributed income	12,526,334	(1,922,510)	76,808	10,680,632
Transfer from endowment for operations	4,124,316	(4,124,316)		
Net contributed and endowment income	16,650,650	(6,046,826)	76,808	10,680,632
Change in net assets from operations	248,549	(6,046,826)	76,808	(5,721,469)
OTHER:				
Investment return, net *(Note 4)*		6,507,175	(6,715)	6,500,460
Change in value of interest rate swap agreement	6,105			6,105
Pension liability adjustment *(Note 9)*	1,935,930			1,935,930
CHANGES IN NET ASSETS	2,190,584	460,349	70,093	2,721,026
Net assets, beginning of year	(16,140,822)	9,395,079	68,933,686	62,187,943
Net assets, end of year	$ (13,950,238)	$ 9,855,428	$ 69,003,779	$ 64,908,969

See accompanying notes to consolidated financial statements.

Houston Symphony Society and Houston Symphony Endowment

Consolidated Statement of Activities for the year ended May 31, 2013

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUE:				
Classical and pops series	$ 6,151,939			$ 6,151,939
Other concerts	3,016,291			3,016,291
Other operating income	265,566			265,566
Total operating revenue	9,433,796			9,433,796
OPERATING EXPENSES:				
Orchestra and concert production	18,054,327			18,054,327
Marketing, promotion and ticketing	4,140,955			4,140,955
General and administrative	2,460,687			2,460,687
Total operating expenses	24,655,969			24,655,969
Net deficit before contributed and endowment income	(15,222,173)			(15,222,173)
CONTRIBUTED AND ENDOWMENT INCOME:				
Annual and sustainability fund contributions	9,734,862	$ 6,191,967		15,926,829
Campaign for a Sound Future contributions			$ 47,898	47,898
Special events	2,135,037			2,135,037
Less cost of direct donor benefits	(581,861)			(581,861)
Government grants	819,556			819,556
Release of time and purpose restrictions	1,690,971	(1,690,971)		
Loss on valuation of pledges receivable	(5,838)			(5,838)
Fundraising expenses	(2,467,386)			(2,467,386)
Net contributed income	11,325,341	4,500,996	47,898	15,874,235
Transfer from endowment for operations	4,558,696	(4,558,696)		
Net contributed and endowment income	15,884,037	(57,700)	47,898	15,874,235
Change in net assets from operations	661,864	(57,700)	47,898	652,062
OTHER:				
Investment return, net *(Note 4)*	2,128,644	6,901,700	245,276	9,275,620
Change in value of interest rate swap agreement	22,621			22,621
Pension liability adjustment *(Note 9)*	3,110,118			3,110,118
CHANGES IN NET ASSETS	5,923,247	6,844,000	293,174	13,060,421
Net assets, beginning of year	(22,064,069)	2,551,079	68,640,512	49,127,522
Net assets, end of year	$ (16,140,822)	$ 9,395,079	$ 68,933,686	$ 62,187,943

See accompanying notes to consolidated financial statements.

Houston Symphony Society and Houston Symphony Endowment

Consolidated Statements of Cash Flows for the years ended May 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 2,721,026	$ 13,060,421
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Net realized and unrealized gain on investments	(5,724,762)	(8,397,817)
Change in value of interest rate swap agreement	(6,105)	(22,621)
Contributions to permanent endowment	(76,808)	(47,898)
Depreciation	157,360	121,909
Changes in operating assets and liabilities:		
Other receivables	(54,285)	(32,153)
Prepaid expenses	(66,371)	(353,708)
Pledges receivable	407,417	(4,898,411)
Accounts payable and accrued expenses	604,169	25,576
Deferred revenue	85,956	246,849
Accrued pension liability	(1,819,179)	(2,986,261)
Net cash used by operating activities	(3,771,582)	(3,284,114)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(4,173,608)	(15,735,759)
Proceeds from sales of investments	5,896,328	17,269,431
Net change in money market mutual funds held for investments	(215,260)	2,661,739
Purchases of property	(123,438)	(331,330)
Net cash provided by investing activities	1,384,022	3,864,081
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of note payable	(15,134,000)	(17,403,000)
Proceeds from note payable	16,261,000	16,424,000
Proceeds from contributions restricted to endowment	1,209,703	477,504
Net cash provided (used) by financing activities	2,336,703	(501,496)
NET CHANGE IN CASH	(50,857)	78,471
Cash, beginning of year	357,055	278,584
Cash, end of year	$ 306,198	$ 357,055

Supplemental disclosure of cash flow information:

	2014	2013
Cash paid for interest	$82,063	$93,761
Donated securities	$2,207,312	$919,223

See accompanying notes to consolidated financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Houston Symphony Society (the Society) was incorporated under the laws of the State of Texas in 1936 for charitable and educational purposes related to maintaining a symphony orchestra. The mission of the Society is to inspire and enrich the lives of our diverse citizenry through outstanding symphonic music performed by our great orchestra.

Houston Symphony Endowment (the Endowment) was originally established as a trust in 1971 under the laws of the State of Texas as a part of and solely to support the operations of the Society. In June 2006, the form of organization of the Endowment was changed to a separate nonprofit corporation organized under the laws of the State of Texas, solely to support the operations of the Society. The nonprofit exemption was approved by the Internal Revenue Service in May 2007. The Endowment holds contributed funds in perpetuity, invests those funds, and makes contributions from time to time to the Society. Such contributions must meet the stated restrictions of donors, as well as the current policies of the Endowment. The Endowment is governed by a Board of Directors who is elected by the officers of the Board of Directors of the Society to serve staggered three-year terms with one-third of the directors elected each year.

Basis of presentation – These financial statements include the accounts of the Society and the Endowment (collectively the Symphony). All balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – The Society and the Endowment are exempt from federal income tax under §501(c)(3) of the Internal Revenue Code. The Society is classified as a public charity under §509(a)(2). The Endowment is classified as a Type I supporting organization under §509(a)(3). The Society and the Endowment file annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress. The Society and the Endowment believe they are no longer subject to examinations of returns for tax years ended before May 31, 2011.

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are discounted to estimate the present value of future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue. An allowance for uncollectible pledges is estimated based on management's periodic evaluation of past loss experience, known adverse situations that may affect the donor's ability to pay, and current economic conditions. It is possible that management's estimate regarding the collectability of these balances will change in the near term resulting in a change in the carrying value of the pledges receivable.

Property and equipment purchases greater than $1,000 that have a useful life greater than one year are capitalized at their original cost if purchased and at estimated fair value at the date of gift if donated. Depreciation is provided on a straight-line basis over estimated useful lives of 3 to 10 years.

Investment valuation and income recognition – Investments in securities are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Society's management determines the valuation policies utilizing information provided by its investment advisers, custodians and fund managers. Contributed land held for investment is carried at historical cost based on the fair market value at the date of donation, which is lower than current market value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes gains and losses on investments bought and sold as well as held during the year. Investment return is reported in the statement of activities as an increase in unrestricted net assets unless the use of the income is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets.

Net asset classification – Contributions, investment return and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions and investment return restricted by the donor to use for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets. At May 31, 2014 and 2013, all temporarily restricted net assets are for future time periods.
- *Permanently restricted net assets* include contributions and investment return that donors have restricted in perpetuity. Investment return that has not been restricted in perpetuity may be used to support the operations of the Symphony.

Revenue from ticket sales is recognized when the related services are provided. Amounts received but unearned are included in the statement of financial position as deferred revenue. Program costs are deferred when incurred and charged to expense when the related revenue is recognized.

Contributions – Contributions, including government grants, are recognized as revenue at fair value when an unconditional commitment is received from the donor. Generally, contributions received with donor restrictions that limit their use are recorded as temporarily or permanently restricted contributions. Restricted contributions whose purpose is met in the same reporting period are reported as unrestricted contributions and increase unrestricted net assets. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Donated services and materials are recognized at fair value as unrestricted contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated services include legal fees and travel vouchers totaling $96,178 for 2014 and $41,064 for 2013.

During the years ended May 31, 2014 and 2013, a substantial number of volunteers contributed significant amounts of time in connection with programs, administration and fundraising for which no amount has been recorded in the financial statements because the services do not meet the criteria for recognition under generally accepted accounting principles.

Advertising costs are expensed as incurred, except for expenditures directly related to future seasons, which are recorded as prepaid expenses. In 2014 and 2013, the Symphony expensed approximately $1,058,000 and $978,000, respectively, for advertising costs. At May 31, 2014 and 2013, prepaid expenses include deferred advertising costs of approximately $77,630 and $88,000, respectively.

Changes in net assets from operations – The Symphony includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Non-operating investment return and changes in the pension liability are excluded from the changes in net assets from operations.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable at May 31, 2014 consist of the following:

	HOUSTON SYMPHONY SOCIETY	HOUSTON SYMPHONY ENDOWMENT	TOTAL
Pledges receivable are expected to be collected as follows:			
Less than one year	$ 6,591,820	$ 1,151,235	$ 7,743,055
One to five years	1,600,834	204,000	1,804,834
Total pledges receivable	8,192,654	1,355,235	9,547,889
Unamortized discount	(3,455)	(11,327)	(14,782)
Allowance for uncollectible pledges receivable	(80,000)	(18,000)	(98,000)
Pledges receivable, net	$ 8,109,199	$ 1,325,908	$ 9,435,107

Pledges receivable at May 31, 2013 consist of the following:

	HOUSTON SYMPHONY SOCIETY	HOUSTON SYMPHONY ENDOWMENT	TOTAL
Total pledges receivable	$ 8,631,986	$ 2,492,603	$ 11,124,589
Unamortized discount	(5,370)	(15,800)	(21,170)
Allowance for uncollectible pledges receivable	(110,000)	(18,000)	(128,000)
Pledges receivable, net	$ 8,516,616	$ 2,458,803	$ 10,975,419

NOTE 3 – PROPERTY

Property consists of the following:

	2014	2013
Land	$ 16,915	$ 16,915
Computer and information systems	1,303,685	1,300,749
Instruments	1,161,191	1,040,689
Leasehold improvements	268,055	268,055
Furniture and equipment	132,784	132,784
Total property, at cost	2,882,630	2,759,192
Accumulated depreciation	(2,291,649)	(2,134,289)
Property, net	$ 590,981	$ 624,903

NOTE 4 – INVESTMENTS

Investments consist of the following:

	LIQUIDITY	REDEMPTION NOTICE	2014	2013
Investments at fair value:				
TIFF Multi-Asset Mutual Fund (a)	Daily	None	$ 50,531,024	$ 45,628,025
Large-Cap Stock Index Fund	Daily	None	8,232,396	7,557,800
Limited partnership funds:				
High Vista (b)	2-year lock up	2-year lock up	7,150,381	6,539,419
The Endowment (PMF) TEI Fund (c)	Quarterly	(c)	3,528,888	5,724,016
Money market mutual funds	Daily	None	256,256	40,996
Equity securities (service and technology)	Daily	None	22,193	13,580
Total investments at fair value			69,721,138	65,503,836
Land held for investment, at cost			480,000	480,000
Total investments			$ 70,201,138	$ 65,983,836

Limited partnership funds as well as the TIFF Multi-Asset Mutual Fund are invested with external investment managers who can invest in various alternative categories, including real estate, partnerships, long and short equity positions, natural resources, private equity, managed futures, emerging markets, distressed enterprises, and arbitrage positions. These investments are domestic and international in nature, may be illiquid, and may not be realized for a period of several years after the investments are made. In addition to risks associated with other investments, these investments include additional risks, resulting in a greater risk of losing invested capital. Such risks include, but are not limited to, limited liquidity, absence of oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and non-marketable investments), and nondisclosure of portfolio composition. The investment strategies of each of these funds are as follows:

(a) The fund seeks to achieve a total return that, over a majority of market cycles, exceeds inflation plus 5% per annum by employing a globally diversified portfolio. Such diversification is designed to constitute a hedge against catastrophic losses during times when the fund's total return segment may be misfiring. The fund generally maintains its desired alignment of exposures by deploying equity futures, currency futures, U. S. Treasury futures, and swaps as needed.
(b) The fund seeks to maximize risk-adjusted returns over a long-term horizon. The fund intends to achieve its investment objective by employing a strategy under which the fund invests in multiple asset classes, including, without limitation, traditional assets (such as marketable equity, fixed-income and other securities) and alternative assets (such as real estate, commodities, timber, absolute return, private equity and venture capital investments). The fund combines broad diversification, systematic portfolio risk management, internal management of a substantial portion of its assets and selective utilization of high quality, hard to access external managers. The fund has a lock-up period of two years or until January 2015, during which time only 6% may be distributed each year. After the lock-up period, funds are generally redeemable each calendar quarter, but the fund has the sole discretion to not offer redemptions at such times.
(c) The Endowment (PMF) TEI Fund seeks to preserve capital and to generate consistent long-term appreciation across a market cycle of five to seven years. It was a fund of funds with the underlying master fund investing in a variety of investment vehicles, including but not limited to, limited partnerships, limited liability companies, offshore corporations and other foreign investment vehicles, registered investment companies (including exchange-traded funds), and direct investments in marketable securities and derivative instruments. In March 2014, the Symphony accepted a tender offer for which proceeds were received in shares of a limited partnership interest in the PMF TEI Fund, LP, a newly formed, closed-end, non-diversified, registered investment company under the 1940 Act that invests substantially all of its assets in the Endowment PMF Master Fund, L.P., which also is a newly-formed, closed-end, non-diversified, registered investment company under the 1940 Act. The investment strategy is to invest in core alternatives with private equity focus. It is not actively managed as it is a liquidating fund that will distribute cash as the underlying assets of the current portfolio are liquidated. Distributions will occur quarterly as available. The process to fully liquidate is expected to take up to ten years.

There are no unfunded commitments as of May 31, 2014.

Investment return consists of the following:

	2014	2013
Net realized and unrealized gain	$ 5,724,762	$ 8,397,817
Interest and dividends	698,915	801,015
Rents and royalties	109,419	108,047
Investment management fees	(32,636)	(31,259)
Investment return, net	$ 6,500,460	$ 9,275,620

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

NOTE 5 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at May 31, 2014 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments:				
TIFF Multi-Asset Mutual Fund		$ 50,531,024		$ 50,531,024
Limited partnership funds			$ 10,679,269	10,679,269
Stock index fund	$ 8,232,396			8,232,396
Money market mutual funds	256,256			256,256
Equity securities	22,193			22,193
Total assets measured at fair value	$ 8,510,845	$ 50,531,024	$ 10,679,269	$ 69,721,138

Assets measured at fair value at May 31, 2013 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments:				
TIFF Multi-Asset Mutual Fund		$ 45,628,025		$ 45,628,025
Limited partnership funds			$ 12,263,435	12,263,435
Stock index fund	$ 7,557,800			7,557,800
Money market mutual funds	40,996			40,996
Equity securities	13,580			13,580
Total assets measured at fair value	$ 7,612,376	$ 45,628,025	$ 12,263,435	$ 65,503,836

Liabilities measured at fair value as of May 31, 2013 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Interest rate swap agreement	$ 0	$ (6,105)	$ 0	$ (6,105)

Valuation methods used for assets and liabilities measured at fair value are as follows:

- The *TIFF Multi-Asset Mutual Fund* and *limited partnership funds* are valued at the net asset value per share as determined by the issuer as a practical expedient. The NAV is based on the fair value of the underlying investments held by the fund less any liabilities. The TIFF Multi-Asset Fund may trade daily without restrictions, and is therefore classified as Level 2. Redemption restrictions on limited partnership funds are greater than 90 days, and therefore they are classified as Level 3.
- The *stock index fund* and *equity securities* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Money market mutual funds* are valued at the reported net asset value.
- *Interest rate swap agreement* is valued based upon market interest rates and the expected cash flows of the swap based on Eurodollar futures.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Symphony believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Changes in the fair value of Level 3 assets consist of the following:

Balance at May 31, 2012	$ 12,512,628
Purchases	6,300,000
Redemptions	(7,109,155)
Realized gain	358,120
Unrealized gain relating to investments still held at reporting date	201,842
Balance at May 31, 2013	12,263,435
Redemptions	(2,152,633)
Unrealized gain relating to investments still held at reporting date	568,467
Balance at May 31, 2014	$ 10,679,269

NOTE 6 – NOTE PAYABLE

Note payable represents the outstanding balance on an $8,500,000 unsecured line of credit that expires March 30, 2016. Interest is payable quarterly at a variable rate equal to 1.30% over LIBOR (1.53% at May 31, 2014). Under the terms of the note, the Symphony is required to maintain a tangible net worth of $40 million, and its ratio of liabilities to tangible net worth cannot exceed 75%.

NOTE 7 – OPERATING LEASE COMMITMENTS

The Symphony leases certain of its facilities under noncancelable operating lease agreements. Future minimum lease payments under these operating leases as of May 31, 2014 are as follows:

2015	$ 194,775
2016	137,603
2017	145,621
2018	68,950
Total	$ 546,949

Total rent expense for 2014 and 2013 was $746,882 and $614,393, respectively, and includes additional month to month rentals.

NOTE 8 – ENDOWMENT

The Endowment was established for the purpose of supporting the Society. It includes only donor-restricted endowment funds. The Endowment Board of Directors has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) 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 Symphony classifies the original value of gifts donated to the permanent endowment and investment return restricted by the donor in perpetuity as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Endowment Board of Directors in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, the Endowment Board of Directors considers the following factors in making a determination to appropriate accumulated donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Symphony 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 Symphony
- The investment policies of the Endowment

Changes in net assets of the endowment funds are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, June 1, 2012	$ (2,128,644)	$ 0	$ 68,640,512	$ 66,511,868
Contributions			47,898	47,898
Investment return:				
Interest, dividends, rents and royalties		909,062		909,062
Net realized and unrealized gain	2,128,644	6,023,897	245,276	8,397,817
Investment management fees		(31,259)		(31,259)
Net investment return	2,128,644	6,901,700	245,276	9,275,620
Distributions		(4,558,696)		(4,558,696)
Endowment net assets, May 31, 2013	0	2,343,004	68,933,686	71,276,690
Contributions			76,808	76,808
Investment return:				
Interest, dividends, rents and royalties		808,334		808,334
Net realized and unrealized gain (loss)		5,731,477	(6,715)	5,724,762
Investment management fees		(32,636)		(32,636)
Net investment return		6,507,175	(6,715)	6,500,460
Distributions		(4,124,316)		(4,124,316)
Endowment net assets, May 31, 2014	$ 0	$ 4,725,863	$ 69,003,779	$ 73,729,642

Funds with Deficiencies

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 TUPMIFA requires the Symphony to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets.

Return Objectives and Risk Parameters

The Endowment has adopted investment and spending policies for endowment assets that have the primary objective of achieving a long-term rate-of-return that will permit the Endowment to assist the Symphony in meeting its operating needs while maintaining its ability to provide for future needs without subjecting the endowment funds to imprudent risks. Endowment assets include those assets of donor-restricted funds that the Symphony must hold in perpetuity or for the donor-specified periods.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Endowment relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Endowment targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

As different asset classes produce different returns during the course of the year, the portfolio's asset allocation changes accordingly. Therefore, rebalancing asset allocations to policy targets is essential for maintaining the risk and return profile that has been adopted. The Endowment reviews the portfolio's actual asset allocation relative to established policy targets and ranges. If deemed necessary, the Endowment will rebalance the portfolio between the various asset classes based on market values.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Endowment's standing resolution on disbursements has a total return spending rule that allows spending budgets to be funded from interest and dividend income, realized gains, unused portions of prior year spending allowances that have been reinvested, and unrealized appreciation (to use "unrealized appreciation," units would have to be sold).

Under the standing resolution, expenditures are determined annually based on the Endowment's twelve-quarter rolling average as of the March 31 proceeding the Symphony's fiscal year in which the disbursement will be expended. Subject to restrictions placed by either donors or governing law, disbursements are at the discretion of the Endowment Board of Directors and may be increased or decreased at any time, and the standing policy may be suspended or altered at any time. During 2014, $3,725,802 was distributed based on the Endowment's twelve-quarter rolling average. Total distributions also include $109,419 in royalty income used for operations each year and $289,095 distributed to fund capital campaign expenses.

NOTE 9 – PENSION PLAN

Defined benefit retirement plans – The Symphony has two pension plans, the Musicians Retirement Plan and the Staff Employees' Retirement Plan (collectively the Plans) that cover substantially all of its employees. Retirement benefits primarily are a function of a fixed amount reduced pro-rata for services less than 30 years under the Musicians Retirement Plan and the employee's compensation and years of service under the Staff Employees' Retirement Plan. The Symphony's policy is to currently fund accrued pension costs. In 1998, the Symphony agreed to freeze the Musicians Retirement Plan and to begin funding the musicians retirement through the American Federation of Musicians and Employers' Pension Fund, a multiemployer plan. The Symphony uses a May 31 valuation date.

The funded status of each plan at May 31, 2014 and 2013 is as follows:

	MUSICIANS PLAN 2014	STAFF PLAN 2014	MUSICIANS PLAN 2013	STAFF PLAN 2013
Projected benefit obligation	$ 16,742,272	$ 6,011,660	$ 16,999,870	$ 5,521,683
Fair value of plan assets	(14,098,237)	(4,187,098)	(12,624,193)	(3,609,584)
Unfunded projected benefit obligation	$ 2,644,035	$ 1,824,562	$ 4,375,677	$ 1,912,099
Accumulated benefit obligation	$ 16,742,272	$ 5,632,381	$ 16,999,870	$ 5,222,187

Amounts recognized in the statement of financial position at May 31, 2014 and 2013 are as follows:

	MUSICIANS PLAN 2014	STAFF PLAN 2014	MUSICIANS PLAN 2013	STAFF PLAN 2013
Accrued pension liability	$ 2,644,035	$ 1,824,562	$ 4,375,677	$ 1,912,099

Amounts recognized in unrestricted net assets not yet recognized as periodic pension cost at May 31, 2014 and 2013 are as follows:

	MUSICIANS PLAN 2014	STAFF PLAN 2014	MUSICIANS PLAN 2013	STAFF PLAN 2013
Net loss	$ 6,544,770	$ 1,438,714	$ 8,222,983	$ 1,696,431

Components of net periodic benefit cost at May 31, 2014 and 2013 are as follows:

	MUSICIANS PLAN 2014	STAFF PLAN 2014	MUSICIANS PLAN 2013	STAFF PLAN 2013
Interest cost	$ 710,187	$ 247,890	$ 699,191	$ 224,318
Service cost		194,902		196,933
Expected return on assets	(918,311)	(276,259)	(882,122)	(252,019)
Amortization of loss	1,173,587	320,833	1,233,781	389,976
Total net periodic benefit cost	$ 965,463	$ 487,366	$ 1,050,850	$ 559,208

Other changes in plan assets and benefit obligations recognized in changes in net assets are as follows:

	MUSICIANS PLAN 2014	STAFF PLAN 2014	MUSICIANS PLAN 2013	STAFF PLAN 2013
Net loss (gain)	$ (458,924)	$ 74,054	$ (1,169,494)	$ (409,899)
Amortization of net gain	(1,219,289)	(331,771)	(1,160,275)	(370,450)
Total recognized in changes in net assets	$ (1,678,213)	$ (257,717)	$ (2,329,769)	$ (780,349)

The estimated actuarial gains from the pension plan that will be amortized into net periodic benefit cost over the next fiscal year are $1,062,000 for the Musicians Retirement Plan and $223,500 for the Staff Employees' Retirement Plan. There is no estimated transition asset or prior service credit from the Staff Employees' Retirement Plan or Musicians Retirement Plan that will be amortized over the next fiscal year.

Weighted-average assumptions used to determine benefit obligation at year end:

	MUSICIANS PLAN 2014	STAFF PLAN 2014	MUSICIANS PLAN 2013	STAFF PLAN 2013
Discount rate	4.50%	4.50%	4.50%	4.50%
Expected return on plan assets	8.00%	8.00%	8.00%	8.00%

Weighted-average assumptions used to determine net periodic cost:

	MUSICIANS PLAN 2014	STAFF PLAN 2014	MUSICIANS PLAN 2013	STAFF PLAN 2013
Discount rate	4.50%	4.50%	4.25%	4.25%
Expected return on plan assets	8.00%	8.00%	8.00%	8.00%
Average future working lifetime	5.97	4.49	6.52	4.48

The expected long-term rate-of-return on assets is established taking into account the intended asset mix and historical rates-of-return on comparable assets.

Plan assets

The Plans were established for the exclusive purpose of providing benefits for employees and beneficiaries. Consistent with this purpose, the primary goal of managing the portfolio assets is to invest the assets so as to preserve the capital and provide an acceptable rate of growth and income. The Plans shall seek the highest possible return while maintaining a prudent regard for legal considerations, fiduciary responsibility, safety of capital and minimum volatility of returns.

The Symphony's targeted pension plan asset allocation by type of asset is as follows:

Equity	50%-75%
Fixed-income	20%-50%
Cash and other	0%-20%

Plan assets measured at fair value on a recurring basis for the Plans at May 31, 2014, by asset category are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Equity mutual funds	$ 11,148,758			$ 11,148,758
Fixed-income mutual funds	7,136,577			7,136,577
Total	$ 18,285,335	$ 0	$ 0	$ 18,285,335

Plan assets measured at fair value on a recurring basis for the Plans at May 31, 2013, by asset category are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Equity mutual funds	$ 9,614,545			$ 9,614,545
Fixed-income mutual funds	6,368,010			6,368,010
Other funds	251,221			251,221
Total	$ 16,233,776	$ 0	$ 0	$ 16,233,776

Investments in mutual funds are valued based on published net asset values. Investments in other funds are valued using the net asset value per share as determined by the issuer and the values reported in the audited financial statements.

No assets of the Plans are expected to be returned to the Symphony in the next fiscal year.

Cash flows

Contributions to the Plans provide for benefits attributed to service to date, as well as those expected to be earned in the future. The Symphony's contributions to the Plans totaled $1,452,829 in 2014 and $1,610,058 in 2013. The Symphony expects to contribute $1,503,601 to the Plans in 2014. Distributions from the Plans during 2014 and 2013 were $1,094,619 and $1,060,246, respectively.

Estimated future benefit payments for next ten years are as follows:

	MUSICIANS PLAN	STAFF PLAN
2015	$ 1,105,923	$ 218,677
2016	1,077,928	232,501
2017	1,090,321	240,520
2018	1,123,818	250,684
2019	1,172,116	265,955
2020 through 2024	5,982,836	1,503,826
Total	$ 11,552,942	$ 2,712,163

NOTE 10 – MULTIEMPLOYER PENSION PLAN

The Society is a participating employer in a trustee-managed, multiemployer defined benefit pension plan for employees who are covered under the collective bargaining agreement of the Houston Professional Musicians Association (Local Union No. 65-699 of the American Federation of Musicians). The plan generally provides retirement benefits to employees based on years of service to the Society. The multiemployer pension plan is managed by a board of trustees with equal representation from the union and employers. Although the Society is not represented on the board of trustees, other contributing employers are members of the board of trustees. Contributions totaling $496,457 in 2014 and $479,355 in 2013 were charged to pension expense for ongoing participation in the pension plan. The Society's contributions do not represent more than 5% of the pension plan's total contributions. Additionally, there have been no significant changes that affect the comparability of 2014 and 2013 contributions.

The risks of participating in the multiemployer defined benefit pension plan are different from single-employer plans because: (a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be borne by the remaining participating employers, and (c) if the Society chooses to stop participating in the multiemployer plan, it may be required to pay a withdrawal liability to the plan. In connection with ongoing renegotiation of the collective bargaining agreement, the Society may discuss and negotiate for the complete or partial withdrawal from the multiemployer pension plan. Depending on the number of employees withdrawn in any future period and the financial condition of the multiemployer plan at the time of withdrawal, the associated withdrawal liabilities could be material to the Society's consolidated change in net assets in the period of the withdrawal. The Society has no plans to withdraw from its multiemployer pension plan.

The following presents information about the Society's multiemployer pension plan as of May 31, 2014 and 2013, and the years ended May 31, 2014 and 2013:

NAME OF PENSION FUND	EIN AND PLAN NUMBER, IF AVAILABLE	PENSION PROTECTION ACT ZONE STATUS		FIP/RP STATUS	CONTRIBUTIONS FOR THE YEAR ENDED MAY 31,		SURCHARGE IMPOSED	EXPIRATION OF COLLECTIVE BARGAINING AGREEMENT
		2014	2013		2014	2013		
American Federation of Musicians and Employers' Pension Fund	51-6120204 Plan No. 001	Red 03/31/14	Red 03/31/13	Implemented	$496,457	$479,355	Yes	10/04/14

Due to the plan's "critical" status under the Pension Protection Act of 2006, a rehabilitation plan was implemented by the union in 2010 requiring additional employer contributions. Per the collective bargaining agreement, the Society is required to contribute 6% of scale wages. As part of the rehabilitation program, the Society is now required to contribute 6.54% until the plan is no longer in critical status.

The Society also participates in a multiemployer defined contribution pension plan and a multiemployer defined contribution health and welfare plan for its stagehand employees. Total contributions to these plans were approximately $107,000 and $86,000 in 2014 and 2013, respectively.

NOTE 11 – CONCENTRATION OF RISK

The Symphony's musician employees who perform in the Houston Symphony Orchestra are covered by a collective bargaining agreement between the Society and the Houston Professional Musicians Association Local Union No. 65-699, which expires in October 2014. The Symphony concluded negotiations on a new labor agreement with the musicians in April 2014 that is effective October 5, 2014 and expires on October 6, 2018. The Symphony's stagehand employees are covered by a collective bargaining agreement between the Society and the International Alliance of Theatrical Stagehands Local No. 51, which expires in July 2015.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 22, 2014, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.