Houston Symphony Society and Houston Symphony Endowment

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended May 31, 2018 and 2017

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, 2018 and 2017 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, 2018 and 2017 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.

Restatement of Beginning Net Assets

As discussed in Note 2 to the financial statements, the Symphony's net assets as of May 31, 2016 and 2017 have been restated. Our opinion is not modified with respect to this matter.

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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, 2018 and 2017 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 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

December 18, 2018

Houston Symphony Society and Houston Symphony Endowment

Consolidated Statements of Financial Position as of May 31, 2018 and 2017

	2018			2017		
	HOUSTON SYMPHONY SOCIETY	HOUSTON SYMPHONY ENDOWMENT	TOTAL	HOUSTON SYMPHONY SOCIETY	HOUSTON SYMPHONY ENDOWMENT	TOTAL
ASSETS						
Cash	$ 158,220		$ 158,220	$ 571,217		$ 571,217
Account receivables and other assets	713,762		713,762	240,211		240,211
Deferred costs	1,025,861		1,025,861	1,060,603		1,060,603
Pledges receivable, net *(Note 3)*	7,425,630	$ 7,330,697	14,756,327	9,594,414	$ 6,861,307	16,455,721
Property, net *(Note 4)*	1,077,607		1,077,607	1,032,013		1,032,013
Investments *(Notes 5 and 6)*		70,402,697	70,402,697		66,807,253	66,807,253
TOTAL ASSETS	$10,401,080	$77,733,394	$88,134,474	$12,498,458	$73,668,560	$86,167,018
LIABILITIES AND NET ASSETS						
Liabilities:						
Accounts payable	$ 1,217,071		$ 1,217,071	$ 1,600,620		$ 1,600,620
Accrued expenses	1,226,304		1,226,304	1,349,002		1,349,002
Deferred revenue	4,064,377		4,064,377	3,948,698		3,948,698
Due to (from) intercompany	142,087	$ (142,087)		941,955	$ (941,955)	
Notes payable *(Note 7)*	15,187,695		15,187,695	10,932,854		10,932,854
Accrued pension liability *(Note 12)*	6,064,777		6,064,777	6,905,528		6,905,528
Total liabilities	27,902,311	(142,087)	27,760,224	25,678,657	(941,955)	24,736,702
Net assets:						
Unrestricted *(Note 9)*	(20,071,988)	(2,177,346)	(22,249,334)	(18,048,905)	(2,827,926)	(20,876,831)
Temporarily restricted *(Note 10)*	2,570,757	2,187,261	4,758,018	4,868,706	912,079	5,780,785
Permanently restricted *(Note 11)*		77,865,566	77,865,566		76,526,362	76,526,362
Total net assets	(17,501,231)	77,875,481	60,374,250	(13,180,199)	74,610,515	61,430,316
TOTAL LIABILITIES AND NET ASSETS	$10,401,080	$77,733,394	$88,134,474	$12,498,458	$73,668,560	$86,167,018

See accompanying notes to consolidated financial statements.

Houston Symphony Society and Houston Symphony Endowment

Consolidated Statement of Activities for the year ended May 31, 2018

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUE:				
Classical and pops series	$ 6,510,373			$ 6,510,373
Other concerts	3,984,503			3,984,503
Other operating income	438,277			438,277
Total operating revenue	10,933,153			10,933,153
OPERATING EXPENSES:				
Program expenses:				
Orchestra and concert production	21,300,898			21,300,898
European tour	1,914,190			1,914,190
Total program expenses	23,215,088			23,215,088
Marketing, promotion and ticketing	4,225,620			4,225,620
General and administrative	3,873,044			3,873,044
Total operating expenses	31,313,752			31,313,752
Net deficit before contributed and endowment income	(20,380,599)			(20,380,599)
CONTRIBUTED AND ENDOWMENT INCOME:				
Contributed income:				
Contributions	10,132,229	$ 2,172,134	$ 1,339,204	13,643,567
Special events	1,771,172			1,771,172
Less cost of direct donor benefits	(608,172)			(608,172)
Government grants	844,612			844,612
Release of time and purpose restrictions	4,470,083	(4,470,083)		
Fundraising expenses	(2,931,287)			(2,931,287)
Net contributed income	13,678,637	(2,297,949)	1,339,204	12,719,892
Transfer from endowment for operations	4,071,112	(4,071,112)		
Net contributed and endowment income	17,749,749	(6,369,061)	1,339,204	12,719,892
Changes in net assets from operations	(2,630,850)	(6,369,061)	1,339,204	(7,660,707)
OTHER:				
Investment return, net *(Note 5)*	2,935,775	3,061,099		5,996,874
Transfer from endowment in excess of accumulated earnings	(2,285,195)	2,285,195		
Other pension-related changes *(Note 12)*	607,767			607,767
CHANGES IN NET ASSETS	(1,372,503)	(1,022,767)	1,339,204	(1,056,066)
Net assets, beginning of year *(Note 2)*	(20,876,831)	5,780,785	76,526,362	61,430,316
Net assets, end of year	$ (22,249,334)	$ 4,758,018	$ 77,865,566	$ 60,374,250

See accompanying notes to consolidated financial statements.

Houston Symphony Society and Houston Symphony Endowment

Consolidated Statement of Activities for the year ended May 31, 2017

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUE:				
Classical and pops series	$ 6,667,722			$ 6,667,722
Other concerts	3,722,260			3,722,260
Other operating income	613,000			613,000
Total operating revenue	11,002,982			11,002,982
OPERATING EXPENSES:				
Orchestra and concert production	20,863,666			20,863,666
Marketing, promotion and ticketing	4,841,697			4,841,697
General and administrative	4,345,517			4,345,517
Total operating expenses	30,050,880			30,050,880
Net deficit before contributed and endowment income	(19,047,898)			(19,047,898)
CONTRIBUTED AND ENDOWMENT INCOME:				
Contributed income:				
Contributions	10,028,347	$ 3,311,595	$ 553,844	13,893,786
Special events	2,341,064			2,341,064
Less cost of direct donor benefits	(1,067,810)			(1,067,810)
Government grants	1,174,771			1,174,771
Release of time and purpose restrictions	2,696,306	(2,696,306)		
Fundraising expenses	(3,701,203)			(3,701,203)
Net contributed income	11,471,475	615,289	553,844	12,640,608
Transfer from endowment for operations	5,109,106	(5,109,106)		
Net contributed and endowment income	16,580,581	(4,493,817)	553,844	12,640,608
Changes in net assets from operations	(2,467,317)	(4,493,817)	553,844	(6,407,290)
OTHER:				
Investment return, net *(Note 5)*	5,186,017	1,338,780		6,524,797
Transfer from endowment in excess of accumulated earnings	(4,536,255)	4,536,255		
Other pension-related changes *(Note 12)*	1,494,995			1,494,995
CHANGES IN NET ASSETS	(322,560)	1,381,218	553,844	1,612,502
Net assets, beginning of year *(Note 2)*	(20,554,271)	4,399,567	75,972,518	59,817,814
Net assets, end of year	$ (20,876,831)	$ 5,780,785	$ 76,526,362	$ 61,430,316

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, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ (1,056,066)	$ 1,612,502
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Net realized and unrealized gain on investments	(4,507,662)	(6,322,548)
Contributions restricted to permanent endowment	(1,339,204)	(553,844)
Depreciation	241,398	219,149
Loss on disposal of property	15,331	
Changes in operating assets and liabilities:		
Accounts receivable and other assets	(473,551)	(69,750)
Deferred costs	34,742	123,354
Pledges receivable	2,368,784	(2,504,716)
Account payable and accrued expenses	(506,247)	(739,568)
Deferred revenue	115,679	(440,577)
Accrued pension liability	(840,751)	(1,295,790)
Net cash used by operating activities	(5,947,547)	(9,971,788)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(2,165,562)	(2,532,979)
Proceeds from sales of investments	4,092,139	8,536,164
Net change in money market mutual funds held as investments	(1,014,359)	(2,472,018)
Purchases of property	(302,323)	(66,429)
Net cash provided by investing activities	609,895	3,464,738
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable	(17,902,744)	(20,561,857)
Proceeds from notes payable	22,157,585	24,930,263
Proceeds from contributions restricted to permanent endowment	669,814	758,005
Net cash provided by financing activities	4,924,655	5,126,411
NET CHANGE IN CASH	(412,997)	(1,380,639)
Cash, beginning of year	571,217	1,951,856
Cash, end of year	$ 158,220	$ 571,217

Supplemental disclosure of cash flow information:

	2018	2017
Cash paid for interest	$332,739	$164,463
Proceeds of donated securities reflected in net cash used by operating activities	$2,717,334	$1,106,580

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 engage a large and diverse audience in greater Houston and beyond through exceptional orchestral and non-orchestral performances, educational programs and community activities.

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 assets, liabilities, net assets and activities 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).

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 purchases greater than $1,000 that have a useful life greater than one year are capitalized at 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 Symphony's management determines the valuation policies utilizing information provided by its investment advisers, custodians and fund managers. Contributed land held for investment is reported 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 (depreciation) 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 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.
- *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. Conditional contributions are recognized in the same manner when the conditions are substantially met. 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.

Donated 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. During 2018, the Symphony received donated services and materials totaling $356,095, which included approximately $26,160 for information technology services, $55,185 for travel vouchers and hotel accommodations, $46,103 for fundraising events, $41,395 for artist services and instruments, $164,420 in legal and financial consulting services and $22,833 for donated office and performance space. During 2017, the Symphony received donated services and materials totaling $460,897, which included $190,568 for information technology services, $151,237 for travel vouchers and services used for fundraising events, $80,042 for orchestra conductor fees, and $39,050 for equipment and instruments.

During the years ended May 31, 2018 and 2017, 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 did 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 2018 and 2017, the Symphony expensed approximately $887,000 and $904,000, respectively, for advertising costs. At May 31, 2018 and 2017, deferred costs include deferred advertising costs of approximately $41,000 and $25,000, respectively.

Changes in net assets from operations – The Symphony includes in its definition of operations all revenue 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.

Recent financial accounting pronouncements – In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842).* Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for fiscal periods beginning after December 15, 2019. The Symphony plans to adopt this ASU for fiscal year 2021. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions.* New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The Symphony is required to adopt this ASU for fiscal year 2019. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The ASU supersedes the revenue recognition requirements for most exchange transactions not specifically covered by other guidance. It does not apply to contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when revenue is recognized. The ASU is effective for fiscal year 2020 and must be applied retrospectively. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

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 amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. The Symphony is required to apply the amendments in its fiscal year 2020 financial statements. Management has not determined the impact adoption of this ASU will have on the financial statements.

NOTE 2 – RESTATEMENT OF BEGINNING NET ASSETS

During 2018, the Symphony recorded an adjustment to restate net assets at May 31, 2016, to reclassify investment Fund B gains and losses from permanently restricted net assets to unrestricted net assets. Based upon a review of the historical gift documents, management believes that the original allocation to permanently restricted net assets was based on the Endowment Board of Director’s investment objectives and not donor restrictions. As a result, a total of $771,850 was reclassified from permanently restricted net assets to unrestricted net assets. Permanently restricted net assets decreased and unrestricted net assets increased by $517,695 at May 31, 2016, and an additional reclassification of $254,155 between permanently restricted net assets and unrestricted net assets was made for 2017 Fund B gains and losses.

In addition, management determined the endowment was more restricted than previously reported. As a result, management determined that some funds were underwater and $912,079 and $146,150 were reclassified from unrestricted to temporarily restricted as of May 31, 2017 and 2016, respectively.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable at May 31, 2018 consist of the following:

	HOUSTON SYMPHONY SOCIETY	HOUSTON SYMPHONY ENDOWMENT	TOTAL
Pledges receivable are expected to be collected as follows:			
Less than one year	$ 5,500,521	$ 579,025	$ 6,079,546
One to five years	2,415,317	2,720,000	5,135,317
More than five years		4,500,000	4,500,000
Total pledges receivable	7,915,838	7,799,025	15,714,863
Unamortized discount	(395,208)	(450,513)	(845,721)
Allowance for uncollectible pledges receivable	(95,000)	(17,815)	(112,815)
Pledges receivable, net	$ 7,425,630	$ 7,330,697	$ 14,756,327

Pledges receivable at May 31, 2017 consist of the following:

	HOUSTON SYMPHONY SOCIETY	HOUSTON SYMPHONY ENDOWMENT	TOTAL
Pledges receivable are expected to be collected as follows:			
Less than one year	$ 8,454,473	$ 682,600	$ 9,137,073
One to five years	1,631,209	2,288,000	3,919,209
More than five years		4,500,000	4,500,000
Total pledges receivable	10,085,682	7,470,600	17,556,282
Unamortized discount	(36,883)	(591,478)	(628,361)
Allowance for uncollectible pledges receivable	(454,385)	(17,815)	(472,200)
Pledges receivable, net	$ 9,594,414	$ 6,861,307	$ 16,455,721

At May 31, 2018, pledges receivable from four donors represent 46% of total pledges receivable. At May 31, 2017, pledges receivable from three donors represent 42% of total pledges receivable.

NOTE 4 – PROPERTY

Property consists of the following:

	2018	2017
Land	$ 16,915	$ 16,915
Instruments	1,729,435	1,979,878
Computer, information systems, and website	1,108,790	1,100,996
Leasehold improvements	284,878	284,878
Furniture and equipment	128,675	176,931
Total property, at cost	3,268,693	3,559,598
Accumulated depreciation	(2,191,086)	(2,527,585)
Property, net	$ 1,077,607	$ 1,032,013

NOTE 5 – INVESTMENTS

Investments consist of the following:

	LIQUIDITY	REDEMPTION NOTICE	2018	2017
Investments, at fair value:				
Limited partnership funds:				
TIFF Keystone Fund, L.P. (a)	(a)	(a)	$ 30,977,658	$ 27,995,654
High Vista II, L.P. (b)	Quarterly	90 days	8,061,100	7,617,068
PMF Fund, L.P. (c)	(c)	(c)	1,423,571	1,776,859
Mutual funds	Daily	None	29,460,368	28,937,672
Total investments, at fair value			69,922,697	66,327,253
Land held for investment, at cost			480,000	480,000
Total investments			$ 70,402,697	$ 66,807,253

The limited partnership funds 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 TIFF Keystone Fund, L.P.'s objective is to maximize annualized returns net of all costs over rolling 10-year periods while adhering to the partnership's risk parameters. In seeking to achieve this objective and in order to manage risk, the general partner intends to deploy the partnership's assets in a manner that seeks to limit to not greater than 10% the probability of a 25% or greater decline in the partnership's inflation-adjusted unit value measured over any time period. There is no assurance that the partnership will achieve this objective. The partnership expects to invest globally in multiple asset classes and in both publicly traded and privately placed securities, properties, and other assets, either directly or through investment funds, including private equity funds, private realty funds, natural resource funds, and hedge funds. There is a two-year lock-up period for redemptions of this investment, which ends in December 2018.

(b) High Vista II, L.P. seeks to maximize risk-adjusted returns over a long-term horizon and may invest in a wide array of investments and strategies. Redemptions can generally be made each calendar quarter, but the fund has the sole discretion to not offer redemptions at any time.

(c) The PMF Fund, L.P. is a closed-end, non-diversified, registered investment company that invests substantially all of its assets in the Endowment PMF Master Fund, L.P. (Master Fund), which also is a closed-end, non-diversified, registered investment company. The investment objective is to manage a portfolio of investment funds and cash to preserve value while prioritizing liquidity to investors over active management, until such time as the Master Fund's portfolio has been 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, 2018 or 2017.

Investment return consists of the following:

	2018	2017
Net realized and unrealized gain	$ 4,507,662	$ 6,322,548
Interest and dividends	1,446,557	159,325
Rents and royalties	75,278	74,192
Custodian fees	(32,623)	(31,268)
Investment return, net	$ 5,996,874	$ 6,524,797

In addition to the investment custodian fees reflected above, the Symphony also indirectly incurs management fees and other expenses from the investment funds in which it invests, which are reflected in the change in value of investment funds.

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 6 – 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, 2018 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Mutual funds:				
Multi-asset	$ 25,253,244			$ 25,253,244
Money market	3,808,230			3,808,230
Large-cap stock index	398,894			398,894
Total mutual funds	$ 29,460,368	$ 0	$ 0	29,460,368
Investments at fair value using net asset value as practical expedient excluded from the fair value hierarchy:				
Limited partnership funds				40,462,329
Total assets measured at fair value				$ 69,922,697

Assets measured at fair value at May 31, 2017 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Mutual funds:				
Multi-asset	$ 25,686,712			$ 25,686,712
Money market	2,793,871			2,793,871
Large-cap stock index	457,089			457,089
Total mutual funds	$ 28,937,672	$ 0	$ 0	28,937,672
Investments at fair value using net asset value as practical expedient excluded from the fair value hierarchy:				
Limited partnership funds				37,389,581
Total assets measured at fair value				$ 66,327,253

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

- *Mutual funds* are valued at the published net asset value.
- *Limited partnership funds* are valued at net asset value as a practical expedient. The net asset value is determined by the fund based on the fair value of the underlying investments held by the fund, less any liabilities. If a fund does not provide the fair value on a timely basis, the fair value is estimated based on the most recent value provided, as well as any other relevant information available.

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.

NOTE 7 – NOTES PAYABLE

Notes payable consist of the following:

	2018	2017
Line of credit with a financial institution for $17,000,000; interest payable quarterly at a variable rate equal to 1.30% over LIBOR (3.61175% at May 31, 2018); principal due at maturity on March 30, 2019.	$ 14,845,263	$ 10,258,678
Note payable to a financial institution; variable rate of 1.30% over LIBOR (3.61175% at May 31, 2018); principal and interest payments of $86,008 are due quarterly until maturity on March 30, 2019.	342,432	674,176
Total notes payable	$ 15,187,695	$ 10,932,854

Both notes are guaranteed by the Endowment and require the Society to maintain a tangible net worth of $40 million, and a ratio of liabilities to tangible net worth less than 75%. The Endowment also is required to hold a minimum balance of $20 million in marketable assets. Interest expense totaled approximately $395,000 and $163,000 in 2018 and 2017, respectively.

Maturities of notes payable at May 31, 2018 are all due within one year in 2019.

NOTE 8 – COMMITMENTS

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, 2018 are as follows:

2019	$ 281,751
2020	288,803
2021	154,895
2022	9,135
Total	$ 734,584

Total rent expense for 2018 and 2017 was $931,958 and $1,004,389, respectively, and includes additional month-to-month rentals.

Performance and artist contracts

The Symphony has entered into performance and licensing contracts with various artists for 2019 performances totaling $1,015,550. As of May 31, 2018, unpaid commitments under these contracts total $896,475. If the Symphony cancels these performances, it may still be liable for all or a portion of these contract amounts.

NOTE 9 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	2018	2017
Accumulated pension liability adjustment	$ (9,649,464)	$(10,257,231)
Undesignated	(10,422,524)	(8,287,621)
Aggregate deficiencies of donor-restricted endowments	(2,177,346)	(2,827,926)
Board-designated implementation fund for strategic planning		495,947
Total unrestricted net assets	$(22,249,334)	$(20,876,831)

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2018	2017
Future operations	$ 2,501,993	$ 3,197,543
Instrument purchases	15,180	87,305
Accumulated endowment earnings	2,187,261	912,079
European tour		1,581,721
Other	53,984	2,137
Total temporarily restricted net assets	$ 4,758,418	$ 5,780,785

NOTE 11 – 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, May 31, 2016	$ (3,477,688)	$ 146,150	$ 75,972,518	$ 72,640,980
Contributions			553,844	553,844
Investment return:				
Interest, dividends, rents and royalties	233,517			233,517
Net realized and unrealized gain	4,983,768	1,338,780		6,322,548
Custodian fees	(31,268)			(31,268)
Net investment return	5,186,017	1,338,780		6,524,797
Distributions:				
Draw for operations	(2,768,748)	(572,851)		(3,341,599)
Forgiveness of loan	(1,290,641)			(1,290,641)
Expense reimbursement	(402,664)			(402,664)
Royalty and rental income distributions	(74,202)			(74,202)
Total distributions	(4,536,255)	(572,851)		(5,109,106)
Endowment net assets, May 31, 2017	(2,827,926)	912,079	76,526,362	74,610,515
Contributions			1,339,204	1,339,204
Investment return:				
Interest, dividends, rents and royalties	75,278	1,446,557		1,521,835
Net realized and unrealized gain	2,860,497	1,647,165		4,507,662
Custodian fees		(32,623)		(32,623)
Net investment return	2,935,775	3,061,099		5,996,874
Distributions:				
Draw for operations	(1,809,917)	(1,785,917)		(3,595,834)
Expense reimbursement	(400,000)			(400,000)
Royalty and rental income distributions	(75,278)			(75,278)
Total distributions	(2,285,195)	(1,785,917)		(4,071,112)
Endowment net assets, May 31, 2018	$ (2,177,346)	$ 2,187,261	$ 77,865,566	$ 77,875,481

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. At May 31, 2018, two donor-restricted endowment funds are underwater.

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. Balancing investments among asset classes is essential for maintaining the risk and return profile that has been adopted. The Endowment reviews the portfolio's actual asset allocation relative to its risk and return policy. If deemed necessary, the Endowment may rebalance the portfolio among the various asset classes or investment funds for consistency with the policy.

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 average market value of the 12 previous quarters as of the March 31 proceeding the Symphony's fiscal year in which the disbursement will be expended. New contributions for each quarter plus the new contributions for all preceding quarters used in the calculations are to be deducted from that quarter's ending fair market value to arrive at an adjusted fair market value. The cumulative new contributions for all quarters are then added to the average adjusted fair market value to form the valuation basis for the draw each year. 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 2018, a 5.5% distribution based on the Endowment's twelve-quarter rolling average was approved, in the amount of $3,595,834. Total distributions also include $75,278 in royalty and rental income distributed per operations in accordance with the gift agreement and $400,000 distributed to reimburse the Society, for the Endowment's fundraising, accounting, legal, and other administrative expenses. During 2017, a 6% distribution based on the Endowment's twelve-quarter rolling average was approved, with 5% distributed to operations in the amount of $3,341,599, and 1% used as forgiveness on the outstanding loan balance from the Society to the Endowment in the amount of $668,320. In addition, the fiscal year 2018 1% forgiveness was approved as of May 31, 2017 in the amount of $622,321 so that the outstanding loan balance was forgiven in total as of May 31, 2017. Total distributions also include $74,192 in royalty and rental income used for operations and $402,664 distributed to reimburse the Society, for the Endowment's fundraising, accounting, legal, and other administrative expenses.

The intercompany receivable balance between the Society and the Endowment at May 31, 2018 represents endowment contributions waiting to be invested.

NOTE 12 – DEFINED BENEFIT RETIREMENT PLAN

The Houston Symphony Musicians and Staff Employees' Retirement Plan (the Plan) is a defined benefit plan. It was frozen to all Staff employees effective June 1, 2017 (Musician benefits were frozen in 1998). Retirement benefits primarily are a function of a fixed amount reduced pro-rata for services less than 30 years for musicians and the employee's compensation and years of service for non-musician staff. The Symphony's current policy is to fund accrued pension costs.

The funded status of the Plan is as follows:

	2018	2017
Projected benefit obligation	$ 24,869,188	$ 25,347,263
Fair value of plan assets	(18,804,411)	(18,441,735)
Unfunded projected benefit obligation	$ 6,064,777	$ 6,905,528
Accumulated benefit obligation	$ 24,869,188	$ 25,347,263

Amounts recognized in the statement of financial position are as follows:

	2018	2017
Accrued pension liability	$ 6,064,777	$ 6,905,528

Amounts recognized in unrestricted net assets not yet recognized as periodic pension cost are as follows:

	2018	2017
Net loss	$ 9,649,464	$ 10,257,231

Components of net periodic benefit cost at May 31, 2018 and 2017 are as follows:

	2018	2017
Interest cost	$ 936,216	$ 933,755
Service cost		257,022
Expected return on assets	(930,879)	(1,417,181)
Amortization of loss	284,125	642,557
Total net periodic benefit cost	$ 289,462	$ 416,153

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

	2018	2017
Net gain	$ (323,642)	$ (430,821)
Amortization of net gain	(284,125)	(642,557)
Amount recognized due to curtailment		(523,559)
Total recognized in changes in net assets	$ (607,767)	$ (1,596,937)

The estimated actuarial loss from the Plan that will be amortized into net periodic benefit cost over the next fiscal year is $249,045. There is no estimated transition asset or prior service credit that will be amortized over the next fiscal year.

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

	2018	2017
Discount rate	3.95%	3.80%

Weighted-average assumptions used to determine net periodic benefit cost:

	2018	2017
Discount rate	3.80%	3.75%
Expected return on plan assets	8.00%	8.00%

Additionally, during 2018 mortality assumptions were updated using mortality rates from the Adjusted RP-2014 Mortality Table (baseline mortality table as of 2006 based on experience study data for private pension plans underlying RP-2014) and mortality improvement scale from MP-2017 Table. The inflation rate assumptions remained constant at 2.00% in 2018 and 2017. The retirement age assumption was changed for the Staff participants to the earlier of age 62 and 30 years of service to the earlier of age 65 and 5 years of service. The turnover assumption was changed for the Musician participants from Retirement Horizons Incorporated withdrawal table to no turnover assumption. Additionally, the marriage assumption was changed for both the Staff and Musician participants to 75% married, with husbands being 3 years older than wives. These assumption changes, along with the change in the discount rate used, decreased the projected benefit obligation at May 31, 2018 by $836,280.

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 Plan was 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 Plan at May 31, 2018, by asset category are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	NAV AS PRACTICAL EXPEDIENT	TOTAL
Equity separate accounts				$ 10,491,443	$ 10,491,443
Bond separate accounts				8,312,968	8,312,968
Total	$ 0	$ 0	$ 0	$ 18,804,411	$ 18,804,411

Plan assets measured at fair value on a recurring basis for the Plan at May 31, 2017, by asset category are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	NAV AS PRACTICAL EXPEDIENT	TOTAL
Equity mutual funds	$ 10,877,198				$ 10,877,198
Fixed-income mutual funds	7,450,381				7,450,381
Fixed-income separate account				$ 114,156	114,156
Total	$ 18,327,579	$ 0	$ 0	$ 114,156	$ 18,441,735

Investments in separate accounts are valued at net asset value as a practical expedient based on the fair value of the underlying investments held less liabilities, as determined by the fund manager. Investments in mutual funds are valued based on the daily published closing price as reported by the fund.

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

Cash flows

Contributions to the Plan provides for benefits attributed to service to date, as well as those expected to be earned in the future. The Symphony's contributions to the Plan totaled $522,446 in 2018 and $115,000 in 2017. The Symphony expects to make a contribution to the Plan in 2019 totaling $636,666. Distributions from the Plan during 2018 and 2017 were $1,247,853 and $1,087,423, respectively.

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

2019	$1,520,000
2020	$1,550,000
2021	$1,530,000
2022	$1,580,000
2023	$1,560,000
2024 through 2028	$7,690,000

NOTE 13 – OTHER EMPLOYEE BENEFIT PLANS

Multiemployer pension plans

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 $568,113 in 2018 and $533,159 in 2017 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 2018 and 2017 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 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, 2018 and 2017 and for the years ended May 31, 2018 and 2017:

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
		2018	2017		2018	2017		
American Federation of Musicians and Employers' Pension Fund	51-6120204 Plan No. 001	Red 03/31/18	Red 03/31/17	Implemented	$568,113	$533,159	Yes	10/01/21

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. Effective October 7, 2018, the mandatory contribution increased to 7.19%.

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 $114,092 and $124,912 in 2018 and 2017, respectively.

401(k) plan

In June 2017, the Symphony added a new 401(k) plan for employees who are not members of the orchestra. The plan is administered by Principal Financial Group and eligible employees can participate after one year of service. The Symphony will match from 1% to 4% of compensation depending on the employee contribution rate. During 2018, the Symphony contributed $209,963 to the plan.

NOTE 14 – 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 2021. The Symphony's stagehand employees are covered by a collective bargaining agreement between the Society and the International Alliance of Theatrical Stagehands (Local Union No. 51), which expires in July 2019.

NOTE 15 – RELATED PARTY TRANSACTIONS

The Symphony has four Governing Directors and three Board of Trustee members that are employed by or are partners of vendors with which the Symphony conducts business. The Symphony has a conflict-of-interest policy whereby all Board of Trustee members with conflicts recuse themselves from voting on any decision which would impact the vendor choices. The Symphony has an agreement with a local law firm to pay for the first $40,000 of legal services and receive the next $60,000 pro-bono each fiscal year. A Governing Director is a partner at this law firm and serves as the Symphony's General Counsel. During 2018 and 2017, the Symphony paid $62,577 and $37,618, respectively, to the law firm.

The Symphony also has an agreement with a local information technology consulting firm, whereby many services are provided as an in-kind contribution. The owner of the firm is a Governing Director. During 2018 and 2017, the Symphony paid $102,253 and $202,826 to the firm, respectively.

Additional expenditures with three related party vendors totaled $761,248 in 2018 and $605,884 in 2017 for rent, bank fees, special event, food and supplies.

NOTE 16 – MANAGEMENT PLANS

The Symphony has faced significant financial challenges during the last two fiscal years. These challenges were exacerbated by Hurricane Harvey, which forced the cancellation of opening night and 16 additional concerts and impaired a crucial period for subscription renewals. To finance the losses, the Symphony increased its use of a line of credit.

The Symphony has adopted a multi-year financial plan for fiscal years 2019 through 2021. The plan returns the Symphony to surpluses and decreases the reliance on the line of credit without damage to the long-term viability of the Symphony. The plan accomplishes this through a combination of expense reductions, increases in earned and contributed revenue, and the growth of its endowment. The plan commits to use future cash surpluses for debt service and as debt is retired, the Symphony is committed to reducing the ceiling on the line of credit.

NOTE 17 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 18, 2018, 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.