

The Hobby Center Foundation

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended August 31, 2024 and 2023

The Hobby Center Foundation

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Independent Auditors' Report

To the Board of Directors of
The Hobby Center Foundation:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Hobby Center Foundation, which comprise the consolidated statements of financial position as of August 31, 2024 and 2023, and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of The Hobby Center Foundation as of August 31, 2024 and 2023, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and

therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Hobby Center Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Hobby Center Foundation's ability to continue as a going concern for a reasonable period of time.

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

Blazek & Vetterling

March 18, 2025

The Hobby Center Foundation

Consolidated Statements of Financial Position as of August 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Cash and cash equivalents <i>(Note 3)</i>	\$ 6,432,799	\$ 5,844,617
Prepaid expenses and other assets	1,186,789	926,410
Contributions receivable	553,700	108,545
Investments <i>(Notes 4 and 5)</i>	19,011,941	15,364,164
Contract receivable from the City of Houston, net <i>(Note 6)</i>	4,367,680	5,287,613
Finance lease right-of-use assets <i>(Note 6)</i>	61,334,896	62,140,822
Furniture and equipment, net of accumulated depreciation of \$2,093,055 in 2024 and \$2,013,132 in 2023	<u>872,016</u>	<u>929,200</u>
TOTAL ASSETS	<u>\$ 93,759,821</u>	<u>\$ 90,601,371</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,001,040	\$ 1,102,674
Deferred revenue:		
Ticket sales	789,998	559,031
Theater operations	218,249	427,711
Refundable advances	100,000	
Notes payable <i>(Note 7)</i>	<u>4,687,622</u>	<u>5,750,913</u>
Total liabilities	<u>6,796,909</u>	<u>7,840,329</u>
Net assets:		
Without donor restrictions	85,348,201	81,794,593
With donor restrictions <i>(Note 8)</i>	<u>1,614,711</u>	<u>966,449</u>
Total net assets	<u>86,962,912</u>	<u>82,761,042</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 93,759,821</u>	<u>\$ 90,601,371</u>

See accompanying notes to consolidated financial statements.

The Hobby Center Foundation

Consolidated Statement of Activities for the year ended August 31, 2024

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Theatre operations fees	\$ 28,948,198		\$ 28,948,198
Parking fees	2,373,069		2,373,069
Contributions	1,101,704	\$ 2,819,315	3,921,019
Office and restaurant rental income	730,944		730,944
Investment return	2,664,373		2,664,373
Other	20,022		20,022
	<u>35,838,310</u>	<u>2,819,315</u>	<u>38,657,625</u>
Total revenue			
Net assets released from restrictions:			
Release of time restrictions	866,449	(866,449)	
Program expenditures	<u>1,304,604</u>	<u>(1,304,604)</u>	
Total	<u>38,009,363</u>	<u>648,262</u>	<u>38,657,625</u>
EXPENSES:			
Program expenses:			
Productions	18,794,545		18,794,545
Theatre operations	10,306,750		10,306,750
Parking operations	<u>1,074,164</u>		<u>1,074,164</u>
Total program expenses	30,175,459		30,175,459
Management and general	3,875,147		3,875,147
Fundraising	<u>405,149</u>		<u>405,149</u>
Total expenses	<u>34,455,755</u>		<u>34,455,755</u>
CHANGES IN NET ASSETS	3,553,608	648,262	4,201,870
Net assets, beginning of year	<u>81,794,593</u>	<u>966,449</u>	<u>82,761,042</u>
Net assets, end of year	<u>\$ 85,348,201</u>	<u>\$ 1,614,711</u>	<u>\$ 86,962,912</u>

See accompanying notes to consolidated financial statements.

The Hobby Center Foundation

Consolidated Statement of Activities for the year ended August 31, 2023

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Theatre operations fees	\$ 36,923,700		\$ 36,923,700
Parking fees	2,624,851		2,624,851
Contributions	972,203	\$ 1,016,449	1,988,652
Office and restaurant rental income	636,242		636,242
Investment return	916,575		916,575
Other	<u>26,195</u>		<u>26,195</u>
Total revenue	42,099,766	1,016,449	43,116,215
Net assets released from restrictions:			
Release of time restrictions	616,729	(616,729)	
Program expenditures	<u>50,000</u>	<u>(50,000)</u>	
Total	<u>42,766,495</u>	<u>349,720</u>	<u>43,116,215</u>
EXPENSES:			
Program expenses:			
Productions	24,047,394		24,047,394
Theatre operations	9,430,792		9,430,792
Parking operations	<u>1,093,881</u>		<u>1,093,881</u>
Total program expenses	34,572,067		34,572,067
Management and general	4,356,245		4,356,245
Fundraising	<u>300,619</u>		<u>300,619</u>
Total expenses	<u>39,228,931</u>		<u>39,228,931</u>
CHANGES IN NET ASSETS	3,537,564	349,720	3,887,284
Net assets, beginning of year	<u>78,257,029</u>	<u>616,729</u>	<u>78,873,758</u>
Net assets, end of year	<u>\$ 81,794,593</u>	<u>\$ 966,449</u>	<u>\$ 82,761,042</u>

See accompanying notes to consolidated financial statements.

The Hobby Center Foundation

Consolidated Statement of Functional Expenses for the year ended August 31, 2024

	<u>PRODUCTIONS</u>	<u>THEATRE OPERATIONS</u>	<u>PARKING OPERATIONS</u>	<u>TOTAL PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Performance fees	\$ 15,612,503			\$ 15,612,503	\$ 414,994		\$ 16,027,497
Payroll and related expenses		\$ 3,739,036	\$ 150,339	3,889,375	1,544,493	\$ 186,035	5,619,903
Contract labor	1,882,295	1,703,215	516,524	4,102,034	16,336	5,446	4,123,816
Depreciation and amortization	315,285	1,734,066	211,958	2,261,309	64,042	21,347	2,346,698
Marketing and advertising					1,226,763	22,147	1,248,910
Occupancy	158,713	872,919	22,629	1,054,261	32,234	10,746	1,097,241
Professional fees	371,253	97,212	38,634	507,099	346,731	984	854,814
Insurance	153,934	585,429	26,539	765,902	21,621	7,208	794,731
Repairs and maintenance	47,442	385,279	39,428	472,149	9,636	93,825	575,610
Supplies	24,352	267,102	24,222	315,676	4,946	1,648	322,270
Equipment and rentals	29,142	162,115	1,083	192,340	4,162	1,387	197,889
Interest	17,847	98,157	38,319	154,323	3,625	1,208	159,156
Bank and credit card fees					153,199		153,199
Other	181,779	662,220	4,489	848,488	32,365	53,168	934,021
Total expenses	<u>\$ 18,794,545</u>	<u>\$ 10,306,750</u>	<u>\$ 1,074,164</u>	<u>\$ 30,175,459</u>	<u>\$ 3,875,147</u>	<u>\$ 405,149</u>	<u>\$ 34,455,755</u>

See accompanying notes to consolidated financial statements.

The Hobby Center Foundation

Consolidated Statement of Functional Expenses for the year ended August 31, 2023

	<u>PRODUCTIONS</u>	<u>THEATRE OPERATIONS</u>	<u>PARKING OPERATIONS</u>	<u>TOTAL PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Performance fees	\$ 20,944,827			\$ 20,944,827	\$ 447,557		\$ 21,392,384
Payroll and related expenses		\$ 3,196,519	\$ 153,181	3,349,700	1,350,093	\$ 197,352	4,897,145
Contract labor	1,782,475	1,588,027	516,988	3,887,490	11,935	3,978	3,903,403
Depreciation and amortization	308,291	1,695,599	210,182	2,214,072	62,622	20,873	2,297,567
Marketing and advertising					1,883,955	12,053	1,896,008
Occupancy	157,248	884,783	42,249	1,084,280	32,537	10,846	1,127,663
Professional fees	383,825		24,000	407,825	325,584		733,409
Insurance	165,310	561,515	25,277	752,102	20,738	6,913	779,753
Repairs and maintenance	36,074	329,573	35,400	401,047	7,329	2,444	410,820
Supplies	38,171	241,214	25,244	304,629	7,754	2,582	314,965
Equipment and rentals	34,214	212,849	10,645	257,708	8,307	2,317	268,332
Interest	20,395	112,168	48,307	180,870	3,048	1,300	185,218
Bank and credit card fees					162,872		162,872
Other	176,564	608,545	2,408	787,517	31,914	39,961	859,392
Total expenses	<u>\$ 24,047,394</u>	<u>\$ 9,430,792</u>	<u>\$ 1,093,881</u>	<u>\$ 34,572,067</u>	<u>\$ 4,356,245</u>	<u>\$ 300,619</u>	<u>\$ 39,228,931</u>

See accompanying notes to consolidated financial statements.

The Hobby Center Foundation

Consolidated Statements of Cash Flows for the years ended August 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 4,201,870	\$ 3,887,284
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization of right-of-use assets	2,346,698	2,297,567
Amortization of discount on contract receivable	(180,067)	(217,994)
Net realized and unrealized gain on investments	(2,299,543)	(690,773)
Contributions restricted for capital		(100,000)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(260,379)	30,194
Contributions receivable	(495,155)	(8,545)
Contract receivable from the City of Houston	1,100,000	1,100,000
Accounts payable and accrued liabilities	(101,634)	(307,178)
Deferred revenue	21,505	8,587
Refundable advances	<u>100,000</u>	<u> </u>
Net cash provided by operating activities	<u>4,433,295</u>	<u>5,999,142</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	3,337,519	3,375,804
Purchases of investments	(5,913,040)	(3,709,669)
Change in money market mutual funds held as investments	1,227,287	(1,056,937)
Cash paid for lease right-of-use assets	(1,460,849)	(959,948)
Purchase of furniture and equipment	<u>(22,739)</u>	<u> </u>
Net cash used by investing activities	<u>(2,831,822)</u>	<u>(2,350,750)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments of notes payable	(1,063,291)	(1,040,075)
Proceeds from contributions restricted for capital	<u>50,000</u>	<u>100,000</u>
Net cash used by financing activities	<u>(1,013,291)</u>	<u>(940,075)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	588,182	2,708,317
Cash and cash equivalents, beginning of year	<u>5,844,617</u>	<u>3,136,300</u>
Cash and cash equivalents, end of year	<u>\$ 6,432,799</u>	<u>\$ 5,844,617</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$145,415	\$172,330

See accompanying notes to consolidated financial statements.

The Hobby Center Foundation

Notes to Consolidated Financial Statements for the years ended August 31, 2024 and 2023

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – The Hobby Center Foundation was established in 1994 to develop, build, and manage the Hobby Center for the Performing Arts (the Hobby Center) in Houston, Texas. The Hobby Center was completed in 2002 and opened to the public for theatrical performances and education.

The Hobby Center’s programs include presenting artistic programming like the Houston Broadway (Broadway) series, as well as a diverse range of other performing artists and disciplines, both Houston-based and touring. In addition, the Hobby Center serves as a home for many other performing arts companies, both non-profit and commercial, and is responsible for general venue operations including ticketing, patron experience, food and beverages, facilities coordination and maintenance. The Hobby Center provides similar services to individuals, companies and other organizations for special events held on campus as well. Education programs are another core focus including a robust free student matinee program.

HCPA Services Company, Inc. developed and built the parking garage adjacent to the Hobby Center for patron parking. HCPA Services Company, Inc.’s programs include parking services, management, and maintenance of the garage. HCPA Operating Company, Inc. was founded to manage specific annual productions of theatrical companies. The Hobby Center Foundation is the sole member of HCPA Services Company, Inc. and HCPA Operating Company, Inc.

Basis of consolidation – These financial statements include the assets, liabilities, net assets, and activities of The Hobby Center Foundation, HCPA Services Company, Inc., and HCPA Operating Company, Inc. (collectively the Foundation). All balances and transactions between these consolidated entities have been eliminated.

Federal income tax status – The Hobby Center Foundation, HCPA Services Company, Inc., and HCPA Operating Company, Inc. are exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code. The Hobby Center Foundation is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi). HCPA Services Company, Inc. and HCPA Operating Company, Inc. are classified as public charities under §509(a)(3)(B)(i) as Type I supporting organizations.

Cash and cash equivalents – Cash includes cash on hand and demand deposits with financial institutions. Demand deposits exceed the federally insured limit per depositor per institution. Cash equivalents include highly liquid financial instruments with original maturities of three months or less. Cash equivalents held for investment purposes are grouped with investments and excluded from cash and cash equivalents in the statement of cash flows.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year are discounted, if material, to estimate the present value of their estimated future cash flows. An allowance for contributions receivable is provided when it is believed balances may not be collected in full. All contributions receivable are expected to be collected within one year.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

Finance lease right-of-use assets and furniture and equipment – Lease right-of-use assets are recognized at the present value of the lease payments at the inception of the lease. Furniture and equipment are reported at cost, if purchased, or at fair value at the date of gift, if donated. The Foundation capitalizes property with a cost or fair value of \$10,000 or greater and an estimated useful life of more than one year. Lease right-of-use assets are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the lease term which ranges from 5 to 60 years. Furniture and equipment is depreciated using the straight-line method over the estimated useful lives of 5 to 15 years.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service.

Ticket Sales, Theatre Operations Fees and Parking Fees

Ticket Sales are derived from season subscription tickets and individual ticket sales for performances for the Broadway series and other artistic programs presented by the Hobby Center for which the Foundation has a performance obligation to the ticket holder. Subscription fees are due prior to the season and individual ticket sales are due at the point of admission. Subscriptions are recognized ratably over the season using the output method. Individual ticket sales are recognized at the point in time of the performance. Subscriptions and ticket sales collected in advance for the following season are reported as deferred revenues from ticket sales.

Theatre Operations Fees are derived from services provided to theatrical companies for ticketing, beverages and facilities coordination, as well as space rental for special events held at the Hobby Center. Fees are billed and due when the services are provided. All performance obligations related to theatre operations fees are satisfied and revenue is recognized when the event occurs. Theatre operations fees collected in advance of the event are reported as deferred revenues from theatre operations fees.

Parking Fees are collected and recognized when the services are provided.

Revenue for performance obligations to be satisfied in the following year was deferred as follows:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Ticket sales	\$789,998	\$559,031	\$370,282
Theatre operations fees	\$218,249	\$427,711	\$427,039

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before the Foundation is entitled to receive or retain funding. Conditional contributions are recognized in the same manner when the conditions have been met. Funding received before conditions are met is reported as a refundable advance.

Office and restaurant rental income is recognized ratably over the term of the leases.

Advertising costs are expensed as incurred, except for expenditures related to future seasons, which are reported as prepaid expenses and recognized as expense in the applicable season.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation of building and improvements and occupancy costs are allocated based on square footage. Information technology costs are allocated based on estimates of time and costs of specific technology utilized.

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 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of August 31 comprise the following:

	<u>2024</u>	<u>2023</u>
Financial assets:		
Cash and cash equivalents	\$ 6,432,799	\$ 5,844,617
Contributions receivable	553,700	108,545
Investments	19,011,941	15,364,164
Contract receivable from the City of Houston, net	<u>4,367,680</u>	<u>5,287,613</u>
Total financial assets	30,366,120	26,604,939
Less financial assets not available for general expenditure:		
Contract receivable from the City of Houston due in more than one year	<u>(3,267,680)</u>	<u>(4,187,613)</u>
Total financial assets available for general expenditure	<u>\$ 27,098,440</u>	<u>\$ 22,417,326</u>

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while striving to maximize the investment of available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing program activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2024</u>	<u>2023</u>
Bank deposits	\$ 4,173,263	\$ 5,844,617
Money market mutual funds	<u>2,259,536</u>	<u> </u>
Total cash and cash equivalents	<u>\$ 6,432,799</u>	<u>\$ 5,844,617</u>

NOTE 4 – INVESTMENTS

Investments consist of the following:

	2024	2023
Investments:		
Mutual funds:		
Large blend	\$ 11,566,234	\$ 5,203,963
Money market	534,384	1,761,671
Fixed-income:		
Corporate bonds	2,879,669	3,568,834
U. S. Treasury and government agency bonds	2,000,956	2,795,330
Municipal bonds	896,740	1,935,156
Certificates of deposit	<u>1,133,958</u>	<u>99,210</u>
Total investments	<u>\$ 19,011,941</u>	<u>\$ 15,364,164</u>

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 August 31, 2024 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Cash and cash equivalents:				
Money market mutual funds	\$ 2,259,536			\$ 2,259,536
Investments:				
Mutual funds:				
Large blend	11,566,234			11,566,234
Money market	534,384			534,384
Fixed-income:				
Corporate bonds		\$ 2,879,669		2,879,669
U. S. Treasury and government agency bonds		2,000,956		2,000,956
Municipal bonds		896,740		896,740
Certificates of deposit		1,133,958		1,133,958
Total assets measured at fair value	<u>\$ 14,360,154</u>	<u>\$ 6,911,323</u>	<u>\$ 0</u>	<u>\$ 21,271,477</u>

Assets measured at fair value at August 31, 2023 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Mutual funds:				
Large blend	\$ 5,203,963			\$ 5,203,963
Money market	1,761,671			1,761,671
Fixed-income:				
Corporate bonds		\$ 3,568,834		3,568,834
U. S. Treasury and government agency bonds		2,795,330		2,795,330
Municipal bonds		1,935,156		1,935,156
Certificates of deposit		99,210		99,210
Total assets measured at fair value	<u>\$ 6,965,634</u>	<u>\$ 8,398,530</u>	<u>\$ 0</u>	<u>\$ 15,364,164</u>

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

- *Mutual funds* are valued at the published net asset value of shares held.
- *Corporate, U. S. Treasury and government agency, and municipal bonds* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves, and broker quotes to calculate fair values.
- *Certificates of deposit* with a maturity of more than one year from the date of issue are valued based upon a matrix or model pricing method.

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 Foundation 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.

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 – FACILITIES LEASE WITH CITY OF HOUSTON

Right-of-use assets

In exchange for developing, constructing, and operating the Hobby Center, the Foundation received the use of the facilities from the City of Houston (the City) for 30 years, beginning in July 1999, renewable for another 30 years at the option of the Foundation. Management believes it is probable it will renew the lease and considers the term of the lease to be 60 years.

Finance lease right-of-use assets are reported at the cost of those assets paid by the Foundation as follows:

	<u>2024</u>	<u>2023</u>
Buildings	\$ 87,837,888	\$ 87,675,618
Furniture, fixtures, and equipment	10,309,329	9,044,788
Art	1,196,983	1,196,983
Construction in progress	<u>164,771</u>	<u>130,733</u>
Total right of use assets, at cost	99,508,971	98,048,122
Accumulated amortization	<u>(38,174,075)</u>	<u>(35,907,300)</u>
Finance lease right-of-use assets, net	<u>\$ 61,334,896</u>	<u>\$ 62,140,822</u>

Amortization of lease right-of-use assets was \$2,266,775 in 2024 and \$2,206,021 in 2023.

As of August 31, 2024 and 2023, the remaining lease term is 37 years and 38 years, respectively.

Contract receivable

In accordance with the lease, an improvement allowance of approximately \$32,275,000 was granted by the City for the project to be paid out annually through July 2029.

At August 31, 2024, payments are due from the City as follows:

2025	\$ 1,100,000
2026	1,100,000
2027	1,100,000
2028	1,100,000
2029	<u>275,000</u>
Total receivable from the City	4,675,000
Discount to present value at approximately 4.3%	<u>(307,320)</u>
Contract receivable from the City, net	<u>\$ 4,367,680</u>

NOTE 7 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2024</u>	<u>2023</u>
Loan payable to a bank with interest at 2.5% through June 2029, secured by annual commitments for leasehold improvements from the City.	\$ 3,718,267	\$ 4,405,534
Loan payable to a bank with interest at 2.65% through March 2026, secured by annual revenue from the parking garage.	<u>969,355</u>	<u>1,345,379</u>
Total notes payable	<u>\$ 4,687,622</u>	<u>\$ 5,750,913</u>

The scheduled maturities of long-term debt are as follows:

2025	\$ 1,091,689
2026	1,307,200
2027	742,267
2028	762,267
2029	<u>784,199</u>
Total	<u>\$ 4,687,622</u>

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2024</u>	<u>2023</u>
Subject to passage of time:		
Use in future seasons	\$ 943,711	\$ 866,449
Subject to expenditure for specified purpose:		
Capital expenditure		100,000
Discovery series	280,000	
Capacity building	250,000	
Beyond Broadway	41,000	
Education and accessibility	<u>100,000</u>	
Total net assets with donor restrictions	<u>\$ 1,614,711</u>	<u>\$ 966,449</u>

NOTE 9 – RETIREMENT PLAN

The Foundation has a defined contribution retirement plan covering substantially all of its employees who have completed at least six months of service. The Foundation matches 200% of the participating employee’s contribution up to 3% of the employee’s annual salary. The Foundation contributed approximately \$189,000 and \$163,000 to the plan during the years ended August 31, 2024 and 2023, respectively.

NOTE 10 – OPERATING LEASE AS LESSOR

During 1999, the Foundation entered into an agreement with Theatre Under The Stars (TUTS) naming TUTS as the Hobby Center’s Principal Resident Company. The agreement provides TUTS with a minimum of three positions on the board of directors, office space in the Hobby Center, preferential booking rights, rental rates and guaranteed show dates, subject to certain minimum use requirements. The term of the agreement runs concurrent with the Foundation’s 30-year lease with the City and includes a 30-year extension.

Future minimum rental income under the lease for TUTS’ permanent space at August 31, 2024 is as follows:

2025	\$ 206,334
2026	212,525
2027	<u>218,901</u>
Total	<u>\$ 637,760</u>

Future minimum rental income, reported as theatre operations fees, under the minimum use requirements for TUTS and Broadway at August 31, 2024 is as follows:

2025	\$ 213,000
2026	219,000
2027	224,000
2028	239,000
2029	<u>245,000</u>
Total	<u>\$ 1,140,000</u>

NOTE 11 – SUBSEQUENT EVENTS

During January 2025, the Hobby Center entered into a construction contract to address pavement and slab distress and inadequate drainage at the facility not to exceed \$1.9 million. In February 2025, the Hobby Center entered into a \$2.0 million contract to upgrade the Sarofim Hall sound system.

Management has evaluated subsequent events through March 18, 2025, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
