

HENNEPIN THEATRE TRUST

FINANCIAL STATEMENTS

Years ended June 30, 2015 and 2014

HENNEPIN THEATRE TRUST
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Years ended June 30, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Hennepin Theatre Trust
Minneapolis, Minnesota

We have audited the accompanying financial statements of Hennepin Theatre Trust (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and changes in net assets, functional expenses, and 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.

Auditor's 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 the 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 auditor's 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.

INDEPENDENT AUDITORS' REPORT

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hennepin Theatre Trust as of June 30, 2015 and 2014, 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.

Silverman and Associates

SILVERMAN AND ASSOCIATES CPA'S, LLC
Minneapolis, Minnesota

January 26, 2016

HENNEPIN THEATRE TRUST
STATEMENT OF FINANCIAL POSITION

June 30, 2015 and 2014

	2015	2014
ASSETS		
Current assets:		
Cash	\$ 2,742,204	\$ 2,498,134
Receivables		
Contributions	314,576	226,684
Other	178,940	140,433
Prepaid expenses	260,967	360,482
Total current assets	3,496,687	3,225,733
Property & equipment:		
Buildings	21,055,000	21,055,000
Building improvements	517,222	757,767
Equipment	353,679	78,330
	21,925,901	21,891,097
Less: accumulated depreciation	(5,525,435)	(4,876,072)
Property & equipment, net	16,400,466	17,015,025
Security deposit	21,783	21,783
Total assets	\$ 19,918,936	\$ 20,262,541
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 254,788	\$ 124,695
Current portion of capital lease - building	454,583	431,667
Current portion of notes payable	16,737	15,928
Accrued expenses:		
Payroll	194,528	134,589
Other	276,293	528,861
Unearned revenue	98,541	24,060
Total current liabilities	1,295,470	1,259,800
Other liabilities:		
Notes payable, net of current portion	100,209	116,946
Deferred rent	199,432	208,359
Capital lease - building, net of current portion	17,275,722	17,730,305
Total liabilities	18,870,833	19,315,410
Net assets:		
Unrestricted	969,682	947,131
Temporarily restricted	78,421	-
Total net assets	1,048,103	947,131
Total liabilities and net assets	\$ 19,918,936	\$ 20,262,541

See accompanying notes to financial statements

HENNEPIN THEATRE TRUST

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended June 30, 2015 and 2014

	2015	2014
Unrestricted Net Assets		
Unrestricted revenues:		
Ticket sales	\$ 20,127,878	\$ 26,197,840
Other revenues:		
Grants and contributions	3,558,828	3,376,321
Contributions – in kind	352,236	552,970
Sponsorships	379,479	612,364
Community programs	42,572	140,002
Concession revenue, net	36,424	31,638
Marketing and other revenue	148,259	109,628
Interest	4,338	3,543
	24,650,014	31,024,306
Net assets released from restrictions	315,582	172,738
Total unrestricted revenues and support	24,965,596	31,197,044
Expenses:		
Program services	22,922,784	28,610,753
Management and general	1,081,612	960,144
Fundraising	938,649	887,247
Total expenses	24,943,045	30,458,144
Increase in unrestricted net assets	22,551	738,900
Temporarily Restricted Net Assets		
Grants and contributions	234,195	32,576
Community programs	159,808	140,162
Net assets released from restrictions	(315,582)	(172,738)
Increase in temporarily restricted net assets	78,421	-
Increase in net assets	100,972	738,900
Net assets – beginning of year	947,131	208,231
Net assets – end of year	\$ 1,048,103	\$ 947,131

See accompanying notes to financial statements

HENNEPIN THEATRE TRUST
STATEMENT OF FUNCTIONAL EXPENSES
Years Ended June 30, 2015 and 2014

	2015			Total	2014
	Program Services	Management and General	Fundraising		
Show expenses	\$ 18,646,939	\$ -	\$ -	\$ 18,646,939	\$ 24,800,389
Payroll and related costs	1,039,755	630,670	569,492	2,239,917	1,699,543
Professional services	33,264	90,494	8,606	132,364	142,498
Office supplies and expense	190,550	132,335	54,794	377,679	344,941
Postage and delivery	1,290	2,452	2,083	5,825	5,743
Subscription and dues	5,934	64,650	4,572	75,156	24,545
Equipment expense	-	3,198	423	3,621	10,985
Education	296,236	-	-	296,236	443,804
Advertising and promotion	18,689	5,738	821	25,248	22,078
Telephone	1,903	1,588	838	4,329	3,357
Insurance	-	90,976	-	90,976	95,206
Tickets	45,632	-	1,381	47,013	10,253
Credit card fees	657	499	20,875	22,031	21,448
Travel	13,828	7,813	1,250	22,891	28,747
Printing and publications	731	2,149	4,475	7,355	14,889
Meals	52,887	11,056	7,739	71,682	72,022
Parking	30,930	9,580	9,835	50,345	42,138
Membership expense	-	-	251,294	251,294	193,020
Depreciation expense	627,301	22,062	-	649,363	716,899
Community programs	692,898	-	-	692,898	504,523
Interest	1,216,463	-	-	1,216,463	1,240,454
Miscellaneous	6,897	6,352	171	13,420	20,662
	<u>\$ 22,922,784</u>	<u>\$ 1,081,612</u>	<u>\$ 938,649</u>	<u>\$ 24,943,045</u>	<u>\$ 30,458,144</u>

See accompanying notes to financial statements

HENNEPIN THEATRE TRUST

STATEMENT OF CASH FLOWS

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Adjustments to Reconcile the Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Change in net assets	\$ 100,972	\$ 738,900
Depreciation	649,363	716,899
Changes in Operating Assets and Liabilities		
Receivables	(126,399)	(124,248)
Prepaid expenses	99,515	190,871
Accounts payable and other accrued expenses	(62,536)	248,544
Deferred rent	(8,927)	(4,837)
Unearned revenue	<u>74,481</u>	<u>(2,148)</u>
Net cash provided by operating activities	<u>726,469</u>	<u>1,763,981</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	<u>(34,804)</u>	<u>(125,689)</u>
Cash Flows from Financing Activities:		
Payments on notes payable	(15,928)	(15,159)
Payments on capital lease	<u>(431,667)</u>	<u>(409,583)</u>
Net cash used in financing activities	<u>(447,595)</u>	<u>(424,742)</u>
Net Increase in Cash	244,070	1,213,550
Cash – beginning of year	<u>2,498,134</u>	<u>1,284,584</u>
Cash – end of year	<u>\$ 2,742,204</u>	<u>\$ 2,498,134</u>
Supplemental information:		
Cash paid for interest	<u>\$ 1,216,463</u>	<u>\$ 1,240,454</u>

See accompanying notes to financial statements

HENNEPIN THEATRE TRUST

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2015 and 2014

Note 1: Significant Accounting Policies

Nature of Organization:

The mission of Hennepin Theatre Trust is arts-inspired community cultural development. The Trust achieves its mission by presenting a rich mix of live performances, creating inspiring arts education experiences and advancing a thriving Minneapolis cultural district.

Hennepin Theatre Trust (“HTT” or the “Trust”) is a Minnesota 501(c)(3) charitable trust organized and operated for the following charitable purposes:

- To provide an opportunity for citizens of the State of Minnesota to participate in the creation, performance or appreciation of the arts at facilities located in the Hennepin Theatre District.
- To enrich the lives of persons throughout the state of Minnesota by promoting the cultural and economic health of the Hennepin Theatre District.
- To preserve and enhance arts and related facilities in the Hennepin Theatre District.
- To combat deterioration of the Hennepin Theatre District and improve the physical appearance, maintenance, and operation of the Hennepin Theatre District.
- To increase awareness of the Hennepin Theatre District.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting:

The Trust’s policy is to prepare its financial statements on the accrual basis of accounting. The Trust recognizes ticket revenue after the performance of each show. Donor contributions are recognized as contributions when a donor makes an unconditional promise to give to the Trust. Show expenses are recorded as prepaid until the performance has occurred.

Net assets and revenues, gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Trust and changes therein are classified and reported as follows:

Unrestricted – Resources over which the Board of Directors has discretionary control.

Temporarily Restricted – Those resources subject to donor imposed restrictions that will be satisfied by actions of the Trust or the passage of time. When a restriction expires or is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets.

HENNEPIN THEATRE TRUST
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2015 and 2014

Note 1: Significant Accounting Policies (continued)

Basis of Accounting (continued):

Permanently Restricted – Contributions that are permanently restricted by donors for specific purposes.

Cash Equivalents:

For purposes of the statement of cash flows, the Trust considers all highly liquid investment instruments with original maturities of three months or less to be cash equivalents. The Trust maintains its cash balances at one financial institution in Minneapolis, Minnesota. At times such balances may be in excess of Federal Deposit Insurance Corporation limits.

Receivables:

The Trust grants credit in the normal course of business but generally does not require collateral or any other security to support amounts due. Management performs ongoing credit evaluations and believes the receivables are fully collectible; accordingly no allowance for doubtful accounts has been recorded.

Property and Equipment:

Property and equipment are recorded at cost or, in the case of contributed property, at fair value at the date of contribution. Expenditures for replacements, maintenance, and repairs that do not improve or extend the life of the respective assets are expensed as incurred. At the time assets are retired or otherwise disposed of, the cost and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is included in the statement of activities.

Assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and Improvements	39 years
Equipment	5 years

Pledges:

Contributions are recognized when a donor makes an unconditional promise to give to the Trust.

Contributions:

Contributions are received for services and tickets. Contributed services are recorded as contributions, at their fair value, when the service creates or enhances a non-financial asset or the service requires specialized skills that would need to be purchased if not provided by donation. The Trust secures contributed tickets from producers of shows the Trust presents. These tickets to performances are distributed to various groups without charge to support the Trust's educational programming. The values of the tickets are an in-kind contribution and education program expense.

HENNEPIN THEATRE TRUST
NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2015 and 2014

Note 1: Significant Accounting Policies (continued)

Functional Expenses:

Expenses related to the promotion and productions of shows are considered to be program expenses. Tickets contributed to the Trust and distributed at no cost for education purposes are considered program expenses. Expenses related to development and donor contributions are considered to be fundraising expenses. Expenses that are not specifically related to program services and fundraising are considered to be management and general.

Advertising Expense:

Advertising costs for shows are deferred and expensed at the time the respective performance occurs. The advertising expense included in show expenses are \$2,076,110 in 2015 and \$2,714,909 in 2014. All other advertising costs are expensed as incurred. The total advertising expense was \$2,101,358 in 2015 and \$2,786,167 in 2014.

Deferred Rent:

Rent expense is being recognized on a straight-line basis over the life of the lease. The difference between rent expense recognized and rental payments, as stipulated in the lease, is reflected as deferred rent in the statement of financial position. In addition, deferred rent also includes the landlord incentive on a portion of the leasehold improvement cost, which is being amortized over the life of the lease.

Concentrations:

The Trust is vulnerable to changes in the economic conditions within the Minneapolis area, since the majority of the revenue is derived from ticket sales to musical and theatrical performances.

Tax Exempt Status:

The Trust qualifies as a tax-exempt organization pursuant to Internal Revenue Code Section 501(c)(3). Accordingly, the Trust is not subject to federal income taxes under IRC Section 501(a). The Trust is not classified as a private foundation within the meaning of IRC Section 509(a). Therefore, all contributions made to the Trust qualify as deductible charitable contributions. Based on the IRS ruling dated 11/11/2000, the Organization has taken the tax position that it is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Organization could be selected by the IRS for an audit for the tax years 2013 to 2015. Management believes the change in taxable status is unlikely as a result of a potential tax audit.

Reclassifications:

Certain amounts in the prior year's financial statements have been reclassified to conform to current year presentation.

HENNEPIN THEATRE TRUST
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2015 and 2014

Note 2: Commitments and Contingencies

Retirement Benefit Plan:

The Trust has a SIMPLE IRA benefit plan with a 3% match of employee contributions. The Trust made contributions of \$45,566 and \$33,538 to this plan in 2015 and 2014.

Sales Tax

The Trust is exempt from the collection of sales tax on all show tickets pursuant to Minnesota legislation as long as it meets the requirements of Minnesota statutes. The public support test requires 5 percent of total revenue annually be generated from public contributions. Management believes the Trust meets the support test for the years ended June 30, 2015 and 2014.

Note 3: Notes Payable

	2015	2014
Payable to Nonprofits Assistance Fund, in monthly installments of \$690 including interest at 2.0%, matures July 2021, secured by accounts receivable and equipment.	\$ 47,417	\$ 54,671
Payable to Nonprofits Assistance Fund, in monthly installments of \$1,187 including interest at 7.5%, matures July 2021, secured by accounts receivable and equipment.	69,529	78,203
	116,946	132,874
Less current maturities	(16,737)	(15,928)
	\$ 100,209	\$ 116,946

HENNEPIN THEATRE TRUST
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2015 and 2014

Note 3: Notes Payable (continued)

Future payments required under the note payable agreements are as follows for the fiscal years ended June 30:

	2016	\$	22,525
	2017		22,525
	2018		22,525
	2019		22,525
	2020		22,525
	Thereafter		<u>24,403</u>
			137,028
Less: Amount representing interest			<u>20,082</u>
			<u>\$ 116,946</u>

Note 4: Capital Lease - Building

The Trust entered into a capital lease agreement with the City of Minneapolis, dated December 1, 2005, for the Orpheum, State and Pantages Theatres. The agreement requires monthly payments of principal and interest through November 2035. As the agreement provides the Trust with the option to purchase the properties for \$1 at the end of the term, the agreement was recorded as a capital lease.

Future payments required under the capital lease agreement are as follows for the fiscal years ended June 30:

	2016	\$	1,561,014
	2017		1,561,854
	2018		1,562,180
	2019		1,563,461
	2020		1,564,951
	Thereafter		<u>24,104,229</u>
			31,917,689
Less: Amount representing interest			<u>14,187,384</u>
			<u>\$ 17,730,305</u>

An additional administrative fee is also charged.

HENNEPIN THEATRE TRUST
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2015 and 2014

Note 4: Capital Lease – Building (continued)

Assets under the capital lease agreement are as follows at June 30, 2015 and 2014:

	2015	2014
Buildings – at cost	\$ 21,055,000	\$ 21,055,000
Accumulated depreciation	(5,173,773)	(4,633,901)
	\$ 15,881,227	\$ 16,421,099

Note 5: Settlement Account

The Trust’s manager, Historic Theatre Group, LLC (“LLC”), maintains a settlement account and remits net ticket proceeds to the Trust as well as other outside presenters at the completion of each performance.

Donor contributions were deposited with the LLC through Ticketmaster and subsequently paid to the Trust. Donor receivables at June 30, 2015 and 2014 represent the June collections paid in July.

Note 6: Temporarily Restricted Net Assets

Temporarily restricted net assets consist of contributions for specific upcoming projects and performances and totaled \$78,421 and \$0 as of June 30, 2015 and 2014, respectively.

Note 7: Contributed Services and Tickets

The Trust secures contributions for tickets and services as indicated in Note 1. A summary of the values recorded in the financial statements for such contributions are as follows.

	2015	2014
Management and General		
Legal services	\$ -	\$ -
Program Expenses		
Promotion	-	49,180
Catering - meals	56,000	59,986
Education - tickets	296,236	443,804
	352,236	552,970
Total Contributions – In Kind	\$ 352,236	\$ 552,970

HENNEPIN THEATRE TRUST
NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2015 and 2014

Note 8: Management Agreement

The Trust has, as required by its agreement with the City of Minneapolis, an agreement with Historic Theatre Group, LLC (“LLC”) under which the LLC will manage the theatre facilities operated by the Trust. As part of its management responsibilities, LLC is required to make all payments on the capital lease for the theatre facilities on behalf of the Trust (see Note 4). During 2015 and 2014, LLC made payments totaling \$1,641,530 and \$1,642,670 on the capital lease. Such amounts were recorded as contributions by the Trust. As compensation for services rendered, LLC retains 100% of any annual operating surplus from the management of the theatres.

Note 9: Operating Lease

The Trust has an operating lease, effective July 1, 2011, for its administrative offices and New Century Theatre under an agreement expiring in 2021. Rent expense was \$206,180 for 2015 and \$199,297 for 2014.

Future minimum rental payments under the operating lease are as follows for the years ended June 30:

2016	\$ 222,302
2017	227,974
2018	233,786
2019	239,625
2020	245,527
Thereafter	<u>289,731</u>
	<u>\$ 1,458,945</u>

Note 10: Deferred Lease Incentive

The Company received various incentives from the landlord for entering a new office lease expiring in 2021 (see Note 9). These incentives are recorded as a liability and are being amortized as a credit to rent expense over the life of the lease.

Note 11: Consulting Agreement

On December 1, 2005, the Trust entered into a Consulting Agreement with a third party, Broadway Across America (“BAA”), for services in connection with the presentation of Broadway shows. Under the terms of the agreement the consultant will receive payments equal to a percentage of the net income of each show, as defined in the agreement. As required by the Trust’s agreement with the City of Minneapolis, the Consulting Agreement provides for automatic five year renewals through 2035 if the agreement is not terminated by either party.

HENNEPIN THEATRE TRUST
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2015 and 2014

Note 12: Concentration of Credit Risk

Financial instruments which potentially subject the Company to credit risk include cash on deposit with financial institutions that exceeds amounts insured by the Federal Deposit Insurance Corporation. At June 30, 2015 and 2014, cash on deposit exceeded insured limits by \$2,578,000 and \$2,345,000, respectively.

Note 13: Subsequent Events

Management has evaluated subsequent events through January 26, 2016, the date on which the financial statements were available to be issued.