HENNEPIN THEATRE TRUST

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Hennepin Theatre Trust
Minneapolis, Minnesota

We have audited the accompanying financial statement of Hennepin Theatre Trust (a nonprofit organization), which comprises the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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.

Board of Directors
Hennepin Theatre Trust

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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 7, 2017

HENNEPIN THEATRE TRUST
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS

CURRENT ASSETS	
Cash	$ 1,692,618
Receivables:	
Contributions, Net Allowance	291,699
Accounts Receivable	398,913
Prepaids and Other Assets	204,469
Total Current Assets	2,587,699
PROPERTY AND EQUIPMENT	
Buildings	24,188,980
Equipment	984,328
Total	25,173,308
Less: Accumulated Depreciation	(6,643,701)
Property and Equipment, Net	18,529,607
Total Assets	$ 21,117,306

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts Payable	$ 492,826
Current Portion of Capital Lease - Building	512,500
Accrued Expenses and Other Liabilities	178,660
Deferred Sponsorship Revenue	78,010
Total Current Liabilities	1,261,996
OTHER LIABILITIES	
Notes Payable - Net of Current Portion and Debt Issuance Costs	2,323,192
Capital Lease - Net of Current Portion	16,280,722
Total Other Liabilities	18,603,914
Total Liabilities	19,865,910
NET ASSETS	
Unrestricted	893,852
Temporarily Restricted	357,544
Total Net Assets	1,251,396
Total Liabilities and Net Assets	$ 21,117,306

See accompanying Notes to Financial Statements.

HENNEPIN THEATRE TRUST
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE, SUPPORT, AND GAINS			
Grants and Contributions	$ 4,270,526	$ 398,496	$ 4,669,022
Sponsorships	322,275	-	322,275
In-Kind Contributions	608,286	-	608,286
Ticket Sales	30,757,214	-	30,757,214
Concession Revenue	38,626	-	38,626
Less: Cost of Goods Sold	23,382	-	23,382
Net Concession Revenue	15,244	-	15,244
Community Programs	125,399	-	125,399
Marketing and Other Revenue	100,093	-	100,093
Interest	2,500	-	2,500
Subtotal	36,201,537	398,496	36,600,033
Net Assets Released from Restriction	334,942	(334,942)	-
Total Revenue, Support, and Gains	36,536,479	63,554	36,600,033
EXPENSES			
Program Services	33,470,642	-	33,470,642
Administrative and General	1,393,379	-	1,393,379
Fundraising	1,164,679	-	1,164,679
Total Expenses	36,028,700	-	36,028,700
CHANGE IN NET ASSETS	507,779	63,554	571,333
Net Assets - Beginning of Year	386,073	293,990	680,063
NET ASSETS - END OF YEAR	$ 893,852	$ 357,544	$ 1,251,396

See accompanying Notes to Financial Statements.

HENNEPIN THEATRE TRUST
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	Program Services	Management and General	Fundraising	Total
Show Expenses	$ 28,851,016	$ -	$ -	$ 28,851,016
Payroll and Related Costs	1,343,486	701,536	529,498	2,574,520
Professional Services	179,596	97,550	143,588	420,734
Occupancy	124,503	122,444	-	246,947
Information Technology	45,736	42,714	13,712	102,162
Office Supplies and Expense	1,809	38,909	395	41,113
Postage and Delivery	497	987	2,170	3,654
Subscription and Dues	47,242	76,921	4,886	129,049
Equipment Expense	431	17,636	-	18,067
In-Kind Expense	233,334	42,396	115,580	391,310
Advertising and Promotion	46,959	-	759	47,718
Telephone	495	1,123	-	1,618
Insurance	104	109,506	-	109,610
Tickets	165,351	-	3,902	169,253
Credit Card Fees	6,770	-	29,191	35,961
Travel	41,426	4,685	1,024	47,135
Printing and Publications	10,534	-	1,736	12,270
Meals	7,014	5,106	3,540	15,660
Parking	30,887	11,990	14,425	57,302
Fundraising Expense	-	-	289,218	289,218
Depreciation Expense	702,760	15,043	-	717,803
Community Programs	414,930	-	1,280	416,210
Interest	1,160,675	6,310	-	1,166,985
Miscellaneous	55,087	98,523	9,775	163,385
Total Functional Expenses	$ 33,470,642	$ 1,393,379	$ 1,164,679	$ 36,028,700

See accompanying Notes to Financial Statements.

HENNEPIN THEATRE TRUST
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	$ 571,333
Adjustments to Reconcile Change in Net Assets to:	
Net Cash Provided by Operating Activities:	
Depreciation and Amortization	717,803
Noncash Donated Property and Equipment	(215,976)
Increase in Allowance for Doubtful Accounts	5,700
Changes in Operating Assets and Liabilities:	
Accounts Receivables	248,546
Contribution Receivables	(297,399)
Prepaid Expenses and Inventory	230,885
Accounts Payable	193,451
Accrued Expenses and Other Liabilities	(466,333)
Deferred Revenue	(20,744)
Net Cash Provided by Operating Activities	967,266
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Property and Equipment	(793,402)
Disposal of Property, and Equipment	225,533
Net Cash Used by Investing Activities	(567,869)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on Notes Payable	(106,718)
Payments on Capital Lease	(482,500)
Net Cash Used by Financing Activities	(589,218)
NET DECREASE IN CASH	(189,821)
Cash - Beginning of Year	1,882,439
CASH - END OF YEAR	$ 1,692,618
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES	
Cash Paid During the Year For:	
Purchase of Property and Equipment Using Long-Term Debt	$ 2,329,698
Interest Expense Paid	$ 1,166,985

See accompanying Notes to Financial Statements.

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Hennepin Theatre Trust is a nonprofit organization that creates positive change through the arts by bringing together people, businesses, and organizations in WeDo™, the West Downtown MPLS Cultural District, to create and enjoy cultural experiences.

Hennepin Theatre Trust (the Organization or the Trust) is a Minnesota 501(c)(3) charitable trust located in downtown Minneapolis. It is organized and operated for the charitable purposes with the following community impact:

- Bring the best of international, national, and local arts and cultural offerings to our three theaters — the Orpheum, State, and Pantages theatres — for a wide range of Midwest audiences to enjoy.
- Enable more people to experience theatre through our education programs:
    - ➢ The Access Program provides tickets to Broadway shows for underserved communities.
    - ➢ Our Spotlight Education program inspires high school students through musical theatre, bringing professional-level training to musical theatre programs in high schools across the state.
- Preserve, operate, and enhance three historic theatres in the downtown theatre district.
- Lead collaborative efforts to program and sustain a distinct arts and cultural destination, now known as the West Downtown MPLS Cultural District (WeDo™).
- Lead placemaking efforts to create engaging, vibrant, and art-infused public spaces that increase density and improve feelings of safety in downtown Minneapolis.

Significant Accounting Policies

The significant accounting policies followed by Hennepin Theatre Trust are summarized below to assist the reader in reviewing the financial statements and other data contained in this report.

Basis of Presentation

The Trust's policy is to prepare its financial statements on the accrual basis of accounting.

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Resources are reported in three separate categories of net assets based on the existence or absence of donor-imposed restrictions. Unconditional promises to give are recorded as receivables and revenues in the period the promise is made. All contributions are recorded at fair value at the time the promise is made. Conditional promises to give are not recorded until the condition is either substantially met or is deemed remote that the condition will not be met. Contributions to be received after year-end are discounted using a rate of return appropriate for the expected term of the contribution. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible promises to give is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

In the accompanying financial statements, net assets that have similar characteristics have been combined into categories as follows:

Unrestricted – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the board of directors. Such assets primarily include the Trust's operating funds.

Temporarily Restricted – Net assets whose use by the Trust is subject to donor-imposed stipulations that can be fulfilled by actions of the Trust pursuant to those stipulations or that expire by the passage of time.

Permanently Restricted – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Trust. Currently, the Trust does not hold any permanently restricted net assets.

Expenses are reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one category of net assets and decrease another are reported as net assets released from restrictions.

Cash and Cash Equivalents

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

Accounts Receivable

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.

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions Receivable

Contributions receivable is shown net of the allowance for uncollectible pledges. The allowance at June 30, 2017 was $5,700. Receivables that are expected to be collected within one year are recorded at their net realizable value. Receivables that are expected to be collected in future years are recorded at present value of the amounts to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the pledge is received. Amortization of the discount is included in contribution revenue. Conditional pledges are not included as support until such time as the conditions are substantially met.

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 expended 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 results gain or lose is included in the statement of activities.

The Trust capitalizes individual equipment purchases of $5,000 or more. Assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and Improvements	39 Years
Equipment	3-10 Years

Depreciation expense as of June 30, 2017 was $717,803.

Revenue Recognition

Contributions, including unconditional promises to give, are recognized as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in the temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Unconditional contribution pledges are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional contributions are recognized when the conditions on which they depend are substantially met.

The Trust recognizes ticket revenue after the performance of each show. Show expenses are recorded as prepaid until the performance has occurred.

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-Kind Contributions

In-kind contributions are received for services and tickets. Contributed services are recorded as contributions, at their fair value, when the service creates or enhances a nonfinancial 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 expenses.

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 $1,999,336 at June 30, 2017. All other advertising costs are expensed as incurred. The total advertising expense was $2,047,054 at June 30, 2017.

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.

Tax-Exempt Status

The Trust qualifies as a tax-exempt nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code and similar statutes of Minnesota law. Accordingly, income taxes have not been recorded in the accompanying financial statements.

The Trust has not taken any uncertain tax positions that require recognition under applicable accounting guidance.

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.

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.

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations (Continued)

Financial instruments that potentially subject the Trust to concentrations of credit risk consist of cash accounts. The Trust places its unrestricted cash accounts with creditworthy, high-quality financial institutions. A significant portion of these funds exceeds the federally insured limits. The Trust has not experienced any losses in such accounts.

Subsequent Events

The Trust has evaluated events and transactions for potential recognition or disclosure in these financial statements through December 7, 2017, the date the financial statements were available to be issued. There are no subsequent events requiring disclosure.

NOTE 2 CONTRIBUTIONS RECEIVABLE

Contributions are recognized when the donor makes a promise to give to the Trust. Contributions receivable consist of the following:

Receivable in Less than One Year	$ 93,332
Receivable in One to Five years	206,666
Total Promises to Give	299,998
Less: Discounts to Net Present Value	(2,599)
Less: Allowance for Uncollectible Promises	(5,700)
Net Promises to Give	$ 291,699

Discount rate used on long-term promises for the year ended June 30, 2017 was between 1.1% and 1.8%.

The Trust uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

NOTE 3 LONG-TERM DEBT

Long-term debt payable at June 30, 2017 consists of the following:

Description	Amount
Note Payable, to the City of Minneapolis, with interest-only payments through September 2018, then in monthly installments of $15,881.48 including interest at 3.25%, matures September 2024, secured by combination of mortgage security agreement, fixture financing, and an assignment of leases and rents.	$ 2,329,698
Total	2,329,698
Less: Current Maturities	-
Less: Unamortized Debt Issuance Costs	6,506
Total Notes Payable, Net of Current Maturities	$ 2,323,192

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

Year Ending June 30,	Amount
2018	$ -
2019	75,498
2020	103,565
2021	106,982
2022	110,511
Thereafter	2,403,444
Total	2,800,000
Less: Debt Issuance Costs	6,506
Less: Loan Amounts Not Yet Drawn	476,808
Total	$ 2,323,192

NOTE 4 CAPITAL LEASE – BUILDING

The Trust entered into a capital lease agreements 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.

NOTE 4 CAPITAL LEASE – BUILDING (CONTINUED)

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

Year Ending June 30,	Amount
2018	$ 1,562,180
2019	1,563,461
2020	1,564,951
2021	1,564,339
2022	1,564,407
Thereafter	20,977,030
Total Minimum Lease Payments	28,796,368
Less: Amount Representing Interest	12,003,146
Capital Lease Obligation	$ 16,793,222

An additional administrative fee is also charged.

Assets under the capital lease agreement are as follows at June 30:

Building - at Cost	$ 21,055,000
Accumulated Depreciation	(6,253,515)
Total	$ 14,801,485

NOTE 5 TEMPORARILY RESTRICTED NET ASSETS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors during the year ended June 30, 2017:

Restricted for Purpose	$ 57,544
Restricted for Time	300,000
Total	$ 357,544

Temporarily restricted net assets were released for the following purposes during the year ended June 30, 2017:

Restricted for Purpose	$ 284,942
Restricted for Time	50,000
Total	$ 334,942

NOTE 6 RETIREMENT PLAN

The Trust has a SIMPLE IRA benefit plan with a 3% match of employee contributions. The Trust made contributions of $47,387 to this plan in the year ended June 30, 2017.

NOTE 7 CONTRIBUTED GOODS AND SERVICES

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

In-Kind Goods:	
Tickets	$ 219,484
Office Furniture	215,976
Catering - Meals	121,755
In-Kind Services:	
Professional Services	51,071
Total Contributions In-Kind	$ 608,286

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 2017, LLC made payments totaling $1,640,811. On the capital lease. The Trust recorded the payments as contributions. As compensation for services rendered, LLC retains 100% of any annual operating surplus from the management of the theatres.

NOTE 9 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.

Under the terms of the Management Agreement and Consulting Agreement, BAA and LLC utilize a ticketing contract to sell tickets on behalf of the Organization. Such funds are held by BAA and LLC on behalf of the Organization through the date of the related performance.