

**COMMUNITY PLANNING AND ECONOMIC
DEVELOPMENT DEPARTMENT OF THE
CITY OF MINNEAPOLIS
STATE, ORPHEUM, AND PANTAGES THEATRES
MINNEAPOLIS, MINNESOTA**

For the Year Ended December 31, 2003



Agreed-Upon Procedures

**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**INDEPENDENT AUDITOR'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Management
Community Planning and Economic Development
Department of the City of Minneapolis

We have performed the procedures enumerated below, which were agreed to by the Community Planning and Economic Development Department of the City of Minneapolis (CPED), solely to assist you in assessing the condition of the financial records of the Operating and Settlement Accounts of the State, Orpheum, and Pantages Theatres as maintained by the Historic Theatre Group, Inc., as of and for the year ended December 31, 2003. The CPED's management is responsible for the financial operations of the Theatres. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

For the purpose of applying the following procedures, materiality has been agreed to be \$26,332. Our procedures and findings are as follows:

1. Read the Board minutes of the Theatre Operating Committee and note any material transactions or policy issues that affect the financial operations.

Findings

All instances of material transactions or policy issues were considered by the CPED or the Theatre Manager as part of the financial records.

2. Prepare or update the narrative of the receipt and disbursement process.

Findings

No significant changes to the receipt and disbursement process were made from previous years.

3. For the receipt process, perform the following:
 - S Perform fluctuation analysis of the general ledger revenue accounts, comparing the current year to the prior year. Note any material fluctuations.
 - S Prepare a summary of receivable amounts from the general ledger.
 - S Test material individual receivable amounts by tracing amounts to subsequent receipts or supporting documentation. Note that the corresponding revenues were correctly classified in the general ledger and amounts can be traced to a deposit on the bank statement if based on subsequent receipts.
 - S Select a sample of 25 weeks of show settlements, foot the settlement sheets, view a signed use agreement, note that rates charged agree with approved rates, trace disbursements made from the Settlement Disbursement Account to supporting documentation, tie gross ticket sales to Ticketmaster reports, recalculate deductions from gross ticket sales, and recalculate ticket commission revenue. Trace reimbursements to the Manager from the ticket settlement account. For ticket sales, trace amounts to the corresponding bank statement.
 - S Select one day's concession revenue from each event chosen for settlement testing. Foot the invoice and trace amounts from the invoice to the sales summary. Trace this amount to the general ledger.
 - S Select one day's merchandise revenue from each event chosen for settlement testing and trace the percentage of house commission and sales tax from the sales summary to the invoice. Trace amounts to the general ledger and bank deposit.
 - S Select one day's restoration fees from each event chosen for settlement testing and trace the amounts listed on the restoration fees transfer list to the box office summary. Recalculate the fee.

Findings

There were no unexplained deviations or unsupported amounts.

4. For depository activity, perform the following:
 - S Perform fluctuation analysis of the general ledger cash accounts, comparing the current year to the prior year. Note any material fluctuations.
 - S Prepare a summary of cash and investments.
 - S Trace amounts on the year-end bank reconciliation to supporting documentation. Review the date of issuance of outstanding checks and trace to the subsequent clearing of these checks. Review the date when the bank reconciliation was performed and note if greater than 30 days.
 - S Review bank statements for each bank account for five days before and after year-end for inter-bank transfers, deposits, and ACH transfers for recording in the proper period.
 - S Obtain a copy of pledged collateral information and Federal Deposit Insurance Corporation insurance information for year-end balances.
 - S On a surprise basis, count cash at the box offices.

Findings

There were no unexplained deviations or unsupported amounts.

5. For the disbursement process, perform the following:
 - S Perform fluctuation analysis of the general ledger expense accounts and accounts payable, comparing the current year to the prior year. Note any material fluctuations.
 - S Prepare a summary of accounts payable from the general ledger.
 - S Test material individual amounts by tracing amounts to supporting documentation. Note whether the item is properly recorded as an expense in the correct year.
 - S Perform a search for unrecorded payables by reviewing material disbursements in the 30 days subsequent to year-end. Inquire of accounting staff about their knowledge of any unrecorded payables and document their response.
 - S Obtain a schedule of prepaid items and test them for clerical accuracy. Trace amounts to the general ledger and supporting documentation.

- S Select a sample of 25 non-payroll disbursements. Determine if they were approved for payment, the invoice was footed, the detail information agrees with the general ledger, the invoice was canceled, the check was properly endorsed, and the entry was posted to an appropriate general ledger account(s).

Findings

There were no unexplained deviations or unsupported amounts.

- 6. For insurance coverage, perform the following:

- S Obtain annual insurance information and prepare a summary schedule showing the type and amount of insurance coverage by company.
- S Determine if the required policies have been purchased by the Manager, as noted in the management agreement, and that coverage is sufficient for Theatre assets.

Findings

The required policies have been purchased by the Manager.

- 7. For capital assets, perform the following:

- S Obtain a listing of capital assets that includes the asset type, acquisition date, amount, description of the asset, and identifying number.
- S Perform fluctuation analysis of the general ledger capital asset accounts, comparing the current year to the prior year. Note any material fluctuations.
- S Obtain supporting documentation for any purchases or disposals. Trace amounts to the general ledger.

Findings

There were no deviations or unsupported amounts.

- 8. Prepare a narrative of the computer function for Theatre operations as performed by the Manager. Complete the computer controls questionnaire GCX-9-O.

Findings

There were no significant changes from previous years.

9. For the payroll process, perform the following:
- S Perform fluctuation analysis of the general ledger payroll expense and salaries payable accounts, comparing the current year to the prior year. Note any material fluctuations.
 - S Prepare a summary of salaries payable from the general ledger.
 - S Test salaries payable amounts by recalculating the year-end amount.
 - S Compare the payroll expense amounts noted in the general ledger to quarterly 941 tax returns, and investigate any material variances.
 - S Obtain a schedule of compensated absences and test for clerical accuracy. Trace individual amounts to the supporting subsidiary records.

Findings

There were no deviations or unsupported amounts.

10. Review the cost allocation plan by testing five invoices for consistency with the plan criteria.

Findings

The tested invoices were consistent with the plan criteria.

11. Recalculate the Manager's fee and amount payable at year-end, and trace amounts to the general ledger. Recalculate the annual operating deficit/profit 50 percent payment.

Findings

The amounts are properly calculated and recorded in the general ledger.

12. Obtain a listing of the year-end inventory and test for clerical accuracy. Perform fluctuation analysis, comparing the current year amount to the prior year amount. Note any material variances.

Findings

There were no deviations or unsupported amounts.

Other procedures are as follows:

13. Prepare a working trial balance for the Theatre operations from the general ledger. Perform final fluctuation analysis on the balances and note any material fluctuations from the previous year.
14. Prepare on the accrual basis of accounting a statement of net assets (Schedule 1) for the Theatre operations, as accounted for by the Theatre Manager.
15. Prepare on the accrual basis of accounting a statement of activity (Schedule 2) for the Theatre operations, as accounted for by the Theatre Manager.
16. Prepare a schedule of notes (Schedule 3), based on the above statements, for the following:
 - S Cash deposits
 - S Operating reserves - minimum fund balance
 - S Amounts due to Manager
 - S Operating leases
 - S Capital leases
 - S Related-party transactions
 - S Settlement account changes in assets and liabilities
 - S Defined contribution plan
 - S Capital assets
 - S Inventory
 - S Deficit/profit calculation
17. Follow up on any prior year management letter comments and note their status.

Findings

There were no findings in the prior year.

* * * * *

We were not engaged to, and did not, conduct an audit of the Minneapolis Community Planning and Economic Development Department's State, Orpheum, and Pantages Theatres' financial statements, the objective of which would be the expression of an opinion on those financial statements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended for the information of the CPED's management and City officials and is not intended to be, and should not be, used by anyone other than those specified parties.

PATRICIA ANDERSON
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: February 27, 2004

SCHEDULES

**COMMUNITY PLANNING AND ECONOMIC
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Schedule 1

**NET ASSETS
DECEMBER 31, 2003**

	Operating Account	Settlement Account	Totals
Assets			
Current assets			
Cash	\$ 225,835	\$ 2,451,256	\$ 2,677,091
Advances to presenters	-	1,069,197	1,069,197
Accounts receivable - trade	75,907	-	75,907
Due from other funds	99,133	-	99,133
Inventory	19,913	-	19,913
Prepaid items	45,931	-	45,931
	\$ 466,719	\$ 3,520,453	\$ 3,987,172
Liabilities			
Current liabilities			
Accounts payable - trade	\$ 171,999	\$ -	\$ 171,999
Accrued payroll	28,553	-	28,553
Due to other funds	5,012	50,926	55,938
Due to other governments	31,510	-	31,510
Due to Manager	96,782	-	96,782
Deposits held in trust	-	3,469,527	3,469,527
Customer deposits	11,500	-	11,500
	\$ 345,356	\$ 3,520,453	\$ 3,865,809
Net Assets	\$ 121,363	\$ -	\$ 121,363

**MINNEAPOLIS COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
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Schedule 2

**SCHEDULE OF ACTIVITY
BUDGET AND ACTUAL
OPERATING ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues			
Gross box office revenue	\$ 479,729	\$ 518,098	\$ 38,369
Gross use fees	1,136,651	1,141,980	5,329
Gross food, concession, and merchandise	397,082	433,667	36,585
Total Operating Revenues	\$ 2,013,462	\$ 2,093,745	\$ 80,283
Operating Expenses			
Maintenance and repair	\$ 204,885	\$ 209,832	\$ (4,947)
Utilities	439,189	429,024	10,165
Management fees	603,341	617,369	(14,028)
Payroll and payroll taxes	702,395	716,951	(14,556)
Rent	79,673	82,175	(2,502)
Other	91,482	80,893	10,589
Total Operating Expenses	\$ 2,120,965	\$ 2,136,244	\$ (15,279)
Operating Income	\$ (107,503)	\$ (42,499)	\$ 65,004
Nonoperating Revenues			
Investment income	8,579	9,852	1,273
Income before transfers	\$ (98,924)	\$ (32,647)	\$ 66,277
Transfers in	-	256,549	256,549
Transfers out	-	(282,006)	(282,006)
Change in Net Assets	\$ (98,924)	\$ (58,104)	\$ 40,820
Net Assets - January 1	179,467	179,467	-
Net Assets - December 31	\$ 80,543	\$ 121,363	\$ 40,820

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Schedule 3

SCHEDULE OF NOTES
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2003

1. Deposits

In accordance with City Charter and Minnesota statutes, the City of Minneapolis maintains deposits at those depositories authorized by the City Council.

At December 31, 2003, cash consists of:

Savings account	\$ 2,451,256
Imprest cash held by the Historic Theatre Group, Inc.	14,250
Checking account	<u>211,585</u>
 Total Cash	 <u>\$ 2,677,091</u>

2. Operating Reserves - Minimum Fund Balance

According to the management agreement, the Community Planning and Economic Development Department (CPED) is required to maintain a minimum fund balance of \$100,000 in the Operating Account Special Revenue Fund beginning January 1, 1996. On an annual basis thereafter, the CPED will be reimbursed for contributions to maintain the minimum fund balance up to the amount owed and to the extent the fund balance exceeds the minimum of \$100,000.

CPED contributions - January 1	\$ 445,752
Contributions for 2003	250,000
Contributions repaid for 2003	<u>(250,000)</u>
 CPED Contributions - December 31	 <u>\$ 445,752</u>

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Schedule 3
(Continued)

3. Due to Manager

For the year ended December 31, 2003, the Theatre earned \$617,369. As of December 31, 2003, the Theatre Manager was paid \$520,587, leaving an amount owing of \$96,782. This amount is shown on the Operating Account's Schedule of Net Assets as Due to Manager. Also during 2003, \$185,207 was paid to the Manager for the 2002 management fee.

The management fee is based on the following:

A periodic fixed fee equal to 14 percent of budgeted total combined revenues and a variable fee not to exceed the periodic fixed fee based on the following percentages of budgeted combined revenue:

- A. ten percent on budgeted combined revenues of 40 to 60 percent of budgeted combined revenue,
- B. 15 percent on budgeted combined revenues of 60 to 80 percent of budgeted combined revenue,
- C. 25 percent on budgeted combined revenues of 80 to 100 percent of budgeted combined revenue, and
- D. 35 percent on actual revenues over budgeted combined revenue.

4. Operating Leases

The Theatres are committed under various leases for space and equipment used in their operations. Rent expense for 2003 totaled \$83,692. Future minimum lease payments are:

2004	\$ 7,079
2005	6,253
2006	<u>5,193</u>
Total	<u>\$ 18,525</u>

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Schedule 3
(Continued)

5. Capital Leases

The Theatres are also committed under a capital lease for a new phone system. Rent expense for 2003 totaled \$13,598. Future minimum lease payments are:

2004	\$ 23,311
2005	23,311
2006	<u>9,713</u>
 Total	 \$ 56,335
Less: interest	<u>(10,233)</u>
 Total	 <u>\$ 46,102</u>

6. Related-Party Transactions

Theatre Live! Inc.

Theatre Live! Inc., is a promotion company affiliated with the Theatre. The Theatre's principals have two seats on the 15-member Board.

Productions promoted at the Theatres in 2003 by Theatre Live! Inc.	39
 Use fees paid to the Theatre Operating Account for these productions	 \$ 145,343
 Advances on ticket sales to Theatre Live! Inc., at December 31, 2003	 \$ -

Theatre Live! Inc., use fees paid to the Theatres equal 13 percent of the \$1,141,980 total use fees collected by the Theatres in 2003.

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Schedule 3
(Continued)

7. Settlement Account

Statement of Changes in Assets and Liabilities
Settlement Account
For the Year Ended December 31, 2003

	Balance January 1	Additions	Deductions	Balance December 31
<u>Assets</u>				
Cash	\$ 2,068,715	\$ 21,675,460	\$ 21,292,919	\$ 2,451,256
Advances to presenters	294,856	8,639,780	7,865,439	1,069,197
Total Assets	<u>\$ 2,363,571</u>	<u>\$ 30,315,240</u>	<u>\$ 29,158,358</u>	<u>\$ 3,520,453</u>
<u>Liabilities</u>				
Accounts payable	\$ 18,509	\$ -	\$ 18,509	\$ -
Due to other funds	609,726	50,926	609,726	50,926
Deposits held in trust	1,735,336	30,264,314	28,530,123	3,469,527
Total Liabilities	<u>\$ 2,363,571</u>	<u>\$ 30,315,240</u>	<u>\$ 29,158,358</u>	<u>\$ 3,520,453</u>

8. Defined Contribution Plan

A. Plan Description

Qualified Theatre employees may belong to a defined contribution pension plan administered by Minnesota Mutual Retirement Plan Services. The plan is established and administered in accordance with Internal Revenue Service Code § 401(k). A regular employee can become a participant in the plan on January 1, April 1, July 1, or October 1 following completion of one year of service. Participants are vested immediately as to their individual contributions. Employees will be 100 percent vested in the employer's contribution after completing four years of service and partially vested with less than four

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Schedule 3
(Continued)

8. Defined Contribution Plan

A. Plan Description (Continued)

years of service. In addition, employees will be 100 percent vested at the time of death, total disability, or attainment of early or normal retirement date. The payroll for employees covered by the Theatre's defined contribution plan for the year ended December 31, 2003, was \$580,963; the Theatre's operating account total payroll was \$3,151,579.

B. Contributions Elected

The Theatre's employee participants may voluntarily elect to contribute up to \$10,000, which from time to time may be limited uniformly as to the maximum percentage of pay which may be contributed to the plan. The Theatre has elected (annually determined) to match 20 percent of employee contributions. The employer match will apply to employee contributions of up to five percent of the employee's gross salary.

9. Changes in Capital Assets

Changes in capital assets, consisting entirely of equipment, for the year ended December 31, 2003, are as follows:

Balance - January 1, 2003	\$ 1,084,029
Additions	57,489
Deletions	<u>(14,165)</u>
Balance - December 31, 2003	<u>\$ 1,127,353</u>

10. Inventory

The inventory is valued at cost (first in, first out). The inventory consists of concession supplies held for consumption; the cost of the inventory is recorded as an expense at the time individual inventory items are consumed.

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Schedule 3
(Continued)

11. Deficit/Profit Calculation

The Manager is responsible for funding 50 percent of any annual operating deficit, reduced by any surplus funds from prior years.

Excess "Selected Operating Expenses" over "Combined Revenues" - December 31, 2003	\$ (32,647)
Prior year's surplus	<u>25,457</u>
Operating Deficit	\$ (7,190)
	<u>x .50</u>
Amount Due From Manager	<u><u>\$ 3,595</u></u>

This amount may be adjusted to reflect excess energy charges and will be determined by November 30, 2004.