

HENNEPIN THEATRE TRUST
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

**HENNEPIN THEATRE TRUST
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YEARS ENDED JUNE 30, 2019 AND 2018**

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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, 2019 and 2018, 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.

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, 2019 and 2018, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 5, 2019

HENNEPIN THEATRE TRUST
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	\$ 4,707,772	\$ 2,728,126
Receivables:		
Contributions Receivable	362,077	167,875
Accounts Receivable	934,613	1,155,621
Prepays and Other Assets	288,964	224,088
Total Current Assets	6,293,426	4,275,710
PROPERTY AND EQUIPMENT		
Land and Buildings	25,551,194	24,870,918
Construction in Process	-	209,310
Equipment and Software	1,120,356	1,011,763
Total	26,671,550	26,091,991
Less: Accumulated Depreciation	(8,175,978)	(7,429,857)
Property and Equipment, Net	18,495,572	18,662,134
OTHER ASSETS		
Long-Term Receivables:		
Contributions Receivable, Net Allowance and Discount	344,808	643,123
Accounts Receivable, Net Discount	-	255,988
Total Other Assets	344,808	899,111
Total Assets	\$ 25,133,806	\$ 23,836,955
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 282,086	\$ 353,049
Current Portion of Capital Lease - Building	580,417	545,417
Current Portion of Notes Payable	103,558	75,492
Accrued Expenses and Other Liabilities	266,841	264,047
Deferred Sponsorship Revenue	307,525	369,608
Total Current Liabilities	1,540,427	1,607,613
OTHER LIABILITIES		
Notes Payable - Net of Current Portion and Debt Issuance Costs	2,607,561	2,718,713
Capital Lease - Net of Current Portion	15,154,889	15,735,305
Total Other Liabilities	17,762,450	18,454,018
Total Liabilities	19,302,877	20,061,631
NET ASSETS		
Without Donor Restrictions	4,030,425	1,693,444
With Donor Restrictions	1,800,504	2,081,880
Total Net Assets	5,830,929	3,775,324
Total Liabilities and Net Assets	\$ 25,133,806	\$ 23,836,955

See accompanying Notes to Financial Statements.

HENNEPIN THEATRE TRUST
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Without Restriction	With Restriction	Total	Without Restriction	With Restriction	Total
REVENUE, SUPPORT, AND GAINS						
Grants and Contributions	\$ 3,884,800	\$ 346,500	\$ 4,231,300	\$ 3,951,203	\$ 1,065,283	\$ 5,016,486
Sponsorships	501,583	-	501,583	512,289	1,303,100	1,815,389
In-Kind Contributions	368,305	-	368,305	313,263	-	313,263
Ticket Sales	44,300,759	-	44,300,759	23,175,109	-	23,175,109
Concession Revenue	68,866	-	68,866	6,550	-	6,550
Less: Cost of Goods Sold	49,698	-	49,698	7,058	-	7,058
Net Concession Revenue (Loss)	19,168	-	19,168	(508)	-	(508)
Community Programs	29,805	-	29,805	118,271	-	118,271
Marketing and Other Revenue	119,832	-	119,832	53,948	-	53,948
Interest	36,461	-	36,461	3,310	-	3,310
Subtotal	49,260,713	346,500	49,607,213	28,126,885	2,368,383	30,495,268
Net Assets Released from Restriction	627,876	(627,876)	-	644,047	(644,047)	-
Total Revenue, Support, and Gains	49,888,589	(281,376)	49,607,213	28,770,932	1,724,336	30,495,268
EXPENSES						
Program Services	44,492,819	-	44,492,819	24,890,202	-	24,890,202
Administrative and General	1,886,169	-	1,886,169	1,905,330	-	1,905,330
Fundraising	1,172,620	-	1,172,620	1,175,808	-	1,175,808
Total Expenses	47,551,608	-	47,551,608	27,971,340	-	27,971,340
CHANGE IN NET ASSETS	2,336,981	(281,376)	2,055,605	799,592	1,724,336	2,523,928
Net Assets - Beginning of Year	1,693,444	2,081,880	3,775,324	893,852	357,544	1,251,396
NET ASSETS - END OF YEAR	<u>\$ 4,030,425</u>	<u>\$ 1,800,504</u>	<u>\$ 5,830,929</u>	<u>\$ 1,693,444</u>	<u>\$ 2,081,880</u>	<u>\$ 3,775,324</u>

See accompanying Notes to Financial Statements.

**HENNEPIN THEATRE TRUST
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019**

	Program Services	Management and General	Fundraising	Total
Show Expenses	\$ 40,229,661	\$ -	\$ -	\$ 40,229,661
Payroll and Related Costs	1,305,233	1,118,002	558,754	2,981,989
Professional Services	108,993	165,339	45,899	320,231
Office Supplies and Expense	183,507	211,692	26,073	421,272
Postage and Delivery	848	1,417	1,575	3,840
Subscription and Dues	42,674	70,116	3,688	116,478
Equipment Expense	31,229	26,259	-	57,488
In-Kind Expense	284,600	-	83,705	368,305
Advertising and Promotion	9,890	2,330	3,689	15,909
Insurance	10,386	67,025	-	77,411
Tickets	26,251	861	60,860	87,972
Credit Card Fees	1,155	881	13,990	16,026
Travel	47,774	13,753	601	62,128
Printing and Publications	1,271	-	7,698	8,969
Meals	4,786	6,892	3,015	14,693
Sponsorship and Subscriber Expenses	8,166	-	344,093	352,259
Depreciation Expense	611,887	138,539	-	750,426
Community Programs	394,161	14,994	2,412	411,567
Interest	1,187,094	-	-	1,187,094
Miscellaneous	3,253	48,069	16,568	67,890
	<u>\$ 44,492,819</u>	<u>\$ 1,886,169</u>	<u>\$ 1,172,620</u>	<u>\$ 47,551,608</u>
Total Functional Expenses				

See accompanying Notes to Financial Statements.

**HENNEPIN THEATRE TRUST
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018**

	Program Services	Management and General	Fundraising	Total
Show Expenses	\$ 21,092,256	\$ -	\$ -	\$ 21,092,256
Payroll and Related Costs	1,130,201	1,043,012	561,848	2,735,061
Professional Services	77,760	135,452	132,764	345,976
Office Supplies and Expense	62,871	288,836	15,146	366,853
Postage and Delivery	588	1,116	1,332	3,036
Subscription and Dues	45,289	59,942	7,494	112,725
Equipment Expense	-	12,481	-	12,481
In-Kind Expense	232,703	-	80,360	313,063
Advertising and Promotion	28,777	93	830	29,700
Telephone	-	-	-	-
Insurance	-	82,771	-	82,771
Tickets	12,508	814	14,067	27,389
Credit Card Fees	291	1,711	13,074	15,076
Travel	43,754	3,757	1,042	48,553
Printing and Publications	8,082	694	3,602	12,378
Meals	3,345	3,605	3,116	10,066
Parking	-	-	-	-
Sponsorship and Subscriber Expenses	-	-	321,571	321,571
Depreciation Expense	625,965	161,099	-	787,064
Community Programs	397,175	-	-	397,175
Interest	1,128,637	89,370	-	1,218,007
Miscellaneous	-	20,577	19,562	40,139
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Functional Expenses	<u>\$ 24,890,202</u>	<u>\$ 1,905,330</u>	<u>\$ 1,175,808</u>	<u>\$ 27,971,340</u>

See accompanying Notes to Financial Statements.

**HENNEPIN THEATRE TRUST
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 2,055,605	\$ 2,523,928
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	750,426	787,064
Increase (Decrease) in Allowance for Doubtful Accounts	(2,090)	42,836
Changes in Operating Assets and Liabilities:		
Accounts Receivables	476,996	(1,012,696)
Contribution Receivables	106,203	(562,135)
Prepaid Expenses and Inventory	(64,876)	(19,619)
Accounts Payable	(70,963)	(349,087)
Accrued Expenses and Other Liabilities	2,794	85,387
Deferred Revenue	(62,083)	291,598
Net Cash Provided by Operating Activities	<u>3,192,012</u>	<u>1,787,276</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(592,388)	(239,268)
Disposal of Property and Equipment	9,431	-
Net Cash Used by Investing Activities	<u>(582,957)</u>	<u>(239,268)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Notes Payable	(83,994)	-
Payments on Capital Lease	(545,415)	(512,500)
Net Cash Used by Financing Activities	<u>(629,409)</u>	<u>(512,500)</u>
NET INCREASE IN CASH	1,979,646	1,035,508
Cash - Beginning of Year	<u>2,728,126</u>	<u>1,692,618</u>
CASH - END OF YEAR	<u>\$ 4,707,772</u>	<u>\$ 2,728,126</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Purchase of Property and Equipment Using Long-Term Debt	<u>\$ -</u>	<u>\$ 470,106</u>
Construction in Process, Noncash Additions	<u>\$ -</u>	<u>\$ 209,310</u>
Interest Expense Paid	<u>\$ 1,187,094</u>	<u>\$ 1,218,007</u>

See accompanying Notes to Financial Statements.

**HENNEPIN THEATRE TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Hennepin Theatre Trust drives cultural and economic vitality in Minnesota through leadership of the dynamic Hennepin Theatre District in downtown Minneapolis and educational programming that reaches every area of the state. As a nonprofit organization, our mission is to create positive change through the arts by bringing together people, businesses and organizations 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:

- Brings unmatched cultural attractions and experiences to our three historic theatres – the Orpheum, State and Pantages – and event center, including the best of Broadway and other top-tier entertainment for more than 660,000 Minnesotans to enjoy annually.
- Enables more people to experience theatre through our educational programming:
 - *Spotlight Education* program supplements and enhances arts curricula in Minnesota high schools by providing professional training opportunities to 8,000 students at more than 100 schools in rural, urban and suburban counties, increasing equitable access to quality musical theater education and boosting students' confidence, skills and knowledge.
 - *Community Tickets* program provides tickets to Broadway and other performances to students and families from underrepresented communities.
- Protects, preserves and operates three historic theatres in the Theatre District and improves the experience for all who work, play, live or visit downtown.
- Leads collaborative efforts to program a distinct arts district and cultural destination:
 - Public art program transforms places and spaces outside the theatres through public art initiatives to create a vibrant, welcoming and safe place for all to enjoy.
 - Activities and programming make a significant impact on the downtown and state economy.
- Brings together diverse partners and people in our downtown community and around the state to help make our programming relevant and meaningful

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.

**HENNEPIN THEATRE TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

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

Financial Statement Presentation

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

We report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities 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. Accounts receivable also consists of amounts due from sponsorship and naming rights agreements.

HENNEPIN THEATRE TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2019 and 2018 was \$30,083 and \$32,657, respectively. 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 to 10 Years

Depreciation expense as of June 30, 2019 and 2018 was \$750,427 and \$786,157, respectively.

Revenue Recognition

Contributions, including unconditional promises to give, are recognized as support with or without restrictions, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions 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.

**HENNEPIN THEATRE TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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 patrons and 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 \$1,490,012 at June 30, 2019 and \$1,787,657 at June 30, 2018. All other advertising costs are expensed as incurred. The total advertising expense was \$1,505,921 and \$1,807,357 at June 30, 2019 and 2018, respectively.

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 state of Minnesota, since the majority of the revenue is derived from ticket sales to musical and theatrical performances and contributions from patrons across the state.

HENNEPIN THEATRE TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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.

Changes in Accounting Principles

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. We have implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented with no effect on net assets previously reported.

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments in the update assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of *Topic 958, Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional.

The Trust's financial statements reflect the application of ASU 2018-08 guidance beginning in fiscal year 2019. The adoption of ASU 2018-08 did not impact the Company's reported revenue.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Subsequent to May 2014, the FASB issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity of revenue recognition and provide sufficient information to enable financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Trust's financial statements reflect the application of ASC 606 guidance beginning in fiscal year 2019. The adoption of ASU 2014-09 was applied on the full retroactive method and did not impact the Company's reported revenue.

**HENNEPIN THEATRE TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The Trust has evaluated events and transactions for potential recognition or disclosure in these financial statements through December 5, 2019, the date the financial statements were available to be issued. There are no subsequent events requiring disclosure.

NOTE 2 LIQUIDITY

The Trust manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that mission fulfillment will continue to be met, ensuring the sustainability of the Trust.

The Trust's board of directors meets annually to review and approve the annual budget which is monitored throughout the fiscal year.

The table below presents liquid financial assets available for general expenditures within one year at June 30, 2019:

Cash and Cash Equivalents	\$ 4,707,772
Accounts Receivable, Net	934,613
Promises to Give, Net	706,885
Less: Net Assets with Purpose Restrictions	<u>(729,541)</u>
Total	<u><u>\$ 5,619,729</u></u>

NOTE 3 RECEIVABLES

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

	2019	2018
Receivable in Less than One Year	\$ 362,077	\$ 167,875
Receivable in One to Five years	393,853	660,246
Receivable in More than Five Years	<u>-</u>	<u>30,000</u>
Total Promises to Give	755,930	858,121
Less: Discounts to Net Present Value	(18,962)	(14,466)
Less: Allowance for Uncollectible Promises	<u>(30,083)</u>	<u>(32,657)</u>
Net Promises to Give	<u><u>\$ 706,885</u></u>	<u><u>\$ 810,998</u></u>

HENNEPIN THEATRE TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3 RECEIVABLES (CONTINUED)

Discount rate used on long-term promises for the year ended June 30, 2019 was between 1.0% and 2.4%. For the year ended June 30, 2018, discount rates were between 1.2% and 2.9%.

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.

Sponsorship, naming rights, and other program revenue are recognized when contracts are executed or services are performed. Accounts receivable consist of the follow:

	<u>2019</u>	<u>2018</u>
Receivable in Less than One Year	\$ 934,613	\$ 1,155,621
Receivable in One to Five years	-	260,000
Total Receivable	<u>934,613</u>	<u>1,415,621</u>
Less: Discounts to Net Present Value	-	(4,012)
Net Receivables	<u><u>\$ 934,613</u></u>	<u><u>\$ 1,411,609</u></u>

NOTE 4 LONG-TERM DEBT

Long-term debt payable consisted of the following at June 30:

<u>Description</u>	<u>2019</u>	<u>2018</u>
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.	<u>\$ 2,715,810</u>	<u>\$ 2,799,804</u>
Total	2,715,810	2,799,804
Less: Current Maturities	103,558	75,492
Less: Unamortized Debt Issuance Costs	<u>4,691</u>	<u>5,599</u>
Total Notes Payable, Net of Current Maturities	<u><u>\$ 2,607,561</u></u>	<u><u>\$ 2,718,713</u></u>

**HENNEPIN THEATRE TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 4 LONG-TERM DEBT (CONTINUED)

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 103,558
2021	106,974
2022	110,503
2023	114,148
2024	117,914
Thereafter	<u>2,162,713</u>
Total	2,715,810
Less: Debt Issuance Costs	4,691
Total	<u><u>\$ 2,711,119</u></u>

NOTE 5 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.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 1,565,034
2021	1,564,339
2022	1,564,407
2023	1,564,227
2024	1,561,587
Thereafter	<u>17,850,918</u>
Total Minimum Lease Payments	25,670,512
Less: Amount Representing Interest	<u>9,935,206</u>
Capital Lease Obligation	<u><u>\$ 15,735,306</u></u>

An additional administrative fee is also charged.

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

	<u>2019</u>	<u>2018</u>
Building, at Cost	\$ 21,055,000	\$ 21,055,000
Accumulated Depreciation	<u>(7,333,259)</u>	<u>(6,793,386)</u>
Total	<u><u>\$ 13,721,741</u></u>	<u><u>\$ 14,261,614</u></u>

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NOTE 6 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2019</u>	<u>2018</u>
900 Hennepin Capital Campaign Programs	\$ 257,000	\$ 175,709
	117,029	244,798
Total Restricted for Purpose	<u>374,029</u>	<u>420,507</u>
Restricted for Time	253,847	223,540
Total	<u><u>\$ 627,876</u></u>	<u><u>\$ 644,047</u></u>

Net assets with donor restrictions ending balances were restricted for the following purposes or restricted by the passage of time at years ended June 30:

	<u>2019</u>	<u>2018</u>
900 Hennepin Capital Campaign Programs	\$ 609,541	\$ 640,041
Spotlight Education	-	117,029
	120,000	-
Total Restricted for Purpose	<u>729,541</u>	<u>757,070</u>
Restricted for Time	1,070,963	1,324,810
Total	<u><u>\$ 1,800,504</u></u>	<u><u>\$ 2,081,880</u></u>

NOTE 7 RETIREMENT PLAN

The Trust has a 401(k) plan which was adopted on January 1, 2018 with a 4% match of employee contributions. The Trust made contributions of \$67,471 to these plans in the year ended June 30, 2019 and made contributions of \$49,415 in the year ended June 30, 2018.

NOTE 8 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 for the years ended June 30:

	<u>2019</u>	<u>2018</u>
In-Kind Goods:		
Tickets	\$ 225,535	\$ 215,943
Catering - Meals	83,705	91,120
In-Kind Services:		
Professional Services	59,065	6,200
Total Contributions In-Kind	<u><u>\$ 368,305</u></u>	<u><u>\$ 313,263</u></u>

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NOTE 9 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 2019 and 2018, LLC made payments totaling \$1,642,535 and \$1,641,137, respectively 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 10 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.