STATE OF MINNESOTA
Office of the State Auditor

Patricia Anderson
State Auditor

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

AGREED-UPON PROCEDURES
FOR THE PERIOD JANUARY 1 THROUGH
DECEMBER 19, 2005

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

For the Period January 1 Through December 19, 2005

Agreed-Upon Procedures

Audit Practice Division
Office of the State Auditor
State of Minnesota

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COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT OF THE CITY OF MINNEAPOLIS
STATE, ORPHEUM, AND PANTAGES THEATRES
MINNEAPOLIS, 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 December 19, 2005, and for the period January 1 through December 19, 2005. 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 this 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 $29,388. Our procedures and findings are as follows:

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

   Findings

   There were no instances of material transactions or policy issues that were not 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

There were no significant changes to the receipt and disbursement process from previous years.

3. For the receipt process, perform the following:

- Perform fluctuation analysis of the general ledger revenue accounts, comparing the current year to the prior year. Note any material fluctuations.

- Prepare a summary of receivable amounts from the general ledger.

- 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.

- Select a sample of 20 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.

- 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.

- 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.

- 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:

   - Perform fluctuation analysis of the general ledger cash accounts, comparing the current year to the prior year. Note any material fluctuations.

   - Prepare a summary of cash and investments.

   - 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.

   - 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.

   - Obtain a copy of pledged collateral information and Federal Deposit Insurance Corporation insurance information for year-end balances.

   <u>Findings</u>

   There were no unexplained deviations or unsupported amounts.

5. For the disbursement process, perform the following:

   - Perform fluctuation analysis of the general ledger expense accounts and accounts payable, comparing the current year to the prior year. Note any material fluctuations.

   - Prepare a summary of accounts payable from the general ledger.

   - Test material individual amounts by tracing amounts to supporting documentation. Note whether the item is properly recorded as an expense in the correct year.

   - 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.

   - Obtain a schedule of prepaid items and test them for clerical accuracy. Trace amounts to the general ledger and supporting documentation.

- Select a sample of 25 non-payroll disbursements. Determine if they were approved for payment, the invoice was footed, the detailed 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:

   - Obtain annual insurance information and prepare a summary schedule showing the type and amount of insurance coverage by the company.

   - 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:

   - Obtain a listing of capital assets that includes the asset type, acquisition date, amount, description of the asset, and identifying number.

   - Perform fluctuation analysis of the general ledger capital asset accounts, comparing the current year to the prior year. Note any material fluctuations.

   - 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.

   Findings

   There were no significant changes from previous years.

9. For the payroll process, perform the following:

- 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.

- Prepare a summary of salaries payable from the general ledger.

- Test salaries payable amounts by recalculating the year-end amount.

- Compare the payroll expense amounts noted in the general ledger to quarterly 941 tax returns, and investigate any material variances.

- 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:

    - Cash deposits
    - Operating reserves - minimum fund balance
    - Amounts due to Manager
    - Operating leases
    - Capital leases
    - Settlement account changes in assets and liabilities
    - Defined contribution plan
    - Capital assets
    - Inventory
    - 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 solely for the information and use 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.

/s/Pat Anderson	*/s/Greg Hierlinger*
PATRICIA ANDERSON STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

End of Fieldwork: March 24, 2006

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SCHEDULES

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

Schedule 1

NET ASSETS
DECEMBER 19, 2005

	Operating Account	Settlement Account	Totals
Assets			
Current assets			
Cash	$ 184,158	$ 3,770,027	$ 3,954,185
Advances to presenters	-	206,557	206,557
Accounts receivable - trade	55,450	-	55,450
Due from other funds	492,607	-	492,607
Inventory	33,873	-	33,873
Prepaid items	59,487	-	59,487
Total Assets	**$ 825,575**	**$ 3,976,584**	**$ 4,802,159**
Liabilities			
Current liabilities			
Accounts payable - trade	$ 224,201	$ -	$ 224,201
Accrued payroll	333,708	-	333,708
Due to other funds	-	448,686	448,686
Due to other governments	36,733	-	36,733
Due to Manager	96,330	-	96,330
Deposits held in trust	-	3,527,898	3,527,898
Customer deposits	16,750	-	16,750
Total Liabilities	**$ 707,722**	**$ 3,976,584**	**$ 4,684,306**
Net Assets	**$ 117,853**	**$ -**	**$ 117,853**

COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT OF THE CITY OF MINNEAPOLIS
STATE, ORPHEUM, AND PANTAGES THEATRES
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Schedule 2

SCHEDULE OF ACTIVITY
BUDGET AND ACTUAL
OPERATING ACCOUNT
FOR THE PERIOD JANUARY 1 THROUGH DECEMBER 19, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues			
Gross box office revenue	$ 584,255	$ 477,559	$ (106,696)
Gross use fees	1,390,138	1,368,558	(21,580)
Gross food, concession, and merchandise	505,317	584,170	78,853
Total Operating Revenues	**$ 2,479,710**	**$ 2,430,287**	**$ (49,423)**
Operating Expenses			
Maintenance and repair	$ 249,883	$ 348,346	$ (98,463)
Utilities	448,764	477,501	(28,737)
Management fees	731,468	739,367	(7,899)
Payroll and payroll taxes	735,187	697,148	38,039
Rent	79,673	76,056	3,617
Other	93,328	94,416	(1,088)
Total Operating Expenses	**$ 2,338,303**	**$ 2,432,834**	**$ (94,531)**
Operating Income (Loss)	**$ 141,407**	**$ (2,547)**	**$ (143,954)**
Nonoperating Revenues			
Investment income	**12,450**	**55,763**	**43,313**
Change in Net Assets	**$ 153,857**	**$ 53,216**	**$ (100,641)**
Net Assets - January 1	**64,637**	**64,637**	**-**
Net Assets - December 19	**$ 218,494**	**$ 117,853**	**$ (100,641)**

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

Schedule 3

SCHEDULE OF NOTES
FOR THE PERIOD JANUARY 1 THROUGH DECEMBER 19, 2005

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 19, 2005, cash consists of:

Savings account	$	3,770,027
Imprest cash held by the Historic Theatre Group, Inc.		14,250
Checking account		169,908
Total Cash	$	3,954,185

2. Operating Reserves - Minimum Net Asset Balance

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

CPED contributions - January 1	$	445,752
Contributions for 2005		-
Contributions repaid for 2005		-
CPED Contributions - December 19	$	445,752

For 2005, the minimum net asset balance required was met.

Schedule 3
(Continued)

3. Due to Manager

For the period January 1 through December 19, 2005, the Theatre Manager earned $739,367. As of December 19, 2005, the Theatre Manager was paid $643,037, leaving an amount owing of $96,330. This amount is shown on the Operating Account's Schedule of Net Assets as "Due to Manager." Also during 2005, $158,045 was paid to the Theatre Manager for the 2004 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 2005 totaled $47,324. Future minimum lease payments are:

2006	$ 6,879
2007	1,686
2008	1,686
2009	984
Total	$ 11,235

5. Capital Leases

The Theatres are also committed under a capital lease for a new phone system. Rent expense for 2005 totaled $23,311. Future minimum lease payments are:

2006	$ 9,713
Less: interest	(3,792)
Total	$ 5,921

6. Settlement Account

Statement of Changes in Assets and Liabilities
Settlement Account
For the Period January 1 Through December 19, 2005

	Balance January 1	Additions	Deductions	Balance December 19
Assets				
Cash	$ 1,675,145	$ 22,095,979	$ 20,001,097	$ 3,770,027
Advances to presenters	9,417,564	6,471,652	15,682,659	206,557
Total Assets	$ 11,092,709	$ 28,567,631	$ 35,683,756	$ 3,976,584
Liabilities				
Due to other funds	$ 24,162	$ 448,686	$ 24,162	$ 448,686
Deposits held in trust	11,068,547	28,118,945	35,659,594	3,527,898
Total Liabilities	$ 11,092,709	$ 28,567,631	$ 35,683,756	$ 3,976,584

7. Defined Contribution Plan

A. Plan Description

Qualified Theatres' 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 years of service. In addition, employees will be 100 percent

7. Defined Contribution Plan

A. Plan Description (Continued)

vested at the time of death, total disability, or attainment of early or normal retirement date. The payroll for employees covered by the Theatres' defined contribution plan for the period ended December 19, 2005, was $610,924; the Theatres' operating account total payroll was $4,780,509.

B. Contributions Elected

The Theatres' 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 Theatres have 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.

8. Changes in Capital Assets

Changes in capital assets, consisting entirely of equipment, for the period January 1 through December 19, 2005, are as follows:

Balance - January 1, 2005	$	1,022,048
Additions		-
Deletions		-
Balance - December 19, 2005	$	1,022,048

9. 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.

10. 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 "Combined Revenues" over "Selected Operating Expenses" - December 19, 2005	$	53,216
		x .50
Total	$	26,608
Amount Due From Manager 2005	$	26,608

11. Discontinued Operations

On December 20, 2005, the City of Minneapolis sold the Theatres to Hennepin Theatre Trust under a capital financing lease. Through the City's General Agency Reserve Fund system, the City issued bonds on behalf of Hennepin Theatre Trust to finance the Theatres' purchase. The bonds, issued by the City, will be retired by the scheduled lease payments from Hennepin Theatre Trust. The lease agreement contains a bargain purchase option that may be exercised by Hennepin Theatre Trust. The City will retain ownership of the Theatres while the lease agreement is in effect.

As of the date of the sale, Hennepin Theatre Trust assumed full operational and financial control of the Theatres' operations. Consequently, after this year, the financial operations of the State, Orpheum, and Pantages Theatres will no longer be reported by the City.