

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 YEAR ENDED DECEMBER 31, 2004

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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CITY OF MINNEAPOLIS
STATE, ORPHEUM, AND PANTAGES THEATRES
MINNEAPOLIS, MINNESOTA**

For the Year Ended December 31, 2004



Agreed-Upon Procedures

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

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PATRICIA ANDERSON
STATE AUDITOR

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, 2004. 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 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 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.
 - 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.
 - 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:
- 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. 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:
- 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

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: February 11, 2005

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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 31, 2004**

	Operating Account	Settlement Account	Totals
Assets			
Current assets			
Cash	\$ 273,523	\$ 1,675,145	\$ 1,948,668
Advances to presenters	-	9,417,564	9,417,564
Accounts receivable - trade	82,814	-	82,814
Due from other funds	79,966	-	79,966
Inventory	33,804	-	33,804
Prepaid items	52,468	-	52,468
Total Assets	\$ 522,575	\$ 11,092,709	\$ 11,615,284
Liabilities			
Current liabilities			
Accounts payable - trade	\$ 207,147	\$ -	\$ 207,147
Accrued payroll	30,853	-	30,853
Due to other funds	16,625	24,162	40,787
Due to other governments	29,298	-	29,298
Due to manager	158,045	-	158,045
Deposits held in trust	-	11,068,547	11,068,547
Customer deposits	15,970	-	15,970
Total Liabilities	\$ 457,938	\$ 11,092,709	\$ 11,550,647
Net Assets	\$ 64,637	\$ -	\$ 64,637

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Schedule 2

**SCHEDULE OF ACTIVITY
BUDGET AND ACTUAL
OPERATING ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues			
Gross box office revenue	\$ 540,789	\$ 592,449	\$ 51,660
Gross use fees	1,183,355	1,163,128	(20,227)
Gross food, concession, and merchandise	448,101	444,535	(3,566)
Total Operating Revenues	\$ 2,172,245	\$ 2,200,112	\$ 27,867
Operating Expenses			
Maintenance and repair	\$ 213,669	\$ 256,376	\$ (42,707)
Utilities	446,836	436,202	10,634
Management fees	648,737	658,860	(10,123)
Payroll and payroll taxes	751,166	779,428	(28,262)
Rent	61,168	58,491	2,677
Other	82,634	83,574	(940)
Total Operating Expenses	\$ 2,204,210	\$ 2,272,931	\$ (68,721)
Operating Income (Loss)	\$ (31,965)	\$ (72,819)	\$ (40,854)
Nonoperating Revenues			
Investment income	12,104	16,093	3,989
Income before transfers	\$ (19,861)	\$ (56,726)	\$ (36,865)
Transfers in	-	100,000	100,000
Transfers out	-	(100,000)	(100,000)
Change in Net Assets	\$ (19,861)	\$ (56,726)	\$ (36,865)
Net Assets - January 1	121,363	121,363	-
Net Assets - December 31	\$ 101,502	\$ 64,637	\$ (36,865)

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Schedule 3

SCHEDULE OF NOTES
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

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, 2004, cash consists of:

Savings account	\$ 1,675,144
Imprest cash held by the Historic Theatre Group, Inc.	14,250
Checking account	<u>259,274</u>
Total Cash	<u>\$ 1,948,668</u>

2. Operating Reserves - Minimum Net Asset Balance

According to the management agreement, the Community Planning and Economic Development Department (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 2004	100,000
Contributions repaid for 2004	<u>(100,000)</u>
CPED Contributions - December 31	<u>\$ 445,752</u>

For 2004, the minimum net asset balance was short of its funding requirement by \$35,363.

Schedule 3
(Continued)

3. Due to Manager

For the year ended December 31, 2004, the Theatre Manager earned \$658,860. As of December 31, 2004, the Theatre Manager was paid \$500,815, leaving an amount owing of \$158,045. This amount is shown on the Operating Account's Schedule of Net Assets as Due to Manager. Also during 2004, \$96,782 was paid to the Theatre Manager for the 2003 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. 10 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 2004 totaled \$58,491. Future minimum lease payments are:

2005	\$ 7,939
2006	6,879
2007	1,686
2008	1,686
2009	<u>984</u>
Total	<u>\$ 19,174</u>

Schedule 3
(Continued)

5. Capital Leases

The Theatres are also committed under a capital lease for a new phone system. Rent expense for 2004 totaled \$23,311. Future minimum lease payments are:

2005		\$ 23,311
2006		<u>9,713</u>
Total		\$ 33,024
Less: Interest		<u>(3,792)</u>
Total		<u>\$ 29,232</u>

6. Settlement Account

Statement of Changes in Assets and Liabilities
Settlement Account
For the Year Ended December 31, 2004

	<u>Balance</u> <u>January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>December 31</u>
<u>Assets</u>				
Cash	\$ 2,451,256	\$ 29,051,633	\$ 29,298,068	\$ 1,675,145
Advances to presenters	<u>1,069,197</u>	<u>18,369,916</u>	<u>8,150,512</u>	<u>9,417,564</u>
Total Assets	<u>\$ 3,520,453</u>	<u>\$ 47,421,549</u>	<u>\$ 37,448,580</u>	<u>\$ 11,092,709</u>
<u>Liabilities</u>				
Due to other funds	\$ 50,926	\$ 24,162	\$ 50,926	\$ 24,162
Deposits held in trust	<u>3,469,527</u>	<u>47,397,387</u>	<u>39,798,367</u>	<u>11,068,547</u>
Total Liabilities	<u>\$ 3,520,453</u>	<u>\$ 47,421,549</u>	<u>\$ 39,849,293</u>	<u>\$ 11,092,709</u>

7. 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 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 Theatres' defined contribution plan for the year ended December 31, 2004, was \$529,827; the Theatres' operating account total payroll was \$3,576,087.

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 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.

8. Changes in Capital Assets

Changes in capital assets, consisting entirely of equipment, for the year ended December 31, 2004, are as follows:

Balance - January 1, 2004	\$ 1,127,353
Additions	-
Deletions	<u>(105,305)</u>
Balance - December 31, 2004	<u>\$ 1,022,048</u>

Schedule 3
(Continued)

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 "Selected Operating Expenses" Over "Combined Revenues" - December 31, 2004	\$ (56,726)
	<u>x .50</u>
Total	<u>\$ 28,363</u>
 Amount Due From Manager	
2004	\$ 28,363
2003	<u>3,595</u>
Total	<u>\$ 31,958</u>

This amount is under consideration by the CPED and may be adjusted in 2005.