Music Hall Center for the Performing Arts, Inc.

Audit of Financial Statements

September 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
of Music Hall Center for the Performing Arts, Inc.

Qualified Opinion

We have audited the accompanying financial statements of Music Hall Center for the Performing Arts, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2023, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, except for the effects of a grant recorded in the financial statements improperly and recording of prepaid expenses improperly as described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of Music Hall Center for the Performing Arts, Inc.as of September 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

The Organization has recorded a grant in the amount of $1,000,000 in the financial statements improperly and recorded prepaid expenses of $711,182 improperly. In our opinion, accounting principles generally accepted in the United States of America require that the above items be recorded in the financial statements in the proper period and prepaid expenses should be recorded properly. The effects on the accompanying financial statements of the failure to record a grant and prepaid expenses properly have not been determined.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Music Hall Center for the Performing Arts, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Music Hall Center for the Performing Arts, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

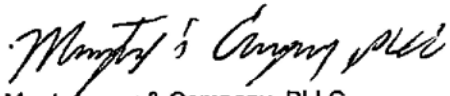
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Music Hall Center for the Performing Arts, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Music Hall Center for the Performing Arts, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Montgomery & Company, PLLC
Southfield, Michigan
July 24, 2024

Music Hall Center for the Performing Arts, Inc.
Statement of Financial Position
September 30, 2023
Assets

CURRENT ASSETS		
Cash and cash equivalents	$	531,973
Investments		192,174
Accounts receivable - less allowance for doubtful account		460,459
Pledge and grants receivable		1,010,700
Inventory		40,600
Right-of-use asset		8,008,059
Prepaid expenses and other current assets		870,592
Total Current Assets		11,114,557
LAND, BUILDING AND EQUIPMENT		
At cost, less accumulated depreciation		6,710,391
Net Property and Equipment		6,710,391
TOTAL ASSETS	$	17,824,948

Liabilities and Net Assets

CURRENT LIABILITIES		
Accounts payable	$	927,199
Deferred revenue		1,001,762
Accrued expenses		528,528
Note payable		992,761
Total Current Liabilities		3,450,250
LONG-TERM LIABILITIES		
Lease Liability		8,325,374
Notes Payable		4,549,501
Total Long-Term Liabilities		12,874,875
Total Liabilities		16,325,125
NET ASSETS		
Without donor restrictions		1,499,823
With donor restrictions		0
Total Net Assets		1,499,823
TOTAL LIABILITIES AND NET ASSETS	$	17,824,948

See Notes to Financial Statements

Music Hall Center for the Performing Arts, Inc.
Statement of Activities
For the Fiscal Year Ended September 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:			
Performances	$ 2,996,761	$ 0	$ 2,996,761
Concession sales	1,189,622	0	1,189,622
Other support	2,532,069	0	2,532,069
MHC Parking Revenue	46,212	0	46,212
Contributions	2,425,374	0	2,425,374
Grants	174,499	0	174,499
Fundraising Income	134,160	0	134,160
Net assets released from restrictions	0	0	0
Total Revenue	9,498,697	0	9,498,697
Total Support and Revenue	9,498,697	0	9,498,697
Expenses:			
Operating Expenses	9,115,229	0	9,115,229
Total Expenses	9,115,229	0	9,115,229
Change in Net Assets	383,468	0	383,468
Net Assets - Beginning of Year	1,172,355	0	1,172,355
Prior Period Adjustment	(56,000)	0	(56,000)
Net Assets - End of Year	$ 1,499,823	$ 0	$ 1,499,823

See Notes to Financial Statements

Music Hall Center for the Performing Art
Statement of Cash Flows
For the Year Ended September 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$	383,468
Adjustments to reconcile change in Net Assets (Loss) to net Cash provided by (used in) operating activities:		
Prior Period Adjustment		(56,000)
Depreciation and Amortization		253,519
Disposal of Fixed Assets		10,074
Decrease (Increase) in Operating Assets:		
Investments		715,965
Accounts Receivable		(25,474)
Pledge and Grant Receivable		(895,300)
Inventory		(2,738)
Prepaid Expenses		288,593
Non-Current Pledge Receivable		149,849
Increase (Decrease) in Operating Liabilities:		
Accounts Payable		87,028
Deferred Revenue		315,348
Accrued Expenses		182,123
Notes Payable		0
Total Adjustments		1,022,987
Net Cash Provided By Operating Activities		1,406,455
CASH FLOWS FROM INVESTING ACTIVITIES		
Addition & Disposals of Fixed Assets		(1,318,689)
Sale of Property & Equipment		0
Net Cash Used By Investing Activities		(1,318,689)
CASH FLOWS FROM FINANCING ACTIVITIES		
Lease Liability Payments		(3,632)
Borrowing (repayment) of long-term debt		164,105
Net Cash Provided By Financing Activities		160,473
NET INCREASE IN CASH AND CASH EQUIVALENTS		248,239
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		283,734
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	531,973
SUPPLEMENTAL DATA		
Interest Paid	$	632,367

See Notes to Financial Statements

Music Hall Center for the Performing Art
Statement of Operating Expenses
September 30, 2023

Other Expenses:

House Staff Wages	$	106,448
Temp Hall Bartender/Café Wages		38,876
Stagehand Wages		341,964
Wardrobe Wages		7,405
FICA Show Staff		37,835
MESC Show Staff		6,879
Stagehands Pension		33,176
Stagehands Health Benefits		63,188
Employee Benefits		215,935
Show Equipment Rental		300,667
Bar Concessions		770,503
License Fee		334
Promoters		1,464,436
Artists Fees		1,537,859
Artist Travel & Hospitality		32,370
Show Advertising		181,029
Show Services		70,358
Advertising		146,094
Legal & Audit		6,139
Dues & Subscriptions		7,382
Taxes & Licenses		13,065
Postage		1,049
Parking		18,042
Printing & Photocopying		9,420
Signage		14,185
Bank Charges		49,009
Board of Trustees		4,031
Permanent Staff Wages		1,056,595
FICA		72,169
401k Match		17,118
Health Insurance		145,935
MESC Permanent Staff		17,704
Worker's Compensation		5,579
Employee Relations		1,030
Purchased Services		240,310
Building Repairs & Maintenance		138,448
Janitorial		38,931
Equipment Rental		68,375
Utilities		210,157
Telephone		37,950
Office Supplies		8,385

See Notes to Financial Statements

Music Hall Center for the Performing Art
Statement of Operating Expenses
September 30, 2023

Computer Maintenance & Repairs	25,226
Depreciation	168,927
Amortization	84,592
Loss on Sale of Assets	10,074
Meals & Entertainment	1,255
Hospitality	20,095
Business Insurance	111,597
Interest	686,368
Bad Debt	334,560
Miscellaeous	95,269
Unrealized (Gain)/Loss	40,902
Total Other Expenses	9,115,229

See Notes to Financial Statements

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Music Hall Center for the Performing Arts, Inc., was organized to promote and foster the continued development of culture and the performing arts in the metropolitan Detroit area. The organization receives and administers funds and assets for charitable, literary and educational purposes. The organization receives funding from the public and from the operation of the performing arts center.

Basis of Accounting

The financial statements of the organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of ASC 958-210, Financial Statements of Not-For Profit Organizations FASB Accounting Standards Codification. The organization is required to report information regarding its financial position and activities according to two classes of net assets. Net assets with donor restrictions and net assets without donor restrictions.

Revenue Recognition

Contributions received are recorded as restricted support, depending on the existence and/or nature of any donor restrictions.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Contributions and Grants

Contributions which include unconditional promises to give are recognized as revenues in the period made. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met.

Concentration of Credit Risk

The organization maintains a cash balances at local banks. The accounts are insured by the Federal Deposit Insurance Corporation up to $250,000. As of September 30, 2023, the organization's uninsured cash balance totaled $253,875.

Cash and Cash Equivalents

The organization considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents including deposits in banks.

Accounts Receivables

Account's receivables consist of the following items as of September 30, 2023.

Accounts Receivables – Trade	$ 639,959
Less Allowance for Bad Debt	(4,500)
Total	$ 460,459

Prepaid Expenses and Other Current Assets

Prepaid Expense – Other	$ 2,100
Prepaid Expense Insurance	42,164
Prepaid Expense – Show Expenses	111,920
Prepaid Expenses – Taxes & Licenses	3,227
Total	$ 159,410

Fixed Assets (Building and Equipment)

The organization has recorded fixed assets owned by the organization. Generally accepted accounting principles require that organizations record fixed assets at cost and depreciation them over their estimated useful lives.

Office and stage equipment	5 - 20 years

Depreciation for the fiscal year ended September 30, 2023 is $168,927.

Land	$ 4,618,000
Building Improvements	729,528
Bar Equipment	171,035
Office Equipment	941,716
Building Maintenance Equipment	42,061
Stage Equipment	123,955
Building Renovations	19,666
Amphitheater	117,040
Assets	$ 6,763,001

Expansion Project in Progress	1,179,298
Selma Lounge Project in Progress	50,641
Total	$ 7,992,940
Accumulated Depreciation	(1,282,548)
Net Land, Building & Equipment	$ 6,343,826

Inventory

Inventory consists of items for concession and novelty sales. Inventory is recorded at the lower of cost or market. Inventory is recorded as $40,600 as of September 30, 2023.

In-Kind Contributions

Google – Advertising	$ 107,178
IGB Office Rent	0
MOH – Parking	18,000
Fred Barton Company	8,982
Total	$ 134,160

Outdoor Sign Lease

The organization entered into a 10-year lease agreement on July 7, 2014 for a $1,000,000, prepayment and revenue sharing with lessor until the lessee has cumulative net advertising revenues collected from the sale of advertising copy for the display spaces reaches $1,500,000. This is defined as all revenues collected less agency commissions. Management has estimated based on revenue collected currently, that this level of advertising sales will be achieved after 3 years. After the cumulative aggregate net advertising revenues collected reaches the desired mark of $1,500.000, lessee will begin a shared net advertising revenue split with the lessor. Lessee will pay lessor rents equaling 15% of the net advertising revenues collected for the remaining 7 years of the lease term. Revenue for the fiscal period amounted to $106,655. It is included in Other Support Revenue.

During the 5-year extended term, if any the shared net advertising revenues split will be the first 2 years (years 10 thru year 12), lessee will pay to lessor rents equaling 20% of net advertising revenues collected from display spaces. Revenues collected from (year 13 thru year 15), lessee will pay to lessor rents equal to 25% of net advertising revenues collected.

Leases

In 2023, Music Hall Center for the Performing Arts, Inc., adopted Accounting Standards Update (ASU) No. 2016-02, Leases, which requires leases to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The organization elected not to restate the prior year of 2022. It also elected not to reassess at adoption, expired or existing contracts to determine whether they are or contain a lease. As a result of

implementing ASU No. 2016-02, the organization recognized right-of-use assets of $8,008,059 and lease liabilities totaling $8,325,374 in its statement of financial position as of September 30, 2023. The adoption did not result in a significant effect on amounts reported in the statement of activities for the year ended September 30, 2023.

Future maturities of lease liabilities are presented in the following schedule for years ending:

2024	$ 3,818
2025	4,013
2026	4,219
2027	4,435
2028	4,661
Thereafter	8,304,228
	$ 8,325,374

Note B – Liabilities

Project Initiation Loan – (No agreement (zero) interest	$ 300,000
Loan payable to Music Hall, LLC – (No agreement (zero) interest)	$ 667,265
Total	$ 967,265

Note C –Accrued Expenses

Accrued expenses amount to $528,528 as of September 30, 2023.

This amount includes, wages payable, taxes payable, accrued payroll, employee withholding and accrued interest.

Accrued Expenses – Other	$ 245,697
Accrued Payroll	277,724
Accrued Payroll taxes	4,127
Misc	980
Total	$ 528,528

Note D - Deferred Revenue

Deposits Theatre Rental	$ 113,968
Advance Tickets Sales	562,512
Show Expense Advance	323,600
Advance Gift Certificate Sales	1,681
Total	$ 1,001,762

Note E – Fair Value of Financial Instruments

The FASC ASC Topic "financial instruments' clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Disclosure includes reporting hierarchy in which fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3). The carrying amount of cash, and approximates fair value due to the short maturity of these financial instruments.

	Level 1	Level 2	Level 3	Total
Fixed Maturities	$ -	$ -	$ -	$ -
Equities	196,477	-	-	-
Mutual Funds	-	-	-	-
Total Investment at Fair Value	$ 196,477	$ -	$ -	$ -

Note F – Notes Payable Long Term

Economic Disaster Injury Loan (SBA) Bearing interest at 2.75%, 30-year term Due June 3, 2050 with monthly payments Of $2,208	$ 449,501
Trustee Loans - Balloon Secured promissory Note payable to Julius Combes Irrevocable Trust at 5%, two yearly interest payments Of $25,000 starting, December 31, 2022 On second payment all principle And accrued interest is due	500,000
Parking Lot Mortgage – Balloon Secured Promissory note, bearing interest at 8% To Music Hall Park, LLC, starting May 1, 2022, eight-two consecutive Payments of $18,000 are due, on the Eighty third month, all principle and Accrued interest are due	3,600,000
Total	$ 4,549,501

Short Term Debt

SBA Loan Current Portion	$ 26,496
Parking Lot Mortgage – interest	126,000
Project Initiation Loan	300,000
Building Note	540,.265
Total Short-Term Debt	$ 992,761

Note G - Income Tax

The organization is exempt from Federal income taxes under Code Section 501(c) (3) of the Internal Revenue Service.

Note H – Taxes

Sales Tax amounting to $101,838 is owed as of September 30, 2023.

Note I – Uncertain Tax Position

The Organization receives income from advertising and leasing an outdoor sign. The total amount recognized was $106,655 as of September 30, 2023. This revenue could be considered unrelated business income if the activity is a trade or business, it is regularly carried on and if it is not substantially related to furthering the exempt purpose of the organization. The estimated tax liability is $21,331.

The validity of a tax position is a matter of tax law. In some cases, the law is subject to varied interpretation and whether a tax position will ultimately be sustained may be uncertain. FASB ASC 740-10-25-6 which applies to income taxes, limits the recognition of uncertain tax positions to only the financial statement effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Management feels that it is not likely based on the technical merits that the position will be sustained upon examination.

Note J - Compensated Absences

The organization allows employees to receive compensation for vacation and sick leave as work-load allows. Compensated absences for vacation and sick pay have not been accrued because they expire at the end of each year; but are expensed as incurred.

Note K– Advertising Expense

Advertising costs incurred that are included in operating expenses and fund-raising expenses for the year ended September 30, 2023 amounted to $ 146,094.

Note L– Related Party Transactions

Amounts due to related parties' amount to $277,724 as of September 30,2023. Several of the loans are not formal and bear no interest rate. Interest is not imputed.

Accrued payroll – Executive Director	277,724
Total	$ 277,724

On June 1, 2019 Music Hall Center for the Performing Arts, Inc, signed an agreement to lease the building from Music Hall, LLC for an annual base rent of $420,000. The term of the lease is 99 years. Music Hall Center for the Performing Arts, Inc., has the option to purchase the building as follows:

The remaining principal amount of the initial property mortgage obtained from the Bank of Ann Arbor by lessor shall be recalculated at the time of sale and added to initial investment by landlord/lessor of $1,000,000 to arrive at a base sale price. In addition, the landlord/lessor will be entitled to receive a bonus fee of $1,000,000 in addition to the base sale price establish final purchase price. If the option to buy the building is not exercised within a 5-year period the landlord/lessor must refinance initial mortgage, with the same formula will apply to the new mortgage.

Note M– Trade Activities

The organization participates in trade transactions. The organization has established a rental arrangement with Integrity Building Group for a five-year term. Integrity Building Group rents space for $18,000 per year in exchange for repairs to the building.

The organization has a trade agreement with the Opera House for the use their parking facility in exchange for advertising space on the outdoor board. The value of the agreement is estimated to be $18,000 per year.

Note N – Other Support

Other Support amounts to $1,037,733 as of September 30, 2022. It includes the following items:

Advertising Income	$ 87,292
Interest Income	48,221
Box Office Handling	5,120
Rental Income	539,333
Preservation Ticket Fee Income	113,664
Sponsor Income	121,057
Ticket facility Fees	3,680
Ticket Master Royalty income	102,284
Misc. income	17,082

Total	$ 1,037,733

Note O - Fund Raising Revenue & Expenses

Revenue

Donations	$ 7,675
Sponsorships	121,057
Table & Ticket Income	44,800
Concession Income	10,029
Total Income	$183,561

Expenses

Staff Wages	9,010
Show Services Expenses	19,619
Artist Fee	62,383
Catering Expenses	1,344
Show Equipment	12,362
Printing & Postage Expenses	4,470
Total Expenses	$109,188
Excess Revenue Over (Under) Expenses	$ 74,373

Note P Liquidity and Availability of Financial Resources

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor- imposed restrictions within one year of the statement of financial position date.

Cash & Cash Equivalents	$724,147
Total	$724147
Less: those unavailable for Expenditures within One year due to Donor-imposed Restrictions	$ 0
Financial assets available to Meet cash needs for general Expenditures within one year	$724,147

NOTE Q – Fair Value of Investments

The organization has not recorded increases and decreases in investments.

Note R – Prior Period Adjustment

Correction of error in prior period related to a billing that was charged to prepaid expenses, revenue was decreased by $56,000.

Note S - Subsequent Events

Subsequent events have been evaluated through the date these financial statements were available to be issued July 24, 2024