

Music Hall Center for the Performing Arts, Inc.

Audit of Financial Statements

September 30, 2022

Montgomery & Company, PLLC

Certified Public Accountant
20755 Greenfield Suite 905
Southfield, Michigan 48075
(248) 557-2881 (248) 557-8726 FAX

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Music Hall Center for the Performing Arts

We have audited the accompanying financial statements of Music Hall Center for the Performing Arts (a nonprofit organization), which comprise the statement of financial position as of September 30, 2022, and the related statements of activities, statement of operating expenses and cash flows for the year 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.

Auditor's 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 auditor's 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 qualified audit opinion.

Basis for Qualified Opinion

As explained in Note R the organization did not record changes in value of equity securities investments in the financial statements. Accounting principles generally accepted in the United States of America require increases and decreases in investments ready for sale to be recorded at fair value in the financial statements. FASB statement No. 124 requires that investments in equity securities with readily determinable fair values and all investments in debt securities be reported at fair value with gains and losses included in the statement of activities. The effects on the accompanying financial statements of the failure to record fair value of investments is approx. \$173,669.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Music Hall Center for the Performing Arts as of September 30, 2022, 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.



Montgomery & Company, PLLC
Southfield, Michigan
March 1, 2023

Table of Contents

Independent Auditor's Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Statement of Operating Expenses	5-6
Notes to Financial Statements	7 – 14

Music Hall Center for the Performing Arts, Inc.
Statement of Financial Position
September 30, 2022
Assets

CURRENT ASSETS

Cash and cash equivalents	\$	283,734
Investments		908,139
Accounts receivable - less allowance for doubtful account		434,985
Pledge and grants receivable		115,400
Inventory		37,862
Prepaid expenses and other current assets		<u>1,159,185</u>

Total Current Assets 2,939,305

LAND, BUILDING AND EQUIPMENT

At cost, less accumulated depreciation		<u>5,570,703</u>
--	--	------------------

Net Property and Equipment 5,570,703

OTHER ASSETS

Non-current pledge receivable, less discount		<u>149,849</u>
--	--	----------------

Total Other Assets 149,849

TOTAL ASSETS \$ 8,659,857

Liabilities and Net Assets

CURRENT LIABILITIES

Accounts payable	\$	840,171
Deferred revenue		686,414
Accrued expenses		346,405
Note payable		<u>742,157</u>

Total Current Liabilities 2,615,147

LONG-TERM LIABILITIES

Notes Payable		<u>4,636,000</u>
---------------	--	------------------

Total Long-Term Liabilities 4,636,000

Total Liabilities 7,251,147

NET ASSETS

Without donor restrictions	1,408,710
With donor restrictions	<u>0</u>

Total Net Assets 1,408,710

**TOTAL LIABILITIES AND
NET ASSETS**

\$ 8,659,857

See Notes to Financial Statements

Music Hall Center for the Performing Arts, Inc.
Statement of Activities
For the Fiscal Year Ended September 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:			
Performances	\$ 6,387,416	\$ 0	\$ 6,387,416
Concession sales	1,518,988	0	1,518,988
Other support	916,676	0	916,676
MHC Parking Revenue	56,047	0	56,047
Contributions	663,339	0	663,339
In-Kind Contributions	127,078	0	127,078
Grants	1,157,694	0	1,157,694
Fundraising Income	183,561	0	183,561
Net assets released from restrictions	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenue	<u>11,010,799</u>	<u>0</u>	<u>11,010,799</u>
Total Support and Revenue	<u>11,010,799</u>	<u>0</u>	<u>11,010,799</u>
Expenses:			
Operating Expenses	11,172,479	0	11,172,479
Total Expenses	<u>11,172,479</u>	<u>0</u>	<u>11,172,479</u>
Change in Net Assets	<u>(161,680)</u>	<u>0</u>	<u>(161,680)</u>
Net Assets - Beginning of Year	1,570,390	0	1,570,390
Net Assets - End of Year	<u>\$ 1,408,710</u>	<u>\$ 0</u>	<u>\$ 1,408,710</u>

See Notes to Financial Statements

**Music Hall Center for the Performing Art
Statement of Cash Flows
For the Year Ended September 30, 2022**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$	(161,680)
Adjustments to reconcile change in Net Assets		
(Loss) to net Cash provided by		
(used in) operating activities:		
Depreciation and Amortization		113,153
Decrease (Increase) in		
Operating Assets:		
Investments		91,093
Accounts Receivable		(276,824)
Pledge and Grant Receivable		482,446
Inventory		(21,504)
Prepaid Expenses		(278,979)
Non-Current Pledge Receivable		(16,999)
Increase (Decrease) in		
Operating Liabilities:		
Accounts Payable		555,437
Deferred Revenue		278,138
Accrued Expenses		(70,321)
Notes Payable		(60,000)
Total Adjustments		795,640
Net Cash Provided By Operating Activities		633,960

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition of Equipment, Building and Improvements		(5,164,077)
Sale of Property & Equipment		0
Net Cash Used By Investing Activities		(5,164,077)

CASH FLOWS FROM FINANCING ACTIVITIES

Notes Payable Borrowings		4,136,100
Notes Payable Repayments		0
Net Cash Provided By Financing Activities		4,136,100

NET INCREASE IN CASH AND CASH EQUIVALENTS (394,017)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 677,751

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 283,734

SUPPLEMENTAL DATA

Interest Paid	\$	108,000
---------------	----	---------

See Notes to Financial Statements

Music Hall Center for the Performing Art
Statement of Operating Expenses
September 30, 2022

Other Expenses:

Box office Staff Advance	\$	195
Box Office Staff Exp - Show		225
Ushers Wages		128,418
Building Engineers Wage Exp		665
Permanent Staff Wages		1,113,511
MHC Parking Temporary Help		23,449
Stagehand Wages		570,394
Wardrobe Wages		25,284
FICA - Stagehands		43,510
FICA - Ushers		3,377
FICA - House Staff		6,262
FICA - Permanent Staff		78,736
FICA - Wardrobe		1,934
FICA - Temporary Help		3,427
MESC - Permanent Staff		72,396
Stagehands Pension		70,771
Health & Welfare		93,931
Workmen's Comp - Permanent Staff		4,808
Insurance - Employees Benefits		256,988
Employee Parking		15,127
Employee Relations		347
Show Equipment Rental		322,813
Artist Travel & Lodging		50,327
Artist Hospitality		1,189
Bar Concessions		569,493
Kitchen Expense		58,571
Bar Concessions Labor		80,262
Novelty Concession Expense		1,496
Preservations Fees & Rentals		113,865
Promoters		3,413,654
Consultants & Professional Fees		82,224
Artist Fees		977,911
Local Artist Fees		13,554
Legal & Audit		91,955
Catering		2,076
Advertising - Online		96,028
Advertising - Print		161,986
Advertising Expense		3,275
Purchased Services		399,331
Security		80,232
Adm Equip Rental/Repairs Exp		95

See Notes to Financial Statements

Music Hall Center for the Performing Art
Statement of Operating Expenses
September 30, 2022

Dues & Subscriptions	5,876
Misc Taxes & Licenses	18,213
Postage	1,639
Parking	195
Printing & Photocopying	32,959
Signage Expense	8,577
Bank Charges	50,047
Board of Trustees	2,275
Building Repairs	41,852
Mechanical Supplies	62
Janitorial Supplies	11,581
Equipment Rental/Repairs	7,152
Utilities	273,216
Telephone	8,064
Office Supplies	8,554
Supplies	473
Depreciation Expense	113,153
Computer Repairs	14,425
Parking Lot Rental	549,134
Marketing Expenses	258
Travel & Lodging	725
Hospitality Expense	11,262
General Insurance	115,518
Interest	296,670
Bad Debt Expense	543,030
Miscellaneous	<u>23,477</u>
 Total Other Expenses	 <u>11,172,479</u>

See Notes to Financial Statements

Music Hall Center for the Performing Arts, Inc.
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, 2022, the organization's uninsured cash balance totaled \$75,722.

Music Hall Center for the Performing Arts, Inc.
NOTES TO FINANCIAL STATEMENTS

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, 2022.

Accounts Receivables – Trade	\$ 439,985
Less Allowance for Bad Debt	(4,500)
Total	\$ <u>434,985</u>

Prepaid Expenses and Other Current Assets

Prepaid Expense – Other	\$ 25,928
Prepaid Expense Insurance	28,512
Prepaid Expense – Show Expenses	228,400
Prepaid Expenses – Taxes & Licenses	6,574
Prepaid Building Lease	<u>869,682</u>
Total	\$1,159,185

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, 2022 is \$113,153.

Land	\$ 4,618,000
Building Improvements	638,687
Bar Equipment	170,125
Office Equipment	941,716
Building Maintenance Equipment	42,061
Stage Equipment	123,955
Building Renovations	19,666
Amphitheater	<u>138,880</u>
Total	\$ 6,693,060

Music Hall Center for the Performing Arts, Inc.
NOTES TO FINANCIAL STATEMENTS

Accumulated Depreciation	(1,122,357)
Net Land, Building & Equipment	\$ 5,570,703

Inventory

Inventory consists of items for concession and novelty sales. Inventory is recorded at the lower of cost or market. Inventory is recorded as \$37,862 as of September 30, 2022.

In-Kind Contributions

Google – Advertising	\$ 96,028
IGB Office Rent	15,000
MOH – Parking	15,000
Water Bottles	<u>1,050</u>
Total	\$127,078

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 \$87,292. 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.

Upcoming Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued new guidance Accounting Standards update (ASU) 2016-02 – Leases (Topic 842). This is the first major overhaul of lease guidance since 1973 and implementation and documentation will be significant undertakings for organization. The guidance requires lessees to recognize substantially all leases on the balance sheets as lease liabilities with a corresponding right-of-use (ROU) asset; however, this is not a simple gross-up procedure. Lease liability should be reported in the balance sheet separately. The Financial Accounting Standards Board (FASB) has delayed the effective date for applying the lease standard to fiscal years beginning after December 15, 2021. During the fiscal year ended September 30, 2023 this pronouncement will have to be implemented.

Music Hall Center for the Performing Arts, Inc.
NOTES TO FINANCIAL STATEMENTS

Note B – Liabilities

Demand notes payable to board member bearing interest at 7.00%. – Duncan Consulting, LLC	\$ 74,892
Loan payable to Music Hall, LLC – (No agreement 0 interest)	\$ 667,265
	<hr/>
Total	\$ 742,157

Note C –Accrued Expenses

Accrued expenses amount to \$346,405 as of September 30, 2022.

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

Accrued Expenses – Other	\$ 33,723
Accrued Payroll	307,587
Accrued Payroll taxes	5,094
Total	<hr/> \$ 346,405

Note D - Deferred Revenue

Deposits Theatre Rental	\$ 7,925
Advance Tickets Sales	303,688
Show Expense Advance	373,160
Advance Gift Certificate Sales	1,641
Total	<hr/> \$ 686,414

Note E – 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

	\$ 500,000
--	------------

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%

Music Hall Center for the Performing Arts, Inc.
NOTES TO FINANCIAL STATEMENTS

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

	<u>3,636,000</u>
Total	\$ 4,636,000

Note F - Income Tax

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

Note G – Operating Lease

The Organization was in a lessee agreement for land used as a parking lot. The lease agreement expires in March 31, 2022.

The lease expense for six months during the fiscal year was \$110,625. The lease was in effect for six months during this fiscal year. The collections of parking fees for six months was \$56,047.

Note H – Building Lease and Parking Lot Rental Expense

Parking lot rental	\$ 110,625
Building Lease	420,000
Total	<u>\$ 530,625</u>

Note I – Taxes

Sales Tax amounting to \$101,218 is owed as of September 30, 2022.

Note J – Uncertain Tax Position

The Organization receives income from advertising and leasing an outdoor sign. The total amount recognized was \$87,292 as of September 30, 2022. 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 \$17,458. The Organization also operates a parking lot adjacent to the building. The estimated tax liability is zero, because expenses are in excess of revenues.

Music Hall Center for the Performing Arts, Inc.
NOTES TO FINANCIAL STATEMENTS

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 K - 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 L– Advertising Expense

Advertising costs incurred that are included in operating expenses and fund-raising expenses for the year ended September 30, 2022 amounted to \$ 261,289.

Note M– Related Party Transactions

Amounts due to related parties' amount to \$868,585 as of September 30,2022. Several of the loans are not formal and bear no interest rate. Interest is not imputed.

Note payable Duncan Consulting, LLC	\$ 74,892
Loan from Music Hall, LLC	667,265
Accrued payroll – Executive Director	307,587
Total	<u>\$ 1,049,744</u>

Music Hall Park, LLC is owed directly or indirectly by 13 trustees. & Music Hall Sub, LLC is a member of Music Hall Park, LLC. Music hall Park, LLC provided \$667,265, toward the purchase of the parking lot property adjacent to the Music Hall theater.

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.

Music Hall Center for the Performing Arts, Inc.
NOTES TO FINANCIAL STATEMENTS

Note N– 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 O – 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	<u>\$ 1,037,733</u>

Note P - Fund Raising Revenue & Expenses

Revenue

Donations	\$ 7,675
Sponsorships	121,057
Table & Ticket Income	44,800
Concession Income	<u>10,029</u>
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	<u>\$109,188</u>
Excess Revenue Over (Under) Expenses	\$ 74,373

Music Hall Center for the Performing Arts, Inc.
NOTES TO FINANCIAL STATEMENTS

Note Q 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	\$1,018,204
Total	\$1,018,204
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	\$1,018,204

NOTE R – Fair Value of Investments

The organization has not recorded increases and decreases in investments.

Note S - Subsequent Events

In October 2022, pre-development activities began for the construction 110,000square foot expansion of Music Hall in the adjacent parcel purchased in March of 2022. Two and a half million dollars has been committed by two local foundations. Pre- development is expected to be completed by the end of 2023 fiscal year and construction is projected to be completed by the end of fiscal year 2025.

Subsequent events have been evaluated through the date these financial statements were available to be issued March 1, 2023