

Miller Theatre Advisory Board, Inc.
(A Component Unit of the City of Houston)

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2016 and 2015

Miller Theatre Advisory Board, Inc.

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (unaudited)	3
Audited Financial Statements:	
Governmental Fund Balance Sheet and Statement of Net Position as of December 31, 2016	6
Governmental Fund Balance Sheet and Statement of Net Position as of December 31, 2015	7
Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and Statement of Activities for the year ended December 31, 2016	8
Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and Statement of Activities for the year ended December 31, 2015	9
Notes to Financial Statements for the years ended December 31, 2016 and 2015	10

Independent Auditors' Report

To the Board of Directors of
Miller Theatre Advisory Board, Inc.:

We have audited the accompanying financial statements of the governmental activities of Miller Theatre Advisory Board, Inc. (a component unit of the City of Houston), as of and for the years ended December 31, 2016 and 2015 and the related notes to the financial statements, which collectively comprise Miller Theatre Advisory Board, Inc.'s basic financial statements as listed in the table of contents.

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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Miller Theatre Advisory Board, Inc., as of December 31, 2016 and 2015, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Blazek & Vetterling

June 21, 2017

Miller Theatre Advisory Board, Inc.
Management's Discussion and Analysis
For the years ended December 31, 2016 and 2015
(unaudited)

The following discussion and analysis of Miller Theatre Advisory Board, Inc.'s (MTAB) financial performance provides an overview of the financial activities for the years ended December 31, 2016 and 2015. This discussion should be read in conjunction with MTAB's financial statements, which follow this section.

Financial Highlights

Financial highlights for the fiscal year ending December 31, 2016 include:

- MTAB's net position remained at \$1.6 million.
- MTAB recognized revenue of \$2.5 million from its allocation of Hotel Occupancy Taxes.
- \$2.7 million of MTAB's \$2.9 million of total expenses were expended presenting 124 events to approximately 390,400 Houstonians and visitors.

Financial highlights for the fiscal year ending December 31, 2015 include:

- MTAB's net position increased \$83 thousand to \$1.6 million.
- MTAB recognized revenue of \$2.5 million from its allocation of Hotel Occupancy Taxes.
- \$2.7 million of MTAB's \$2.9 million of total expenses were expended presenting 125 events to approximately 447,800 Houstonians and visitors.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to MTAB's basic financial statements. The basic financial statements present combined government-wide and governmental fund financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Government-wide financial statements reflect an economic resources measurement focus and are prepared using the accrual basis of accounting. The government-wide financial statements are designed to provide readers with a broad overview of MTAB's finances, in a manner similar to a private-sector business.

The statement of net position shows the financial position of MTAB at year end by presenting MTAB's assets and liabilities, with net position representing the difference between assets and liabilities. The statement of activities presents information showing changes in MTAB's net position during the year. Changes in net position are reported when an underlying event giving rise to a change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

Governmental fund financial statements reflect a current financial resources measurement focus and are prepared using the modified accrual basis of accounting. Unlike the government-wide financial statements, the governmental fund financial statements present information showing the near-term inflows and outflows of spendable resources and the balances of spendable resources at year end. For the

years ended December 31, 2016 and 2015, there were no significant differences between the government-wide financial statements and the governmental fund financial statements.

Condensed Government-Wide Financial Information and Financial Analysis

	<u>2016</u>	INCREASE (DECREASE)	<u>2015</u>	INCREASE (DECREASE)	<u>2014</u>
<i>Condensed Statements of Net Position:</i>					
Cash	\$ 992,433	\$(646,237)	\$1,638,670	\$ 561,182	\$1,077,488
Grant receivable and other assets	<u>812,139</u>	<u>194,882</u>	<u>617,257</u>	<u>(49,797)</u>	<u>667,054</u>
Total assets	<u>\$1,804,572</u>	<u>\$(451,355)</u>	<u>\$2,255,927</u>	<u>\$ 511,385</u>	<u>\$1,744,542</u>
Grants payable and other liabilities	<u>\$ 228,148</u>	<u>\$(451,355)</u>	<u>\$ 679,503</u>	<u>\$ 428,432</u>	<u>\$ 251,071</u>
Net position:					
Restricted	\$1,006,279	\$ (709)	\$1,006,988	\$ (71,182)	\$1,078,170
Other	<u>570,145</u>	<u>709</u>	<u>569,436</u>	<u>154,135</u>	<u>415,301</u>
Total net position	<u>\$1,576,424</u>	<u>\$ 0</u>	<u>\$1,576,424</u>	<u>\$ 82,953</u>	<u>\$1,493,471</u>

The assets of MTAB consist primarily of cash and an allocation receivable for Hotel Occupancy Taxes from the City of Houston. Liabilities consist primarily of grants due to producing organizations for completed productions. Decreases in assets in 2016 result primarily from timing of payments of grants to producing organizations which are offset by an increase in hotel occupancy tax receivable. Increases in assets in 2015 result primarily from timing of payments of grants to producing organizations, as well as from increased cash contributions from private donors. Changes in liabilities result primarily from the timing of payment of grants to producing organizations. Net position is divided into two components. Restricted net position arises from grants from Hotel Occupancy Taxes and contributions that are required to be used for productions. Other net position amounts are not restricted.

	<u>2016</u>	INCREASE (DECREASE)	<u>2015</u>	INCREASE (DECREASE)	<u>2014</u>
<i>Condensed Statements of Activities:</i>					
EXPENSES:					
Theatre productions and improvements	\$2,674,496	\$ 12,018	\$2,662,478	\$ 223,179	\$2,439,299
Other	<u>255,916</u>	<u>28,130</u>	<u>227,786</u>	<u>(16,634)</u>	<u>244,420</u>
Total expenses	<u>2,930,412</u>	<u>40,148</u>	<u>2,890,264</u>	<u>206,545</u>	<u>2,683,719</u>
REVENUE:					
Grant from Hotel Occupancy Taxes	2,492,104	(22,411)	2,514,515	195	2,514,320
Contributions and special event, net of direct donor benefits	431,457	(11,252)	442,709	155,621	287,088
Interest and other income	<u>6,851</u>	<u>(9,142)</u>	<u>15,993</u>	<u>2,522</u>	<u>13,471</u>
Total revenue	<u>2,930,412</u>	<u>(42,805)</u>	<u>2,973,217</u>	<u>158,338</u>	<u>2,814,879</u>
CHANGE IN NET POSITION		(82,953)	82,953	(48,207)	131,160
Net position, beginning of year	<u>1,576,424</u>	<u>82,953</u>	<u>1,493,471</u>	<u>131,160</u>	<u>1,362,311</u>
Net position, end of year	<u>\$1,576,424</u>	<u>\$ 0</u>	<u>\$1,576,424</u>	<u>\$ 82,953</u>	<u>\$1,493,471</u>

The statements of activities show the expenses and revenue of MTAB and the corresponding effect on net position. The majority of MTAB's revenue is provided from an allocation of total Hotel Occupancy Taxes collected by the City of Houston. The majority of expenses are for theatre productions, which are provided free to Houstonians and visitors and are funded by Hotel Occupancy Taxes and contributions raised by MTAB.

Contacting MTAB's Financial Management

The financial report is designed to discuss issues that may be material to the operation of MTAB. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Miller Theatre Advisory Board, Inc., 6000 Hermann Park Drive, Houston, Texas, 77030-1702.

Miller Theatre Advisory Board, Inc.

Governmental Fund Balance Sheet and Statement of Net Position as of December 31, 2016

	GENERAL FUND	STATEMENT OF NET POSITION
ASSETS		
Current assets:		
Cash	\$ 992,433	\$ 992,433
Grant receivable from Hotel Occupancy Taxes	696,084	696,084
Pledges receivable	62,813	62,813
Other assets	<u>53,242</u>	<u>53,242</u>
TOTAL ASSETS	<u>\$ 1,804,572</u>	<u>\$ 1,804,572</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ 6,186	\$ 6,186
Grants payable to producing organizations	<u>221,962</u>	<u>221,962</u>
TOTAL LIABILITIES	<u>228,148</u>	<u>\$ 228,148</u>
FUND BALANCE / NET POSITION		
Fund balance / net position:		
Restricted:		
Theatre productions and improvements	972,529	\$ 1,006,279
Nonspendable:		
Prepaid assets	33,750	
Unassigned / unrestricted	<u>570,145</u>	<u>570,145</u>
Total fund balance	<u>1,576,424</u>	
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,804,572</u>	
TOTAL NET POSITION		<u>\$ 1,576,424</u>

See accompanying notes to financial statements.

Miller Theatre Advisory Board, Inc.

Governmental Fund Balance Sheet and Statement of Net Position as of December 31, 2015

	GENERAL FUND	STATEMENT OF NET POSITION
ASSETS		
Current assets:		
Cash	\$ 1,638,670	\$ 1,638,670
Grant receivable from Hotel Occupancy Taxes	559,371	559,371
Pledges receivable	4,786	4,786
Other assets	<u>53,100</u>	<u>53,100</u>
TOTAL ASSETS	<u>\$ 2,255,927</u>	<u>\$ 2,255,927</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ 6,286	\$ 6,286
Grants payable to producing organizations	<u>673,217</u>	<u>673,217</u>
TOTAL LIABILITIES	<u>679,503</u>	<u>\$ 679,503</u>
FUND BALANCE / NET POSITION		
Fund balance / net position:		
Restricted:		
Theatre productions and improvements	980,088	\$ 1,006,988
Nonspendable:		
Prepaid assets	26,900	
Unassigned / unrestricted	<u>569,436</u>	<u>569,436</u>
Total fund balance	<u>1,576,424</u>	
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,255,927</u>	
TOTAL NET POSITION		<u>\$ 1,576,424</u>

See accompanying notes to financial statements.

Miller Theatre Advisory Board, Inc.

Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and Statement of Activities for the year ended December 31, 2016

	GENERAL FUND	STATEMENT OF ACTIVITIES
EXPENDITURES / EXPENSES:		
Theatre productions and improvements	\$ 2,674,496	\$ 2,674,496
Management and general	175,475	175,475
Fundraising	<u>80,441</u>	<u>80,441</u>
Total expenditures / expenses	<u>2,930,412</u>	<u>2,930,412</u>
REVENUE:		
Grant from Hotel Occupancy Taxes	2,492,104	2,492,104
Contributions	431,457	431,457
Interest and other income	<u>6,851</u>	<u>6,851</u>
Total revenue	<u>2,930,412</u>	<u>2,930,412</u>
EXCESS OF REVENUE OVER EXPENDITURES / CHANGE IN NET POSITION	0	0
Fund balance / net position, beginning of year	<u>1,576,424</u>	<u>1,576,424</u>
Fund balance / net position, end of year	<u>\$ 1,576,424</u>	<u>\$ 1,576,424</u>

See accompanying notes to financial statements.

Miller Theatre Advisory Board, Inc.

Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and
Statement of Activities for the year ended December 31, 2015

	GENERAL FUND	STATEMENT OF ACTIVITIES
EXPENDITURES / EXPENSES:		
Theatre productions and improvements	\$ 2,662,478	\$ 2,662,478
Management and general	151,793	151,793
Fundraising	<u>75,993</u>	<u>75,993</u>
Total expenditures / expenses	<u>2,890,264</u>	<u>2,890,264</u>
REVENUE:		
Grant from Hotel Occupancy Taxes	2,514,515	2,514,515
Contributions	442,709	442,709
Interest and other income	<u>15,993</u>	<u>15,993</u>
Total revenue	<u>2,973,217</u>	<u>2,973,217</u>
EXCESS OF REVENUE OVER EXPENDITURES / CHANGE IN NET POSITION	82,953	82,953
Fund balance / net position, beginning of year	<u>1,493,471</u>	<u>1,493,471</u>
Fund balance / net position, end of year	<u>\$ 1,576,424</u>	<u>\$ 1,576,424</u>

See accompanying notes to financial statements.

Miller Theatre Advisory Board, Inc.

Notes to Financial Statements for the years ended December 31, 2016 and 2015

NOTE 1 – ORGANIZATION

Organization – Miller Theatre Advisory Board, Inc. (MTAB), a component unit of the City of Houston (the City), is a Texas nonprofit corporation created by the City in 1970 to advance the educational and cultural interests of the people of Houston through a continuing program of artistic, educational, and cultural events at the Miller Outdoor Theatre, an outdoor proscenium theatre in Hermann Park owned and operated by the City. Miller Outdoor Theatre offers a large season of culturally and artistically diverse performances, free of charge to the public. During 2016, approximately 390,400 Houstonians and visitors attended 124 events at Miller Outdoor Theatre. During 2015, approximately 447,800 Houstonians and visitors attended 125 events at Miller Outdoor Theatre.

MTAB's directors are appointed by the Mayor of the City and are approved by City Council. MTAB receives funding primarily from Hotel Occupancy Taxes (HOT funds) allocated to the arts by the City. MTAB awards and manages grant allocations to nonprofit organizations for performances at Miller Outdoor Theatre, produces additional performances to augment the grant-season performances, and solicits and manages donations from foundations and individuals to support these grants and performances.

Federal income tax status – MTAB is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – These financial statements have been prepared in conformity with the accounting principles and reporting guidelines established by the Governmental Accounting Standards Board (GASB).

Measurement focus and basis of accounting – Measurement focus refers to *what* is being expressed in reporting financial position and performance, that is, *which* resources are being measured. The financial resources measurement focus measures only financial resources while the economic resources measurement focus measures both financial and capital resources. The measurement focus determines *whether* a fund balance sheet or statement of net position reports financial or economic resources. Basis of accounting refers to *when* those resources and commitments and uses of those resources should be recognized. It relates to the timing of the measurements made regardless of the measurement focus applied.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recognized when it is measurable and available. *Measurable* means the amount of the transaction is known or reasonably estimable. *Available* refers to amounts collected in the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period, generally within 60 days after year end. Expenditures are recognized when the related liability is incurred.

Governmental funds in the government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting,

revenue is recognized when it is earned and becomes measurable and expenses are recognized in the period incurred.

Cash – Custodial credit risk for bank deposits is the risk that, in the event of the failure of a bank, MTAB will be unable to recover deposits. At December 31, 2016, bank balances of \$1,186,170 were held at one bank. Of the bank balances at December 31, 2016, \$250,000 was covered by the Federal Deposit Insurance Corporation and \$936,170 was uninsured and uncollateralized.

Segregated cash accounts – Under an agreement with the City, MTAB is required to maintain unused HOT funds and any related interest income in a separate bank account. In compliance with these requirements, MTAB had segregated cash of \$484,669 and \$1,073,880 at December 31, 2016 and 2015, respectively.

Fund balance is classified based on the relative strength of spending constraints placed upon the purposes for which resources can be used. Restricted fund balance can only be used for purposes specified by resource providers. Nonspendable fund balance includes amounts that are either not in spendable form or are legally or contractually required to be maintained intact. Unassigned fund balance is available for MTAB's future use for any purpose. When both restricted and unassigned fund balances are available for use, it is MTAB's policy to use restricted fund balance first.

Net position represents the difference between assets and liabilities. Restricted net position can only be used for purposes specified by resource providers. Unrestricted net position is available for general use.

Grants and contributions – Under both the modified accrual and the accrual basis of accounting, receivables from grants and contributions are recognized, net of uncollectible amounts, when all applicable eligibility requirements are met provided the commitment is verifiable and the resources are measurable and probable of collection. Revenue recognized as receivable in advance of the time period during which eligibility requirements are met or resources are available, is deferred under the modified accrual basis of accounting, but is recognized as revenue under the accrual basis of accounting and reflected as restricted net position when eligibility requirements are met.

In-kind contributions – MTAB receives use of office space and equipment at Miller Outdoor Theatre from the City at no cost. MTAB also solicits and receives a substantial amount of contributed advertising for Miller Outdoor Theatre. MTAB does not recognize the value of in-kind contributions in its financial statements.

Grants payable to producing organizations and theatre production expenditures / expenses include grants made to producing organizations for the purpose of providing programs at Miller Outdoor Theatre. In order to be eligible to receive such grants, producing organizations must produce programs and submit reports of allowable costs. Expenditures / expenses and related grants payable are recognized when those eligibility requirements are met and a liability has been incurred.

Theatre capital improvements are expensed by MTAB as those improvements belong to the City.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue, expenditures and expenses. Actual results could vary from the estimates that were used.