

LEXINGTON FRIENDS OF THE ARTS, INC.
d/b/a
MUNROE CENTER FOR THE ARTS

REVIEWED FINANCIAL STATEMENTS

YEARS ENDED AUGUST 31, 2016 AND 2015

**LEXINGTON FRIENDS OF THE ARTS, INC.
d/b/a
MUNROE CENTER FOR THE ARTS**

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Independent Accountant's Review Report

To The Board of Directors
Lexington Friends of the Arts, Inc.
Lexington, Massachusetts

I have reviewed the accompanying financial statements of Lexington Friends of the Arts, Inc. d/b/a Munroe Center for the Arts, which comprise the statements of financial position as of August 31, 2016 and 2015, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I do not express such an opinion.

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 controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

My responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me to perform procedures to obtain limited assurance as a basis for reporting whether I am aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I believe that the results of my procedures provide a reasonable basis for my conclusion.

Accountant's Conclusion

Based on my reviews, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,



CPA, LLC

Joseph T. Twardy, Jr., CPA LLC
Lexington, MA

December 19, 2016

AR-C §90.A145

LEXINGTON FRIENDS OF THE ARTS, INC.
d/b/a
MUNROE CENTER FOR THE ARTS

STATEMENTS OF FINANCIAL POSITION
YEARS ENDED AUGUST 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets:								
Cash:								
Cash on hand	\$ 46,838	\$ -	\$ -	\$ 46,838	\$ 72,786	\$ -	\$ -	\$ 72,786
Board designated funds:								
Building Accessibility Fund	-	-	-	-	-	-	-	-
Building Restoration Fund (BRF)	146,829	-	-	146,829	119,532	-	-	119,532
Capital Projects Fund	50,005	-	-	50,005	-	-	-	-
Emergency Building Fund	10,005	-	-	10,005	10,001	-	-	10,001
Sullivan Programming Reserve	24,982	-	-	24,982	21,548	-	-	21,548
Total board designated funds	<u>231,821</u>	<u>-</u>	<u>-</u>	<u>231,821</u>	<u>151,081</u>	<u>-</u>	<u>-</u>	<u>151,081</u>
Total cash	278,659	-	-	278,659	223,867	-	-	223,867
Accounts receivable	(23)	-	-	(23)	651	-	-	651
Prepaid expenses	2,532	-	-	2,532	1,925	-	-	1,925
Security deposits	6,133	-	-	6,133	7,998	-	-	7,998
Total current assets	<u>287,301</u>	<u>-</u>	<u>-</u>	<u>287,301</u>	<u>234,441</u>	<u>-</u>	<u>-</u>	<u>234,441</u>
Equipment, fixtures, improvements	199,343	-	-	199,343	189,543	-	-	189,543
Less: Accumulated depreciation	(106,971)	-	-	(106,971)	(100,404)	-	-	(100,404)
Total fixed assets	<u>92,372</u>	<u>-</u>	<u>-</u>	<u>92,372</u>	<u>89,139</u>	<u>-</u>	<u>-</u>	<u>89,139</u>
Total assets	<u>\$ 379,673</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 379,673</u>	<u>\$ 323,580</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 323,580</u>
Liabilities:								
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 2,325	\$ -	\$ -	\$ 2,325
Accrued expenses	-	-	-	-	5,578	-	-	5,578
Deferred revenue:								
Building restoration fees	2,880	-	-	2,880	3,325	-	-	3,325
Tuition	22,703	-	-	22,703	26,271	-	-	26,271
Total deferred revenue	<u>25,583</u>	<u>-</u>	<u>-</u>	<u>25,583</u>	<u>29,596</u>	<u>-</u>	<u>-</u>	<u>29,596</u>
Payroll liabilities	38	-	-	38	-	-	-	-
Security deposits	6,133	-	-	6,133	7,998	-	-	7,998
Total liabilities	<u>31,754</u>	<u>-</u>	<u>-</u>	<u>31,754</u>	<u>45,497</u>	<u>-</u>	<u>-</u>	<u>45,497</u>
Net assets:								
Unrestricted	347,919	-	-	347,919	278,083	-	-	278,083
Temporarily restricted	-	-	-	-	-	-	-	-
Permanently restricted	-	-	-	-	-	-	-	-
Total net assets	<u>347,919</u>	<u>-</u>	<u>-</u>	<u>347,919</u>	<u>278,083</u>	<u>-</u>	<u>-</u>	<u>278,083</u>
Total liabilities and net assets	<u>\$ 379,673</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 379,673</u>	<u>\$ 323,580</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 323,580</u>

See Accompanying Accountant's Review Report and Notes to Financial Statements.

LEXINGTON FRIENDS OF THE ARTS, INC.
d/b/a
MUNROE CENTER FOR THE ARTS

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

	2016			2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues								
Program services:								
Artist studio rentals	\$ 186,777	\$ -	\$ -	\$ 186,777	\$ 182,120	\$ -	\$ -	\$ 182,120
Art education programs	278,159	-	-	278,159	279,722	-	-	279,722
Munroe Saturday Nights	4,140	-	-	4,140	7,316	-	-	7,316
Total program services	469,076	-	-	469,076	469,158	-	-	469,158
Additions to Board Designated Funds:								
Building restoration fee	33,247	-	-	33,247	31,515	-	-	31,515
Contributions	10,310	-	-	10,310	9,142	-	-	9,142
Total revenues	<u>\$ 512,633</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 512,633</u>	<u>\$ 509,815</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 509,815</u>
Expenses								
Program services	\$ 382,644	\$ -	\$ -	\$ 382,644	\$ 405,325	\$ -	\$ -	\$ 405,325
Support services	60,380	-	-	60,380	55,968	-	-	55,968
Total expenses	<u>\$ 443,024</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 443,024</u>	<u>\$ 461,293</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 461,293</u>
Change in net assets before investment income	69,609	-	-	69,609	48,522	-	-	48,522
Interest income	98	-	-	98	142	-	-	142
Change in net assets	69,707	-	-	69,707	48,664	-	-	48,664
Net assets, beginning of year	278,083	-	-	278,083	232,157	-	-	232,157
Adjustments to net assets:								
Transfers between funds	-	-	-	-	(2,615)	-	-	(2,615)
Prior period adjustments	129	-	-	129	(123)	-	-	(123)
Total adjustments	129	-	-	129	(2,738)	-	-	(2,738)
Net assets, end of year	<u>\$ 347,919</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 347,919</u>	<u>\$ 278,083</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 278,083</u>

See Accompanying Accountant's Review Report and Notes to Financial Statements.

LEXINGTON FRIENDS OF THE ARTS, INC.
d/b/a
MUNROE CENTER FOR THE ARTS

STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from service recipients	\$ 469,076	\$ 469,158
<i>Less: non-cash art studio rental income:</i>	(37,668)	(34,739)
Cash received for Building Restoration Fund	33,247	31,515
Cash received from contributors	10,310	9,142
Interest income	98	142
Cash paid to employees, instructors and suppliers:	(443,005)	(461,293)
Interest expense	(19)	-
<i>Add: non-cash expenses:</i>		
<i>Art studio rental expenses</i>	37,668	34,739
<i>Depreciation</i>	6,567	6,299
(Increase) decrease in current assets	(78,807)	(18,270)
Increase (decrease) in current liabilities	<u>(13,744)</u>	<u>5,243</u>
Net cash provided by (used for) operating activities	<u>(16,277)</u>	<u>41,936</u>
Cash flows from investing activities:		
Leasehold improvements	2,083	(21,156)
Land improvements	(11,883)	(4,100)
Purchases of equipment	<u>-</u>	<u>-</u>
Net cash (used for) investing activities	<u>(9,800)</u>	<u>(25,256)</u>
Cash flows from financing activities:		
Increase (decrease) in unrestricted net assets	<u>129</u>	<u>(2,738)</u>
Net cash provided by (used for) financing activities	<u>129</u>	<u>(2,738)</u>
Net increase (decrease) in cash	(25,948)	13,942
Cash, beginning of year	<u>72,786</u>	<u>58,844</u>
Cash, end of year	<u>\$ 46,838</u>	<u>\$ 72,786</u>
Reconciliation of changes in net assets to net cash used for operating activities:		
Change in net assets	\$ 69,707	\$ 48,664
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	<u>6,567</u>	<u>6,299</u>
(Increase) decrease in current assets:		
Accounts receivable	674	(530)
Board-designated funds	(80,740)	(20,730)
Prepaid expenses	(607)	2,888
Security deposits	<u>1,866</u>	<u>102</u>
(Increase) in current assets	<u>(78,807)</u>	<u>(18,270)</u>
Increase (decrease) in current liabilities:		
Accounts payable	(2,325)	2,282
Accrued expenses	(5,578)	5,489
Deferred revenue	(4,013)	(2,426)
Payroll liabilities	38	-
Security deposits	<u>(1,866)</u>	<u>(102)</u>
Increase (decrease) in current liabilities	<u>(13,744)</u>	<u>5,243</u>
Cash provided by operating activities	<u>\$ (16,277)</u>	<u>\$ 41,936</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest expense	19	-
Income taxes	-	-

See Accompanying Accountant's Review Report and Notes to Financial Statements.

LEXINGTON FRIENDS OF THE ARTS, INC.
d/b/a
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STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Program services:								
Artist studio rentals:								
Rent	\$ 24,000	\$ -	\$ -	\$ 24,000	\$ 24,000	\$ -	\$ -	\$ 24,000
Utilities	27,581	-	-	27,581	36,900	-	-	36,900
Design & planning	2,283	-	-	2,283	928	-	-	928
Licenses & permits	97	-	-	97	40	-	-	40
Maintenance & repairs	58,778	-	-	58,778	92,013	-	-	92,013
Depreciation	4,671	-	-	4,671	4,403	-	-	4,403
Total artist studio rentals	117,410	-	-	117,410	158,284	-	-	158,284
Art education programs	124,896	-	-	124,896	124,148	-	-	124,148
Art education administration:								
Management and general	68,662	-	-	68,662	54,846	-	-	54,846
Rent	37,668	-	-	37,668	34,739	-	-	34,739
Promotion	4,646	-	-	4,646	3,811	-	-	3,811
Depreciation	1,895	-	-	1,895	1,895	-	-	1,895
Other	15,089	-	-	15,089	13,958	-	-	13,958
Total art education admin.	127,960	-	-	127,960	109,249	-	-	109,249
Fundraising	-	-	-	-	196	-	-	196
Programs & outreach:								
Advertising	75	-	-	75	-	-	-	-
Lexington Open Studios	182	-	-	182	163	-	-	163
Munroe Saturday Nights	12,121	-	-	12,121	12,687	-	-	12,687
Open House	-	-	-	-	598	-	-	598
Total, programs & outreach	12,378	-	-	12,378	13,448	-	-	13,448
Total program services	382,644	-	-	382,644	405,325	-	-	405,325
Support services:								
Management and general	38,997	-	-	38,997	36,956	-	-	36,956
Consultants & professional fees	5,100	-	-	5,100	5,056	-	-	5,056
Credit card processing fees	392	-	-	392	420	-	-	420
Interest expense	19	-	-	19	-	-	-	-
Liability insurance	4,655	-	-	4,655	4,620	-	-	4,620
Office Supplies	1,882	-	-	1,882	759	-	-	759
Payroll Service Charges	2,041	-	-	2,041	2,131	-	-	2,131
Telephone	2,500	-	-	2,500	2,781	-	-	2,781
Other	4,794	-	-	4,794	3,245	-	-	3,245
Total support services	60,380	-	-	60,380	55,968	-	-	55,968
Total expenses	\$ 443,024	\$ -	\$ -	\$ 443,024	\$ 461,293	\$ -	\$ -	\$ 461,293

See Accompanying Accountant's Review Report and Notes to Financial Statements.

LEXINGTON FRIENDS OF THE ARTS, INC.
d/b/a
MUNROE CENTER FOR THE ARTS

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

Lexington Friends of the Arts, Inc., d/b/a Munroe Center for the Arts (the "Munroe Center" or the "Organization"), was organized on April 8, 1994 and incorporated as a charitable organization under the provisions of Chapter 180 of the General Laws of the Commonwealth of Massachusetts. The Organization is a nonprofit organization as described in §501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

2. Nature of Activities

The mission of the Munroe Center is to further the cultural and artistic education of the residents of Lexington, Massachusetts by running a community arts center, teaching visual and performing arts education classes, providing low-cost studio space for community artists, operating a gallery, and organizing community arts-related events.

3. Basis of Presentation

The Organization prepares its financial statements utilizing the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

4. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported assets and liabilities at the date of the financial statements. On an ongoing basis, the Organization's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Organization's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

5. Net Assets

The financial statements are prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 117 (ASC 958-205), "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, an organization's net assets (excess of its assets over its liabilities) and

LEXINGTON FRIENDS OF THE ARTS, INC.
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

A. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(cont'd.)*

5. **Net Assets** *(cont'd.)*

its revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that expire neither by actions of the Organization nor the passage of time.

SFAS No. 117 also requires that the amounts for each of the three classes of net assets – unrestricted, temporarily restricted, and permanently restricted – be displayed in the Statement of Financial Position, and that the amounts of change in each of those classes of net assets be displayed in the Statement of Activities.

All revenues are reported as increases in unrestricted net assets in the statement of activities unless the use of the related resources is subject to donor restrictions. All expenses are reported as decreases in unrestricted net assets. Expirations of temporarily restricted net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

6. **Cash Equivalents**

For purposes of the statement of cash flows, the Organization considers cash equivalents to include highly liquid investments with an original maturity of three months or less.

Munroe Center maintains cash accounts at various financial institutions and from time to time balances can exceed the federally insured limits. All cash accounts are insured by the Federal Deposit Insurance Corporation (FDIC), up to a limit of \$250,000 per account. Balances at August 31, 2016 and 2015 did not exceed the FDIC limit.

LEXINGTON FRIENDS OF THE ARTS, INC.
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

A. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(cont'd.)*

7. **Property and Equipment**

Furniture, fixtures, equipment and leasehold improvements are stated at cost. Amounts of \$500 or more are capitalized. Depreciation is computed based on the useful life for each asset type using the straight-line method and the half-year convention.

8. **Contributions and Donor Restrictions**

Munroe Center reports contributions in accordance with SFAS No. 116 (ASC 958-605), "According for Contributions Received and Contributions Made." Contributions are recognized as revenues when received. All contributions are reported as increases in unrestricted net assets, unless use of the contributed assets are specifically restricted by the donors. Amounts received that are restricted by the donors to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction.

When donor restrictions expire, either by use of funds for the specified purpose or by expiration of time restrictions, temporarily restricted net assets are reclassified as unrestricted and reported in the statement of activities as net assets released from restrictions.

9. **Donated Services**

The accompanying financial statements include no amounts for the substantial amounts of donated services performed by both directors and volunteers to the Organization, as there is no objective method available to calculate the value of these services. These services include fundraising, program development, marketing, outreach and management.

10. **Deferred Revenue**

Income from ArtSpan, the Munroe Center's arts program for children, is recognized in the fiscal year in which the related Program is conducted. Sponsorships, donations and advertising received for future Programs are reported as deferred sponsorships, donations and advertising, respectively.

LEXINGTON FRIENDS OF THE ARTS, INC.
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

11. Allocation of Expenses

The Organization allocates general expenses to the program services from management and general expenses, utilizing best estimates and judgments as to how programs and supporting services benefited from such expenses.

B. COMPENSATED ABSENCES

The Organization employed 48 individuals during FY2016 and FY2015. Two of these individuals were employed in permanent, full-time or part-time positions that included fringe benefits (i.e., health insurance, vacation, sick pay or personal time) as part of their compensation packages. Both of these individuals used up all vacation and sick pay earned in FY2016 and FY2015 during those fiscal years, respectively.

The other 46 individuals were employed in part-time positions that did not include any fringe benefits as part of their compensation packages.

Therefore, compensated absences for vacation, sick pay and personal time have not been accrued.

C. DONOR-DESIGNATED GRANTS

The Organization has received grants from various foundations and charitable trusts to conduct its outreach and educational activities. The terms of some of the grants may require such funds to be segregated from other Organization funds.

D. NET ASSETS

1. Unrestricted Net Assets

Unrestricted Net Assets were \$347,919 and \$278,083 at August 31, 2016 and 2015, respectively.

2. Temporarily Restricted Net Assets

Temporarily Restricted Net Assets were \$0 at August 31, 2016 and 2015.

3. Permanently Restricted Net Assets

Permanently Restricted Net Assets were \$0 at August 31, 2016 and 2015.

LEXINGTON FRIENDS OF THE ARTS, INC.
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

E. BOARD DESIGNATED FUNDS

The Organization established several reserve savings accounts set aside to fund specific long-range purposes, as determined by the Munroe Center's Board of Directors. The balances in these funds at August 31, 2016 and 2015 were as follows:

<u>Fund</u>	<u>FY2015</u>	<u>FY2014</u>
Building Restoration Fund	\$146,829	\$119,532
Capital Projects Fund	50,005	0
Emergency Building Fund	10,005	10,001
Sullivan Programming Reserve Fund	<u>24,982</u>	<u>21,548</u>
Total	\$231,821	\$151,081

F. SECURITY DEPOSITS

The Munroe Center assessed each art studio tenant a refundable security deposit to offset the costs to repair wear or damage caused by the tenant during the term of their studio rental, in accordance with accounting principles generally accepted in the United States of America, and in compliance with Massachusetts General Laws, c. 186, §15B, paragraph 2(a).

G. PARTICIPANT FEE INCOME

The Organization assessed each program participant an administrative fee of \$25 per year. Such administrative fees were set aside into the Building Restoration Fund (the "Fund"), an account established to improve, maintain, or repair the Premises, as determined by the Munroe Center's Board of Directors. The Fund received contributions of \$33,247 and \$31,515 in FY2016 and FY2015, respectively.

H. FUNDRAISING EXPENSES

Fundraising expenses were \$0 and \$196 during FY2016 and FY2015, respectively.

I. INTEREST EXPENSE

Interest expense was \$19 and \$0 in FY2016 and FY2015, respectively.

LEXINGTON FRIENDS OF THE ARTS, INC.
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

J. COMMITMENTS AND CONTINGENCIES

1. License to Use Property

The Town of Lexington granted the Munroe Center the right to use the town property located at 1403 Massachusetts Avenue, Lexington, MA 02420, which includes the building known as the Munroe School (collectively, the "Premises"), under a written License Agreement (the "License").

The License commenced on October 1, 2008, and was formally signed by both parties on June 11, 2009. The terms of the License required the Munroe Center to pay the Town a license fee of \$24,000 per year, payable in monthly installments of \$2,000 for the duration of the License.

The Munroe Center was also required, at its sole cost and expense, to maintain, repair and clean the Premises and keep the Premises in good order, repair and condition, as provided under Section 5, "Maintenance, Repair and Cleaning".

This obligation included the procurement of all heat, water, gas and other utilities necessary for the operation of the Premises, and maintenance and repair of the Munroe School plumbing, interior walls, floors and ceilings subject to wear and tear in the ordinary course of use. However, terms of the License also provided that the Munroe Center was not obligated to make structural repairs or replacements or major capital repairs to the Premises.

The License expired on February 1, 2010. Thereafter, the Town of Lexington agreed to a series of consecutive 90-day extensions of the License, through March 31, 2016, as provided under Section 2, "Term and Termination" of the License.

On December 24, 2015, the Town of Lexington and the Munroe Center signed an Amendment to the License, whereby the Town would provide natural gas to the Munroe Center through the Town's purchase contract, to be paid (reimbursed) by the Organization within thirty (30) days of receipt of supplier's invoice to the Town, as provided under Section 5(a), "Maintenance, Repair and Cleaning" of the License.

On April 7, 2016, the Town of Lexington and the Munroe Center signed an Amendment to the License, extending its term through June 30, 2018, as provided under Section 2, "Term and Termination" of the License.

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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

J. **COMMITMENTS AND CONTINGENCIES** *(cont'd.)*

2. **Facilities Management**

The Munroe Center entered into an employment agreement with James McFeely of Billerica, MA, on December 9, 2013 to serve as the permanent, part-time "Facilities Maintenance Coordinator" for the Premises.

Facilities Management expense was \$9,300 and \$10,419 in FY2016 and FY2015, respectively.

3. **Energy Improvements**

The Munroe Center entered into three agreements with AECOM of Boston, MA, a subcontractor for Eversource (f/k/a NStar Electric), on October 29, 2014 to install energy efficient lighting fixtures and bulbs throughout the Premises. These projects would yield an estimated annual energy cost savings of \$2,905 to the Organization, with a simple payback of 2.1 years.

The total costs of these projects was \$6,212. AECOM agreed to provide the Organization with twelve months of interest-free financing. Upon completion of the installations in April 2015, the Munroe Center began making monthly payments of \$518, and completed these payments in March 2016. Costs of \$3,623 and \$2,589 were recorded in FY2016 and FY2015, respectively. These amounts were included in the Utilities expense of \$27,581 and \$36,900 that was reported for FY2016 and FY2015, respectively.

4. **Driveway and Parking Lot**

During FY2015, the Munroe Center entered into discussions with the Town of Lexington regarding the proposed replacement of the existing driveway and parking lot on the premises. Both the driveway and parking lot were at the end of their useful life due to normal wear and tear. In addition, the Munroe Center desired to improve the flow of motor vehicle traffic around the building. The Organization and the Town entered into an agreement whereby, as provided under Section 5, "Maintenance, Repair and Cleaning" of the License, the Munroe Center would pay for the design, permitting and construction of the new driveway and parking lot, and the Town would manage the selection of the contractor and the construction of the new driveway and parking lot.

During FY2015, the Munroe Center entered into a contract with Eaglebrook Engineering and Survey LLC of Danvers, MA to provide design and permitting services for the construction of the parking lot.

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NOTES TO FINANCIAL STATEMENTS
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J. **COMMITMENTS AND CONTINGENCIES** *(cont'd.)*

4. **Driveway and Parking Lot** *(cont'd.)*

Design and Planning Services costs of \$2,850 and \$9,033 were capitalized in FY2016 and FY2015, respectively. The FY2015 amount had been reported previously under "Land Improvements".

Depreciation expense of these capitalized costs was \$736 and \$134 in FY2016 and FY2015, respectively. These amounts were included in the Depreciation expense of \$6,567 and \$6,299 that was reported for FY2016 and FY2015, respectively.

Design and Planning Services expense was \$2,283 and \$928 in FY2016 and FY2015, respectively. These expenditures were primarily for various licenses and permits that, as such, were too small to have been capitalized.

The Town put the project plan out for bid, and awarded a construction contract for a total cost of \$135,000 in September 2016. The Munroe Center reimbursed the Town in full on September 29, 2016, using funds set aside from its Building Restoration Fund. Construction began in October 2016 and was completed in November 2016.

The Organization will capitalize this construction cost during FY2017.

5. **Roof**

During FY2016, the Munroe Center entered into discussions with the Town of Lexington regarding the proposed replacement and/or repair of the existing roof on the premises. The roof was at the end of its useful life due to normal wear and tear.

On April 7, 2016, the Town of Lexington and the Munroe Center signed an Amendment to the License, whereby should the Organization and the Town agree to replace and/or repair the roof of the premises and its related appurtenances, the Organization would reimburse the Town of all or a portion of the debt service related to this work, on terms agreed to by the parties, as provided under Section 5(b), "Maintenance, Repair and Cleaning" of the License.

The Organization and the Town also agreed that the Munroe Center would reimburse the Town for the costs it incurred for the design and permitting of the new and/or repaired roof, and that the Town would manage the design, selection of the contractor and the construction of the new and/or repaired roof.

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NOTES TO FINANCIAL STATEMENTS
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J. **COMMITMENTS AND CONTINGENCIES** *(cont'd.)*

5. **Roof** *(cont'd.)*

Design and Planning Services costs of \$6,950 and \$4,800 were capitalized in FY2016 and FY2015, respectively. The FY2015 amount had been reported previously under "Leasehold Improvements".

Depreciation expense of these capitalized costs was \$242 and \$31 in FY2016 and FY2015, respectively. These amounts were included in the Depreciation expense of \$6,567 and \$6,299 that was reported for FY2016 and FY2015, respectively.

On November 30, 2016, the Town of Lexington and the Munroe Center signed an Amendment to the License, whereby the Town will, in February 2017, issue a level debt service bond for a term of five (5) years to finance the cost this project. The parties hereby agree that, effective with the monthly license payments beginning July 2017, as provided under Section 3, "License Fee", the Organization will increase its current monthly payment of \$2,000 to approximately \$5,000 for an estimated period of 60 months, to cover the Town's annual debt service for this project. Once the final interest rate and bond premium, if any, are known, the Town will revise the amount of this additional monthly license payment to reflect the actual debt service and bond issuance costs.

At the conclusion of these debt service payments, the Organization's monthly license payment will revert to \$2,000 unless the parties agree otherwise.

The Organization will capitalize the estimated total cost of \$180,000 to replace and/or repair the roof, beginning in FY2017.

K. **OPERATING EXPENSES**

1. **License**

License expense was \$24,000 in both FY2016 and FY2015.

2. **Contracted Services**

Contracted services expense was \$4,317 and \$14,925 in FY2016 and FY2015, respectively.

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NOTES TO FINANCIAL STATEMENTS
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K. OPERATING EXPENSES *(cont'd.)*

3. Custodial Services

Custodial services expense was \$31,726 and \$39,988 in FY2016 and FY2015, respectively.

4. Repairs

Repairs expense was \$13,123 and \$23,219 in FY2016 and FY2015, respectively.

5. Utilities

Utilities expense was \$27,581 and \$36,900 in FY2016 and FY2015, respectively.

6. Depreciation

Depreciation expense was \$6,567 and \$6,299 in FY2016 and FY2015, respectively.

L. NON-CASH TRANSACTIONS

The Munroe Center's Art Studio Rental program entered into an agreement with ArtSpan, the Munroe Center's arts program for children, to assess a charge to cover ArtSpan's use of the Munroe Center's facilities and equipment during the year. This charge was recorded monthly through an accounting journal entry to rent income for the Art Studio Rental program, and to rent expense for ArtSpan. No cash payments or receipts were recorded.

The Art Studio Rental income and the corresponding ArtSpan rent expense were \$37,668 and \$34,739 in FY2016 and FY2015, respectively. These amounts included a fuel surcharge of \$256 and \$1,476 in FY2016 and FY2015, respectively.

M. UNCERTAIN TAX POSITIONS

The Munroe Center files informational income tax returns with the United States Treasury and the Commonwealth of Massachusetts. In accordance with FASB Interpretation No. (FIN) 48 (ASC-740), "Accounting for Uncertainty in Income Taxes", with few exceptions, the organization is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to the fiscal year ended August 31, 2014.

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N. **SUBSEQUENT EVENTS**

Management has evaluated all subsequent events through December 19, 2016, the date the financial statements were available to be issued, in accordance with SFAS No. 165 (ASC-855), "Subsequent Events".