LEXINGTON FRIENDS OF THE ARTS, INC.
DBA MUNROE CENTER FOR THE ARTS

Financial Statements

For the Year Ended August 31, 2017

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

To the Board of Trustees
Lexington Friends of the Arts, Inc.,
dba Munroe Center for the Arts

Report on the Financial Statements

We have audited the accompanying financial statements of Lexington Friends of the Arts, Inc., dba Munroe Center for the Arts, which comprise the statement of financial position as of August 31, 2017, and the related statements of activities, functional 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.

Auditors' 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 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 Lexington Friends of the Arts, Inc., dba Munroe Center for the Arts, as of August 31, 2017, 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.

Report on Summarized Comparative Information

The fiscal year 2016 financial statements were reviewed by other accountants and their report thereon, dated December 19, 2016, stated that they were not aware of any material modifications that should be made to those statements for them to be in accordance with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

Melanson Heath

July 24, 2018

LEXINGTON FRIENDS OF THE ARTS, INC.
DBA MUNROE CENTER FOR THE ARTS

Statement of Financial Position
August 31, 2017
(With Comparative Totals as of August 31, 2016)

	Unrestricted			
ASSETS	Unrestricted	Board Designated	2017 Total	2016 Total
Current Assets:				
Cash and cash equivalents	$ 75,160	$ 113,374	$ 188,534	$ 278,659
Restricted cash - security deposits	6,826		6,826	6,133
Accounts receivable	14,229	-	14,229	-
Prepaid expenses	-	-	-	2,532
Total Current Assets	96,215	113,374	209,589	287,324
Noncurrent Assets:				
Property and equipment, net	382,880	-	382,880	92,372
Total Noncurrent Assets	382,880	-	382,880	92,372
TOTAL ASSETS	$ 479,095	$ 113,374	$ 592,469	$ 379,696
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable	$ 454	$ -	$ 454	$ 23
Accrued payroll and related liabilities	15,947	-	15,947	38
Deferred revenue	37,048	-	37,048	25,583
Current portion of long-term debt	32,972	-	32,972	-
Total Current Liabilities	86,421	-	86,421	25,644
Security deposits	6,826	-	6,826	6,133
Long-term debt, net of current portion	123,645	-	123,645	-
Total Liabilities	216,892	-	216,892	31,777
Net Assets	262,203	113,374	375,577	347,919
TOTAL LIABILITIES AND NET ASSETS	$ 479,095	$ 113,374	$ 592,469	$ 379,696

The accompanying notes are an integral part of these financial statements.

LEXINGTON FRIENDS OF THE ARTS, INC.
DBA MUNROE CENTER FOR THE ARTS

Statement of Activities
For the Year Ended August 31, 2017
(With Comparative Totals for the Year Ended August 31, 2016)

	Unrestricted			
	Operating	Board Designated	2017 Total	2016 Total
Support and Revenue:				
Support:				
Contributions	$ 22,381	$ -	$ 22,381	$ 14,197
Revenue:				
Tuitions, net	389,229	-	389,229	310,410
Rental income	195,549	-	195,549	186,777
Interest income	48	-	48	98
Other income	993	-	993	1,249
Board increases to designated funds	(41,290)	41,290	-	-
Net assets released from restriction	159,737	(159,737)	-	-
Total Support and Revenue	726,647	(118,447)	608,200	512,731
Expenses:				
Program services	458,600	-	458,600	382,644
General and administrative	121,942	-	121,942	60,380
Total Expenses	580,542	-	580,542	443,024
Change in net assets	146,105	(118,447)	27,658	69,707
Net assets, beginning of year	116,098	231,821	347,919	278,212
Net assets, end of year	$ 262,203	$ 113,374	375,577	$ 347,919

The accompanying notes are an integral part of these financial statements.

LEXINGTON FRIENDS OF THE ARTS, INC.
DBA MUNROE CENTER FOR THE ARTS

Statement of Functional Expenses
For the Year Ended August 31, 2017
(With Comparative Totals for the Year Ended August 31, 2016)

	Program Services	General and Administrative	Totals 2017	Totals 2016
Accounting	$ -	$ 5,032	$ 5,032	$ 4,940
Advertising and promotion	-	5,799	5,799	5,597
Art expenses	13,362	-	13,362	3,896
Artist fees	104,732	-	104,732	83,607
Class supplies	17,525	-	17,525	15,880
Contract labor	1,200	-	1,200	500
Depreciation	15,465	-	15,465	6,567
Employee health benefits	138	-	138	1,200
Information technology	227	103	330	179
Insurance	-	5,860	5,860	7,029
Legal fees	-	733	733	-
Licenses and fees	-	14,404	14,404	11,215
Occupancy	163,370	12,052	175,422	145,102
Office expense	9,300	5,090	14,390	6,850
Other expenses	-	4,110	4,110	4,076
Payroll taxes	18,547	7,121	25,668	18,503
Salaries and wages	114,734	61,638	176,372	127,883
Total	$ 458,600	$ 121,942	$ 580,542	$ 443,024

The accompanying notes are an integral part of these financial statements.

LEXINGTON FRIENDS OF THE ARTS, INC.
DBA MUNROE CENTER FOR THE ARTS

Statement of Cash Flows
For the Year Ended August 31, 2017
(With Comparative Totals for the Year Ended August 31, 2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 27,658	$ 69,707
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	15,465	6,567
Changes in operating assets and liabilities:		
Accounts receivable	(14,229)	674
Prepaid expenses	2,532	(607)
Accounts payable	431	(2,196)
Accrued payroll and related liabilities	15,909	(5,540)
Deferred revenue	11,465	(4,013)
Net cash provided by operating activities	59,231	64,592
Cash flows from investing activities:		
Changes in tenant security deposit liabilities	693	(1,865)
Payments for property and equipment additions	(141,113)	(9,800)
Net cash used by investing activities	(140,420)	(11,665)
Cash flows from financing activities:		
Principal payments on long-term debt	(8,243)	-
Net cash used by financing activities	(8,243)	-
Net change	(89,432)	52,927
Cash, cash equivalents, and restricted cash, beginning of year	284,792	231,865
Cash, cash equivalents, and restricted cash, end of year	$ 195,360	$ 284,792
SUPPLEMENTAL INFORMATION:		
Non-cash financing activities - debt financed capital assets	$ 164,860	$ -

1. Description of Organization

Lexington Friends of the Arts, Inc., dba Munroe Center for the Arts (the Center), 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 Center exists 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.

2. Significant Accounting Policies

The Center prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (GAAP) for not-for-profit organizations. The significant accounting and reporting policies used by the Center are described subsequently to enhance the usefulness and understandability of the financial statements.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the financial statements for the year ended August 31, 2016, from which the summarized information was derived.

Cash and Cash Equivalents

All cash and highly liquid financial instruments with original maturities of three months of less, and which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents.

Accounts Receivable

Accounts receivable consist primarily of noninterest-bearing amounts due for services and programs. The allowance for uncollectible accounts receivable is based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectible.

Property and Equipment

Property and equipment is reported in the Statement of Financial Position at cost, if purchased, and at fair value at the date of donation, if donated. Property and equipment is capitalized if it has a cost of $500 or more and a useful life when acquired of more than one year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

Leasehold improvements	7 - 39 years
Equipment	5 - 7 years

Property and equipment is reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.

Net Assets

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

Unrestricted Net Assets – Net assets available for use in general operations.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions and/or the passage of time. Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed. The restrictions stipulate that resources be maintained permanently, but permit expending of the income generated in accordance with the provisions of the agreements.

At August 31, 2017, the Center had only unrestricted net assets.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively.

Accounting for Contributions

Contributions are recognized when received. All contributions are reported as increases in unrestricted net assets unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor 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. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as temporarily restricted until the payment is due unless the contribution is clearly intended to support activities of the current fiscal year or are received with permanent restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

Gifts-in-Kind Contributions

The Center periodically receives contributions in a form other than cash or investments. Contributed property and equipment is recognized as an asset at its estimated fair value at the date of gift, provided that the value of the asset and its estimated useful life meets the Center’s capitalization policy. Donated supplies are recorded as contributions at the date of gift and as expenses when the donated items are placed into service or distributed.

The Center benefits from personal services provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services in the Center’s program operations and in its fund-raising campaigns. However, the majority of the contributed services do not meet the criteria for recognition in financial statements. Generally Accepted Accounting Principles allow recognition of contributed services only if (*a*) the services create or enhance nonfinancial assets or (*b*) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills.

Advertising Costs

Advertising costs are expensed as incurred and are reported in the Statement of Activities and Statement of Functional Expenses.

Functional Allocation of Expenses

The cost of program and supporting services activities have been summarized on a functional basis in the Statement of Activities. The Statement of Functional Expenses presents the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Center.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. Additionally, advertising costs are expensed as incurred.

Income Taxes

The Center is exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). The Center has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions.

The Center follows FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes and prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. FASB ASC 740-10 did not have a material impact on the Center's financial statements.

The Center's Federal Form 990 (Return of Organization Exempt from Income Tax) is subject to examination by the IRS, generally for three years after filing.

The Center recognizes interest related to unrecognized tax benefits in interest expense and penalties that are included within reported expenses. During the year ended August 31, 2017, the Center had no interest or penalties accrued related to unrecognized tax benefits.

Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, no losses have been experienced in any of these accounts. Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates.

Fair Value Measurements and Disclosures

Certain assets and liabilities are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

> Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.
>
> Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.
>
> Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

When available, the Center measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. However, Level 1 inputs are not available for many of the assets and liabilities that the Center is required to measure at fair value (for example, unconditional promises to give and in-kind contributions).

The primary uses of fair value measures in the Center's financial statements are:

- Initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give.

- Long term debt (Note 5).

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued payroll, and deferred revenue approximate fair value due to the short-term nature of the items, and are considered to fall within Level 1 of the fair value hierarchy.

3. Property, Equipment, and Depreciation

A summary of the major components of property and equipment is presented below:

	2017	2016
Leasehold improvements	448,142	142,169
Equipment	57,174	57,174
Subtotal	505,316	199,343
Less: accumulated depreciation	(122,436)	(106,971)
Total	$ 382,880	$ 92,372

4. Deferred Revenue

Deferred revenue consists primarily of tuitions received during fiscal year 2017 for classes beginning after year end.

5. Long-Term Debt

In fiscal year 2017, the Town of Lexington (the Town), as the owner of the building occupied by the Center (see Note 7), took out a debt service bond to replace the roof of the building. The Center has entered into an agreement with the Town to pay $2,748 per month for sixty months, in addition to their monthly license payment (see Note 7), to reimburse the Town for the costs associated with the debt financing and costs related to the building project. At August 31, 2017, the balance due on this agreement was $156,617.

The following is a summary of future payments on the previously mentioned long-term debt.

2018	$	32,972
2019		32,972
2020		32,972
2021		32,972
2022		24,729
Total	$	156,617

As discussed in Note 2 to these financial statements, the Center is required to report its fair value measurements in one of three levels, which are based on the ability to observe in the marketplace the inputs to the Center's valuation techniques. The Center's long-term debt is categorized as Level 2 in the fair value hierarchy.

6. **Board Designated Net Assets**

The Center's Board designated net assets to fund specific long-range purposes. The Board designated net assets at August 31, 2017 and 2016 were as follows:

Fund	2017	2016
Building Restoration Fund	$ 47,687	$ 146,829
Capital Projects Fund	34,491	50,005
Emergency Building Fund	10,008	10,005
Sullivan Programming Reserve Fund	21,188	24,982
Total	$ 113,374	$ 231,821

7. **Commitments and Contingencies**

License to Use Property

The Town of Lexington (the Town) has granted the Center the right to use Town property located at 1403 Massachusetts Avenue, Lexington, Massachusetts, under a written License Agreement (the License), currently scheduled to expire on June 30, 2018. The terms of the License require the Center to pay the Town a fee of $24,000 per year, payable in monthly installments of $2,000 for the duration of the License. The Center is required, based on the License (as amended), at its sole cost and expense, to maintain, repair, clean, and keep the premises in good order, repair and condition. However, terms of the License provide that the Center is not obligated to make structural repairs or replacements or major capital repairs to the premises.

8. Supplemental Disclosures of Cash Flow Information

In fiscal year 2017, the Center adopted Accounting Standard Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* The amendments in this update require that Statement of Cash Flows explain the change during the fiscal year to include restricted cash as part of the total cash and cash equivalents.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Statement of Financial Position that sum to the total of the same such amounts shown in the Statement of Cash Flows.

	2017	2016
Cash and cash equivalents	$ 188,534	$ 278,659
Restricted cash - security deposits	6,826	6,133
Total cash, cash equivalents, and restricted cash shown in the Statement of Cash Flows	$ 195,360	$ 284,792

9. Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

10. Subsequent Events

Subsequent events have been evaluated through July 24, 2018, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.