

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

Financial Statements

For the Year Ended August 31, 2018

(With Independent Auditors' Report Thereon)

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Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

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, 2018, 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, 2018, 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

We have previously audited Lexington Friends of the Arts, Inc., dba Munroe Center for the Arts' fiscal year 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 24, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Melanson Heath

March 21, 2019

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

Statement of Financial Position
August 31, 2018
(With Comparative Totals as of August 31, 2017)

ASSETS	Unrestricted			2017
	<u>Unrestricted</u>	<u>Board Designated</u>	<u>2018 Total</u>	<u>2017 Total</u>
Current Assets:				
Cash and cash equivalents	\$ 69,023	\$ 114,976	\$ 183,999	\$ 188,534
Accounts receivable	<u>1,026</u>	<u>-</u>	<u>1,026</u>	<u>14,229</u>
Total Current Assets	70,049	114,976	185,025	202,763
Noncurrent Assets:				
Property and equipment, net	393,342	-	393,342	382,880
Restricted cash - security deposits	<u>6,828</u>	<u>-</u>	<u>6,828</u>	<u>6,826</u>
Total Noncurrent Assets	<u>400,170</u>	<u>-</u>	<u>400,170</u>	<u>389,706</u>
TOTAL ASSETS	<u>\$ 470,219</u>	<u>\$ 114,976</u>	<u>\$ 585,195</u>	<u>\$ 592,469</u>
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable	\$ 249	\$ -	\$ 249	\$ 454
Accrued payroll and related liabilities	4,180	-	4,180	15,947
Deferred revenue	34,837	-	34,837	37,048
Current portion of long-term debt	<u>32,972</u>	<u>-</u>	<u>32,972</u>	<u>32,972</u>
Total Current Liabilities	72,238	-	72,238	86,421
Security deposits	6,828	-	6,828	6,826
Long-term debt, net of current portion	<u>90,673</u>	<u>-</u>	<u>90,673</u>	<u>123,645</u>
Total Liabilities	169,739	-	169,739	216,892
Net Assets	<u>300,480</u>	<u>114,976</u>	<u>415,456</u>	<u>375,577</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 470,219</u>	<u>\$ 114,976</u>	<u>\$ 585,195</u>	<u>\$ 592,469</u>

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, 2018
(With Comparative Totals for the Year Ended August 31, 2017)

	Unrestricted			
	Operating	Board Designated	2018 Total	2017 Total
Support and Revenue:				
Support:				
Contributions	\$ 30,660	\$ -	\$ 30,660	\$ 22,381
Revenue:				
Tuitions, net	339,420	-	339,420	389,229
Rental income	189,821	-	189,821	195,549
Interest income	58	-	58	48
Other income	7,514	-	7,514	993
Board increases to designated funds	(39,702)	39,702	-	-
Net assets released from restriction	38,100	(38,100)	-	-
Total Support and Revenue	565,871	1,602	567,473	608,200
Expenses:				
Program services	392,725	-	392,725	458,600
General and administrative	134,869	-	134,869	121,942
Total Expenses	527,594	-	527,594	580,542
Change in net assets	38,277	1,602	39,879	27,658
Net assets, beginning of year	262,203	113,374	375,577	347,919
Net assets, end of year	\$ 300,480	\$ 114,976	415,456	\$ 375,577

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, 2018
(With Comparative Totals for the Year Ended August 31, 2017)

	Program <u>Services</u>	General and <u>Administrative</u>	Totals	
			<u>2018</u>	<u>2017</u>
Accounting	\$ -	\$ 10,944	\$ 10,944	\$ 5,032
Advertising and promotion	5,384	-	5,384	5,799
Art expenses	15,440	-	15,440	13,362
Artist fees	80,466	-	80,466	104,732
Class supplies	7,351	-	7,351	17,525
Contract labor	-	-	-	1,200
Depreciation	1,896	18,411	20,307	15,465
Employee health benefits	-	46	46	138
Information technology	420	192	612	330
Insurance	-	6,789	6,789	5,860
Legal fees	-	-	-	733
Licenses and fees	5,014	4,139	9,153	14,404
Occupancy	163,272	-	163,272	175,422
Office expense	977	4,904	5,881	14,390
Other expenses	3,402	1,099	4,501	4,110
Payroll taxes	11,342	9,374	20,716	25,668
Salaries and wages	<u>97,761</u>	<u>78,971</u>	<u>176,732</u>	<u>176,372</u>
Total	<u>\$ 392,725</u>	<u>\$ 134,869</u>	<u>\$ 527,594</u>	<u>\$ 580,542</u>

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, 2018
(With Comparative Totals for the Year Ended August 31, 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 39,879	\$ 27,658
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	20,307	15,465
Changes in operating assets and liabilities:		
Accounts receivable	13,203	(14,229)
Prepaid expenses	-	2,532
Accounts payable	(205)	431
Accrued payroll and related liabilities	(11,767)	15,909
Deferred revenue	<u>(2,211)</u>	<u>11,465</u>
Net cash provided by operating activities	59,206	59,231
Cash flows from investing activities:		
Security deposits	2	693
Payments for property and equipment additions	<u>(30,769)</u>	<u>(141,113)</u>
Net cash used by investing activities	(30,767)	(140,420)
Cash flows from financing activities:		
Principal payments on long-term debt	<u>(32,972)</u>	<u>(8,243)</u>
Net cash used by financing activities	<u>(32,972)</u>	<u>(8,243)</u>
Net change	(4,533)	(89,432)
Cash, cash equivalents, and restricted cash, beginning of year	<u>195,360</u>	<u>284,792</u>
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 190,827</u>	<u>\$ 195,360</u>
SUPPLEMENTAL INFORMATION:		
Non-cash financing activities - debt financed capital assets	<u>\$ -</u>	<u>\$ 164,860</u>

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

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

Notes to Financial Statements
For the Year Ended August 31, 2018

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 the following programs:

- *ArtSpan*. Visual arts program with 3 semesters of classes for children and adults, 9 weeks of summer camp, as well as February and April vacation camps.
- *Studio Artists*. The Center is the home to 10 studio artists who enrich the Munroe and Lexington communities by teaching, mentoring, lecturing, creating workshops, or contributing to all-building events.
- *Munroe Saturday Nights*. Affordable performing arts series through a changing schedule or arts events once a month.

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, 2017, from which the summarized information was derived.

Cash and Cash Equivalents

All cash and highly liquid financial instruments with original maturities of three months or 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. Unrestricted board-designated net assets consist of net assets designated by the Board of Directors for specific purposes.

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, 2018, 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 fundraising 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, 2018, 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 and 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.

3. **Property, Equipment, and Depreciation**

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

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 478,910	\$ 448,142
Equipment	<u>57,174</u>	<u>57,174</u>
Subtotal	536,084	505,316
Less: accumulated depreciation	<u>(142,742)</u>	<u>(122,436)</u>
Total	<u>\$ 393,342</u>	<u>\$ 382,880</u>

4. **Deferred Revenue**

Deferred revenue consists primarily of tuitions received during fiscal year 2018 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, 2018, the balance due on this agreement was \$123,645.

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

2019	\$	32,972
2020		32,972
2021		32,972
2022		<u>24,729</u>
Total	\$	<u><u>123,645</u></u>

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. Board designated net assets at August 31, 2018 and 2017 were as follows:

<u>Fund</u>		<u>2018</u>		<u>2017</u>
Building Restoration Fund	\$	73,372	\$	47,687
Capital Projects Fund		10,498		34,491
Emergency Building Fund		10,011		10,008
Sullivan Programming Reserve Fund		<u>21,095</u>		<u>21,188</u>
Total	\$	<u><u>114,976</u></u>	\$	<u><u>113,374</u></u>

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

The Center has 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.

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 183,999	\$ 188,534
Restricted cash - security deposits	<u>6,828</u>	<u>6,826</u>
Total cash, cash equivalents, and restricted cash shown in the Statement of Cash Flows	<u>\$ 190,827</u>	<u>\$ 195,360</u>

9. Subsequent Events

Subsequent events have been evaluated through March 21, 2019, 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.