

Winchester Community Music School Trust

**Financial Statements and
Independent Auditor's Report**

July 31, 2014

Winchester Community Music School Trust

Index

	<u>Page</u>
Independent Auditor's Report	2
Financial Statements	
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8

Independent Auditor's Report

To the Board of Trustees
Winchester Community Music School Trust

Report on Financial Statements

We have audited the accompanying financial statements of Winchester Community Music School Trust (the "Trust"), which comprise the statement of financial position as of July 31, 2014, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust'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 Trust'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 Winchester Community Music School Trust as of July 31, 2014, 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 financial statements of Winchester Community Music School Trust as of July 31, 2013 were audited by other auditors whose report dated December 18, 2013 expressed an unmodified opinion on those statements. The prior year summarized comparative information should be read in conjunction with the financial statements for the year ended July 31, 2013 from which the summarized information was derived.

CohnReznick LLP

Boston, Massachusetts

December 19, 2014

Winchester Community Music School Trust

**Statement of Activities
Year Ended July 31, 2014
(with Comparative Totals for July 31, 2013)**

	2014			2013
	Unrestricted	Temporarily Restricted	Total	
Revenues, gains and other support:				
Gross tuition and fees	\$ 1,352,615	\$ -	\$ 1,352,615	\$ 1,285,076
Less: Financial aid and discounts	(61,479)	-	(61,479)	(62,047)
Net tuition and fees	1,291,136	-	1,291,136	1,223,029
Contributions and Grants				
Contributions	123,938	4,735	128,673	153,864
In-kind contributions	31,872	-	31,872	5,068
Grants	13,790	9,714	23,504	108,690
Investment income, including net realized and unrealized gains (losses) on investments	279,724	-	279,724	352,280
Other	423	-	423	307
Net assets released from restrictions:				
Satisfaction of program restrictions	27,750	(27,750)	-	-
Satisfaction of time restrictions	22,000	(22,000)	-	-
Total revenue, gains and other support	1,790,633	(35,301)	1,755,332	1,843,238
Expenses:				
Program services	1,345,388	-	1,345,388	1,246,085
General and administrative	250,937	-	250,937	225,114
Fundraising	82,244	-	82,244	99,343
Total expenses	1,678,569	-	1,678,569	1,570,542
Change in net assets	112,064	(35,301)	76,763	272,696
Net assets, beginning	5,742,188	151,206	5,893,394	5,620,698
Net assets, ending	\$ 5,854,252	\$ 115,905	\$ 5,970,157	\$ 5,893,394

See Notes to Financial Statements.

Winchester Community Music School Trust

**Statement of Functional Expenses
Year Ended July 31, 2014
(with Comparative Totals for July 31, 2013)**

	2014				
	Program Services	General and Administrative	Fundraising	Total	2013
Payroll and benefits	\$ 1,079,592	\$ 113,301	\$ 70,758	\$ 1,263,651	\$ 1,186,922
Depreciation	79,185	32,587	-	111,772	123,763
Office expense	29,365	29,364	487	59,216	55,351
Maintenance	40,542	20,268	-	60,810	47,693
Utilities	23,637	11,816	-	35,453	37,654
Other program expenses - music and equipment	47,049	-	-	47,049	36,208
Promotion - catalogues and newsletters	32,861	-	-	32,861	27,076
Consulting and accounting fees	-	34,644	-	34,644	24,390
Insurance	8,957	8,957	-	17,914	17,518
Fundraising	-	-	10,999	10,999	10,119
Conference and dues	4,200	-	-	4,200	3,848
Total expenses	\$ 1,345,388	\$ 250,937	\$ 82,244	\$ 1,678,569	\$ 1,570,542

See Notes to Financial Statements.

Winchester Community Music School Trust

**Statement of Cash Flows
Year Ended July 31, 2014
(with Comparative Totals for July 31, 2013)**

	2014	2013
Cash flows from operating activities:		
Change in net assets:	\$ 76,763	\$ 272,696
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	111,772	123,763
Net realized and unrealized (gains) losses on investments	(213,451)	(290,558)
Interest income on investments reinvested	(65,699)	(61,144)
Donated equipment	(10,800)	-
Amortization of discount on pledges	(4,524)	2,463
Allowance for doubtful accounts	(2,084)	(3,755)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Tuition and fees receivables	2,129	(1,748)
Pledges receivable	63,976	115
Prepaid expenses and other assets	950	2,813
Increase (decrease) in liabilities:		
Accounts payable	(3,776)	3,675
Accrued expenses	(4,960)	18,297
Deferred revenue	(7,051)	1,398
Net cash provided by (used in) operating activities	(56,755)	68,015
Cash flows from investing activities:		
Purchases of investments	(495,108)	(353,776)
Sales of investments	592,137	355,086
Purchases of property and equipment	(49,061)	(72,675)
Net cash provided by (used in) investing activities	47,968	(71,365)
Net decrease in cash	(8,787)	(3,350)
Cash, beginning of year	222,628	225,978
Cash, end of year	\$ 213,841	\$ 222,628

See Notes to Financial Statements.

Winchester Community Music School Trust

Notes to Financial Statements July 31, 2014

Note 1 - Organization

Winchester Community Music School Trust (the "Trust" or "School") is a not-for-profit organization that was formed on May 15, 1984 exclusively for charitable and educational purposes of supporting music in Winchester, Massachusetts and its environs. The Trust's principal business activities are offering a wide-variety of private and group music education programs and performances to a diverse student population.

Note 2 - Summary of significant accounting policies

Basis of accounting

The financial statements of the Trust have been prepared on the accrual basis of accounting, consistent with accounting principles generally accepted in the United States of America.

Financial statement presentation

The financial statements are presented on the basis of unrestricted, temporarily restricted and permanently restricted net assets, in accordance with guidance issued by the Financial Accounting Standards Board ("FASB"). Accordingly, net assets of the Trust and changes therein are classified and reported as follows:

<i>Unrestricted net assets</i>	Net assets that are not subject to donor-imposed restrictions;
<i>Temporarily restricted net assets</i>	Net assets subject to explicit or implicit donor-imposed restrictions that may or will be met either by actions of the Trust and/or the passage of time; and
<i>Permanently restricted net assets</i>	Net assets subject to donor-imposed restrictions that they be maintained permanently by the Trust. Generally, the donors of these assets permit the Trust to use all or part of the income earned on related investments for general or specific purposes.

There were no permanently restricted assets as of July 31, 2014.

Winchester Community Music School Trust

Notes to Financial Statements

July 31, 2014

Reclassifications

Certain amounts in the 2013 summarized comparative information have been reclassified to conform to the 2014 presentation format.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reported period. Actual results could differ from those estimates.

Risks and uncertainties

The Trust maintains an investment portfolio consisting of stocks and mutual funds that are invested in equity securities, bonds, money market and other investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of these investments will occur in the near term and such changes could materially affect the Trust's investment account balances.

Accounts receivable

Accounts receivable are stated at the amount the Trust's management expects to collect from outstanding balances. The Trust's management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on historical collection experience, its assessment of current economic conditions, review and assessment of estimated funding sources and the financial condition of the debtor. Balances which are still outstanding after the Trust's management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Property, equipment and depreciation

All capital expenditures for, and gifts of, land, buildings, equipment, and musical instruments or betterments in excess of \$1,000 that materially prolong the useful lives of assets are capitalized. Property and equipment are recorded as additions to unrestricted net assets and carried at cost at the date of acquisition or fair value at the date of donation. Depreciation is computed over the estimated useful lives ranging from two to forty years of the respective assets using primarily the straight-line method.

At July 31, 2014, property and equipment with an original cost of \$462,769 was fully depreciated and still in service.

Investments

The Trust's investments consist of marketable equity securities, money market funds and long-term cash which are carried at their fair values. Unrealized gains and losses are included in change in net assets. Gains and losses on the disposition of investments are determined based on various methods, including the average cost method, first-in first-out

Winchester Community Music School Trust

Notes to Financial Statements July 31, 2014

method, and last-in last-out method, depending on the type of underlying fund. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Endowments

The Trust's endowment consists of two funds; one designated to be held as a reserve by the Board of Trustees, and one restricted by a donor to provide scholarships. The endowment includes funds designated by the Board of Trustees to function as an endowment. In conformity with accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Board of Trustees has interpreted the Massachusetts Uniform Prudent Management of Institutional Funds Act (the "Act") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary and the preservation of the fair value of the Board-designated endowment funds absent explicit stipulations to the contrary. As a result of this interpretation, the Trust classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Trust in a manner consistent with the standard of prudence prescribed by the Act.

The Trust may accumulate so much of the annual net income as is deemed prudent to meet (1) the long and short term needs of the Trust in carrying out its mission; (2) problems specific to the Trust; (3) present and anticipated financial requirements; (4) expected total return on its investments; (5) price level trends; and (6) general economic conditions. In addition, the Trust may hold any or all of such accumulated income for subsequent expenditure for the uses and purposes for which the Board endowment was established or may add any or all of the accumulated income to the principal endowment fund that is deemed prudent.

In accordance with the Act, the Trust considers the following factors in making a determination to appropriate or accumulate restricted endowment funds: (i) the duration and preservation of the fund, (ii) the purposes of the Trust and the restricted endowment fund, (iii) general economic conditions, (iv) the possible effect of inflation and deflation, (v) the expected total return from income and the appreciation of investments, (vi) other resources of the Trust, and (vii) the investment policies of the Trust.

Winchester Community Music School Trust

Notes to Financial Statements

July 31, 2014

Investment and spending policies

The Trust has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Trust must hold in perpetuity or for donor-specified periods, as well as Board-designated funds. The Trust's Board of Trustees delegates to its Finance Committee, the oversight of investment performance. The Finance Committee will review, and adjust on a quarterly basis as necessary, the target mix of equities, fixed income securities and alternative assets, which, in general, are designated to fall within a broad band of 50 - 70% equity, 20 - 30% fixed income, and 10 - 20% alternative assets, depending on the Finance Committee's reading of current market conditions. The Trust expects its endowment funds, over time, to provide an average rate of return equal to the spending rate plus CPI annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Trust relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Trust targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Trust has a policy of appropriating for distribution each year 5% of its Board-designated endowment fund's average fair value over the prior 12 quarters. In establishing this policy, the Trust considered the long-term expected return on its endowment fund assets. Accordingly, over the long term, the Trust expects the current spending policy to be consistent with the Trust's objective to maintain the purchasing power of the endowment fund assets held in perpetuity or for a specified term as well as to provide additional real growth through investment return.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Trust to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies of this nature as of July 31, 2014.

Revenue recognition

Tuition and fee income is recognized as revenue in the year in which the lesson takes place or services are performed. Tuition and fees received in advance are deferred and reflected as deferred revenue until the lesson occurs.

Contributed services

During the year ended July 31, 2014, the value of contributed services meeting the requirements for recognition in the financial statements under FASB's accounting guidance was not material and has not been recorded. In addition, individuals volunteer their time

Winchester Community Music School Trust

Notes to Financial Statements July 31, 2014

and perform a variety of tasks that assist the Trust, but these services do not meet the criteria for recognition as contributed services.

Contributions and donor restrictions

Contributions, including grants, are recognized when the donor makes a promise to give to the Trust that is, in substance, unconditional. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increase those net asset classes. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, the net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give are reported at net realizable value if at the time the promise is made collection is expected to be received in one year or less. Unconditional promises to give that are expected to be collected in more than one year are reported at fair value using present value techniques and a discount rate determined by management of the Trust. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Contributions in the form of property and equipment and other assets are recorded at fair value on the date the donation is received. Contributed services that require specialized skills are recognized as revenue at estimated fair value when the service is received.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among programs and supporting services benefited.

Advertising and marketing

Advertising and marketing costs are expensed when incurred. Amounts incurred for the year ended July 31, 2014 totaled \$15,533.

Income taxes

The Trust is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Trust's tax-exempt purpose is subject to taxation as unrelated business income. The Trust had no unrelated business income for the year ended July 31, 2014. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Winchester Community Music School Trust

Notes to Financial Statements

July 31, 2014

Management has evaluated significant tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition in the financial statements. Management does not believe its evaluation of tax positions will significantly change within 12 months of July 31, 2014. Any changes in tax positions will be recorded when the ultimate outcome becomes known. The Trust's income tax returns are subject to examination by taxing authorities generally for the years ended July 31, 2011, 2012 and 2013.

Prior year summarized information

The 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. Accordingly, such information should be read in conjunction with the Trust's financial statements for the year ended July 31, 2013, from which the summarized information was derived.

Note 3 - Restricted and Board-designated net assets

Temporarily restricted

Temporarily restricted net assets are available for the following purposes at July 31, 2014:

Annual Fund	\$	16,426
Development Program		47,125
Facilities		32,214
Financial Assistance		10,426
Music Therapy		3,000
Recitals		6,714
		<hr/>
	\$	<u>115,905</u>

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the donor during the year ended July 31, 2014 as follows:

Annual Fund	\$	22,000
Development Program		25,000
Facilities		2,750
		<hr/>
	\$	<u>49,750</u>

Board-designated - unrestricted

The Board of Trustees has designated certain funds to be held as reserves. Funds designated by the Board are held in investments. The Trust's policy is to transfer, on an annual basis at the end of the fiscal year, an amount to operations equal to 5% (5%) of the average market value of the reserved assets for the previous 12 quarters. For the year ended July 31, 2014, \$130,838 was scheduled to be transferred, and was transferred in July 2014. All Board-designated funds are classified as long-term since the amount to be

Winchester Community Music School Trust

Notes to Financial Statements July 31, 2014

transferred in the next fiscal year is not currently estimable. As of July 31, 2014, Board-designated funds totaled \$2,796,342.

During the year ended July 31, 2010, the Trust conducted and completed a capital needs assessment to determine the useful lives of the Trust's property and equipment and current estimates of costs of major repairs and replacements that may be required in the future. In May 2010, the Board of Trustees approved the establishment of a capital reserve fund, effective August 1, 2010, into which contributions will be made annually to accumulate funds to pay the expenses when major capital assets need to be repaired or replaced. The opening balance of \$150,000 was deposited to the reserve in September 2010. An amount that is determined and approved by the Board will be deposited annually at each fiscal year end. In addition, it is the Board's intent to maintain a minimum balance of at least \$50,000 in the reserve as of the end of each fiscal year.

For the year ended July 31, 2014 activity in the capital reserve fund was as follows:

Balance, beginning of year	\$	148,836
Deposits		35,000
Withdrawals		(31,922)
Investment income		1,803
		<hr/>
Balance, end of year	\$	<u>153,717</u>

Note 4 - Concentration of credit risk

The Organization maintains its cash accounts with financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC"). The balances are insured by the FDIC up to \$250,000. As of July 31, 2014, the Organization's cash balances were fully insured by the FDIC.

Account balances fluctuate throughout the Trust's monthly business cycle, which may result in the balances exceeding insured limits from time to time. The Trust has not experienced any losses on its accounts, and monitors the credit-worthiness of the financial institutions with which it conducts business. Management believes that the Trust is not exposed to any significant credit risk with respect to its cash balances.

The Trust holds various investment funds in a combination of bonds, mutual funds and other investment securities. At July 31, 2014, the Trust had \$3,334,704 in brokerage accounts, which were not insured and subject to various risks, such as interest rate, market, and credit risks.

Winchester Community Music School Trust

**Notes to Financial Statements
July 31, 2014**

Note 5 - Pledges receivable

The Trust had pledges receivable representing the following at July 31, 2014:

	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
Capital campaign	\$ 30,000	\$ 5,300	\$ 35,300
Annual fund	23,210	5,000	28,210
Other	27,514	25,000	52,514
	<u>80,724</u>	<u>35,300</u>	<u>116,024</u>
Allowance on pledges	(2,651)	(515)	(3,166)
Discount on pledges	(2,445)	(3,365)	(5,810)
Total	<u>\$ 75,628</u>	<u>\$ 31,420</u>	<u>\$ 107,048</u>

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Capital campaign	\$ 35,300	\$ -	\$ 35,300
Annual fund	10,010	18,200	28,210
Other	-	52,514	52,514
	<u>45,310</u>	<u>70,714</u>	<u>116,024</u>
Allowance on pledges	(2,256)	(910)	(3,166)
Discount on pledges	(2,071)	(3,739)	(5,810)
Total	<u>\$ 40,983</u>	<u>\$ 66,065</u>	<u>\$ 107,048</u>

Winchester Community Music School Trust

**Notes to Financial Statements
July 31, 2014**

	Unrestricted	Temporarily Restricted	Total
Receivables in less than one year	\$ 40,010	\$ 40,714	\$ 80,724
Receivables in one to five years	5,300	30,000	35,300
	45,310	70,714	116,024
Allowance on pledges	(2,256)	(910)	(3,166)
Discount on pledges	(2,071)	(3,739)	(5,810)
	\$ 40,983	\$ 66,065	\$ 107,048
Total	\$ 40,983	\$ 66,065	\$ 107,048

Management has measured pledges receivable using present value techniques that use a discount rate equal to the Federal prime rate in effect at the date of each pledge plus 1.5%. In addition, management has recognized a 5% valuation allowance for probable uncollectible amounts.

Note 6 - Investments

The Trust holds investment funds in separate accounts to fund operating, endowment and scholarship related activities.

The cost and fair value of these investments at July 31, 2014 were as follows:

	Cost	Fair value
Mutual funds	\$ 1,147,265	\$ 1,532,484
Stocks	1,011,124	1,322,840
Long-term cash	208,557	208,557
Short-term investments and money market funds	270,823	270,823
	\$ 2,637,769	\$ 3,334,704
	\$ 2,637,769	\$ 3,334,704

For the year ended July 31, 2014, investment activity was as follows:

Investments, beginning of year	\$ 3,152,583
Purchases of investments	495,108
Sales of investments	(592,137)
Investment income	
Dividends and interest, net of fees of \$160	65,699
Realized and unrealized gain (loss)	213,451
	\$ 3,334,704
	\$ 3,334,704

Winchester Community Music School Trust

Notes to Financial Statements July 31, 2014

For the year ended July 31, 2014, investments were segregated into the following accounts:

General operations	\$ 248,937
Capital campaign	125,282
Capital reserve	153,717
Endowment	<u>2,806,768</u>
Total	<u>\$ 3,334,704</u>

The investments are invested in several funds and industry segments. At July 31, 2014, funds comprising greater than 10% of the fair value of investments were as follows:

	<u>Percent</u>
Vanguard Index Trust S&P 500	16.60%
Vanguard International Growth Portfolio	12.98%
SPDR Series Trust S&P Dividend	14.21%

Winchester Community Music School Trust

Notes to Financial Statements July 31, 2014

Note 7 - Endowment

The endowment net asset composition by type of fund as of July 31, 2014 is as follows:

Fund type	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-designated endowment	\$ -	\$ 10,426	\$ -	\$ 10,426
Board-designated endowment	2,796,342	-	-	2,796,342
	<u>\$ 2,796,342</u>	<u>\$ 10,426</u>	<u>\$ -</u>	<u>\$ 2,806,768</u>

Changes in the endowment net assets for the year ended July 31, 2014 are as follows:

Fund type	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment, net assets, beginning of year	\$ 2,650,917	\$ 10,426	\$ -	\$ 2,661,343
Investment return				
Investment income	65,038	-	-	65,038
Appreciation (depreciation), realized and unrealized	211,385	-	-	211,385
Total investment return	276,423	-	-	276,423
Appropriation of endowment assets for expenditure	(130,838)	-	-	(130,838)
Investment management fees	(160)	-	-	(160)
	<u>(130,998)</u>	<u>-</u>	<u>-</u>	<u>(130,998)</u>
Endowment, net assets, end of year	<u>\$ 2,796,342</u>	<u>\$ 10,426</u>	<u>\$ -</u>	<u>\$ 2,806,768</u>

Winchester Community Music School Trust

Notes to Financial Statements July 31, 2014

Short-term investments and money market funds Valued at the daily closing price as reported by the funds.

The following table sets forth by level, within the fair value hierarchy, the Trust's fair value of assets measured on a recurring basis as of July 31, 2014:

	Level 1	Level 2	Level 3	Total
Investments				
Mutual funds	\$ 1,532,484	\$ -	\$ -	\$ 1,532,484
Stocks	1,322,840	-	-	1,322,840
Long-term cash	208,557	-	-	208,557
Short-term investments and money market funds	270,823	-	-	270,823
Investments	<u>\$ 3,334,704</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,334,704</u>

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Trust believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 9 - Employee benefit plan

The Trust sponsors an individual based tax sheltered retirement savings plan under Section 403(b) of the Internal Revenue Code. This plan enables any employee to contribute to the Plan. Contributions are limited to the amounts prescribed by the Internal Revenue Code. The Plan provides no sponsor matching or contribution.

Note 10 - Related party transactions

A member of the Board of Trustees owns an electrical company, which provides services to the Trust. Total costs incurred to this company totaled \$8,575 for the year ended July 31, 2014. The vendor relationship with this company is subject to the same procurement requirements, policies and controls as the Trust applies to its other vendors.

Note 11 - Subsequent events

Events that occur after the statement of financial position date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of financial position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of financial position date require disclosure in the accompanying notes.

Winchester Community Music School Trust

**Notes to Financial Statements
July 31, 2014**

Management evaluated the activity of the Trust through December 19, 2014 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.