

Winchester Community Music School Trust

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

July 31, 2018

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

Winchester Community Music School Trust

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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, 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.

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, 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 the Trust's 2017 financial statements, and we expressed an unmodified audit opinion in our report dated January 2, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended July 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

CohnReznick LLP

Boston, Massachusetts
December 18, 2018

Winchester Community Music School Trust

**Statement of Financial Position
July 31, 2018
(With Comparative Totals for July 31, 2017)**

	<u>Assets</u>			<u>2017</u>
	<u>2018</u>			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>	
Current assets				
Cash	\$ 274,041	\$ 9,911	\$ 283,952	\$ 140,045
Accounts receivable, net				
Tuition and fees	1,179	-	1,179	3,096
Prepaid expenses and other assets	24,219	-	24,219	17,774
Total current assets	<u>299,439</u>	<u>9,911</u>	<u>309,350</u>	<u>160,915</u>
Property and equipment:				
Land	705,755	-	705,755	705,755
Building and improvements	2,823,710	-	2,823,710	2,810,510
Instruments	334,814	-	334,814	334,814
Furniture and fixtures	482,703	-	482,703	475,933
Miscellaneous other	5,000	-	5,000	5,000
Total property and equipment	4,351,982	-	4,351,982	4,332,012
Less accumulated depreciation	<u>(2,007,762)</u>	<u>-</u>	<u>(2,007,762)</u>	<u>(1,891,747)</u>
Net property and equipment	<u>2,344,220</u>	<u>-</u>	<u>2,344,220</u>	<u>2,440,265</u>
Other assets				
Investments	3,558,897	21,880	3,580,777	3,407,205
Total assets	<u>\$ 6,202,556</u>	<u>\$ 31,791</u>	<u>\$ 6,234,347</u>	<u>\$ 6,008,385</u>
	<u>Liabilities and Net Assets</u>			
Current liabilities				
Accounts payable	\$ 20,225	\$ -	\$ 20,225	\$ 5,280
Accrued expenses	41,519	-	41,519	39,089
Miscellaneous current liabilities	3,353	-	3,353	3,217
Deferred revenue	421,066	-	421,066	239,483
Total current liabilities	<u>486,163</u>	<u>-</u>	<u>486,163</u>	<u>287,069</u>
Net assets				
Unrestricted	5,716,393	-	5,716,393	5,686,709
Temporarily restricted	<u>-</u>	<u>31,791</u>	<u>31,791</u>	<u>34,607</u>
Total net assets	<u>5,716,393</u>	<u>31,791</u>	<u>5,748,184</u>	<u>5,721,316</u>
Total liabilities and net assets	<u>\$ 6,202,556</u>	<u>\$ 31,791</u>	<u>\$ 6,234,347</u>	<u>\$ 6,008,385</u>

See Notes to Financial Statements.

Winchester Community Music School Trust
Statement of Activities
Year Ended July 31, 2018
(With Comparative Totals for the Year Ended July 31, 2017)

	2018			2017
	Unrestricted	Temporarily restricted	Total	
Revenues, gains and other support				
Gross tuition and fees	\$ 1,544,823	\$ -	\$ 1,544,823	\$ 1,488,671
Less financial aid and discounts	(65,804)	-	(65,804)	(58,778)
Net tuition and fees	<u>1,479,019</u>	<u>-</u>	<u>1,479,019</u>	<u>1,429,893</u>
Contributions and grants				
Contributions	160,397	-	160,397	155,688
In-kind contributions	2,540	-	2,540	2,470
Grants	7,500	12,500	20,000	10,000
Investment income, including net realized and unrealized gains on investments	317,986	-	317,986	333,678
Other	515	-	515	289
Net assets released from restrictions				
Satisfaction of program restrictions	<u>15,316</u>	<u>(15,316)</u>	<u>-</u>	<u>-</u>
Total revenue, gains and other support	<u>1,983,273</u>	<u>(2,816)</u>	<u>1,980,457</u>	<u>1,932,018</u>
Expenses				
Program services	1,467,197	-	1,467,197	1,449,554
General and administrative	418,613	-	418,613	361,344
Fundraising	<u>67,779</u>	<u>-</u>	<u>67,779</u>	<u>58,571</u>
Total expenses	<u>1,953,589</u>	<u>-</u>	<u>1,953,589</u>	<u>1,869,469</u>
Change in net assets	29,684	(2,816)	26,868	62,549
Net assets, beginning	<u>5,686,709</u>	<u>34,607</u>	<u>5,721,316</u>	<u>5,658,767</u>
Net assets, ending	<u>\$ 5,716,393</u>	<u>\$ 31,791</u>	<u>\$ 5,748,184</u>	<u>\$ 5,721,316</u>

See Notes to Financial Statements.

Winchester Community Music School Trust
Statement of Functional Expenses
Year Ended July 31, 2018
(With Comparative Totals for the Year Ended July 31, 2017)

	2018				2017
	Program services	General and administrative	Fundraising	Total	
Payroll and benefits	\$ 1,174,463	\$ 235,869	\$ 62,212	\$ 1,472,544	\$ 1,377,881
Depreciation	81,087	34,928	-	116,015	118,183
Office expense	42,100	42,100	698	84,898	71,323
Maintenance	53,383	26,687	-	80,070	69,688
Utilities	29,967	14,982	-	44,949	38,455
Other program expenses - music and equipment	39,125	-	-	39,125	47,711
Promotion - catalogues and newsletters	31,256	-	-	31,256	67,743
Consulting and accounting fees	-	52,657	-	52,657	29,220
Insurance	11,390	11,390	-	22,780	22,642
Fundraising	-	-	4,869	4,869	21,121
Conference and dues	4,314	-	-	4,314	5,086
Special event	112	-	-	112	416
Total expenses	\$ 1,467,197	\$ 418,613	\$ 67,779	\$ 1,953,589	\$ 1,869,469

See Notes to Financial Statements.

Winchester Community Music School Trust
Statement of Cash Flows
Year Ended July 31, 2018
(With Comparative Totals for the Year Ended July 31, 2017)

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 26,868	\$ 62,549
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	116,015	118,183
Net realized and unrealized (gains) losses on investment	(231,774)	(181,120)
Investment income on investments reinvested	(85,818)	(152,058)
Amortization of discount on pledges	-	(48)
Account receivable - Change in allowance	260	(682)
Changes in assets and liabilities		
(Increase) decrease in assets		
Tuition and fees receivables	1,657	(1,036)
Pledges receivable	-	2,576
Prepaid expenses and other assets	(6,445)	(2,436)
Increase (decrease) in liabilities		
Accounts payable	14,945	(1,687)
Accrued expenses	2,566	15,841
Deferred revenue	181,583	(10,540)
Net cash provided by (used in) operating activities	19,857	(150,458)
Cash flows from investing activities		
Purchases of investments	(262,484)	(154,312)
Sales of investments	406,504	344,317
Purchases of property and equipment	(19,970)	(45,821)
Net cash provided by investing activities	124,050	144,184
Net decrease in cash	143,907	(6,274)
Cash, beginning	140,045	146,319
Cash, end	\$ 283,952	\$ 140,045
Schedule of noncash investing and financing activities		
Costs incurred for purchase of property and equipment during the year	\$ (19,970)	\$ (45,083)
Amounts included in accounts payable at beginning of year	-	\$ (738)
Payments for property and equipment	\$ (19,970)	\$ (45,821)

See Notes to Financial Statements.

Winchester Community Music School Trust

Notes to Financial Statements July 31, 2018

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, 2018.

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.

Winchester Community Music School Trust

Notes to Financial Statements July 31, 2018

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, 2018, property and equipment with an original cost of \$565,505 was fully depreciated and still in service. No assets were disposed of in the year ended July 31, 2018.

Investments

The Trust's investments consist of marketable equity securities, mutual funds, 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 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

Winchester Community Music School Trust

Notes to Financial Statements July 31, 2018

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.

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

Winchester Community Music School Trust

Notes to Financial Statements July 31, 2018

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, 2018.

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, 2018, 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 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.

Winchester Community Music School Trust

Notes to Financial Statements July 31, 2018

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, 2018 totaled \$17,720.

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, 2018. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

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, 2018. 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, 2015, 2016, and 2017.

Accrued interest and penalties associated with uncertain tax positions are recognized as a part of interest expense and miscellaneous expenses, respectively, in the accompanying statement of activities. The Trust has no accrued interest and penalties associated with uncertain tax positions at July 31, 2018 and none were incurred during the year then ended.

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, 2017, from which the summarized information was derived.

Subsequent events

The Organization has evaluated subsequent events through December 18, 2018, which is the date these financial statements were available to be issued.

Note 3 - Restricted and Board-designated net assets

Temporarily restricted

Temporarily restricted net assets are available for the following purposes at July 31, 2018:

Facilities	\$	11,455
Financial assistance		10,426
Music therapy		9,910
		<hr/>
	\$	31,791
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Winchester Community Music School Trust

Notes to Financial Statements July 31, 2018

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, 2018 as follows:

Facilities	\$	6,770
Music therapy		<u>8,546</u>
	\$	<u>15,316</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% of the average market value of the reserved assets for the previous 12 quarters. For the year ended July 31, 2018, \$143,592 was transferred in July 2018. All Board-designated funds are classified as long-term since the amount to be transferred in the next fiscal year is not currently estimable. As of July 31, 2018, Board-designated funds totaled \$3,244,639.

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, 2018, activity in the capital reserve fund was as follows:

Balance, beginning of year	\$	173,450
Withdrawals		(13,200)
Investment income		<u>492</u>
Balance, end of year	\$	<u>160,742</u>

Note 4 - Concentration of credit risk

The Organization maintains its cash balances in several accounts in various banks. The cash balance is insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, these balances may exceed the federal insurance limits; however, the Trust has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at July 31, 2018.

The Trust holds various investment funds in a combination of bonds, mutual funds and other investment securities. At July 31, 2018, the Trust had \$3,580,777 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, 2018**

Note 5 - 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, 2018 were as follows:

	Cost	Fair value
Mutual funds		
Stock funds	\$ 1,206,397	\$ 2,303,667
Bond funds	813,182	801,329
Other funds	213,192	226,069
	2,232,771	3,331,065
Long-term cash	64,703	64,703
Short-term investments and money market funds	185,009	185,009
	\$ 2,482,483	\$ 3,580,777

For the year ended July 31, 2018, investment activity was as follows:

Investments, beginning of year	\$ 3,407,205
Purchases of investments	262,484
Sales of investments	(262,484)
Net deposits to (withdrawals from) investments	(144,020)
Investment income	
Dividends and interest, net of fees of \$24	85,818
Realized and unrealized gain (loss)	231,774
	\$ 3,580,777

For the year ended July 31, 2018, investments were segregated into the following accounts:

General operations	\$ 173,251
Capital campaign	2,145
Capital reserve	160,742
Endowment	3,244,639
Total	\$ 3,580,777

Winchester Community Music School Trust

Notes to Financial Statements July 31, 2018

The investments are invested in several funds and industry segments. At July 31, 2018, funds comprising greater than 10% of the fair value of investments were as follows:

	Percent
SPDR Series Trust S&P Dividend	13.51%
Vanguard Index Trust S&P 500	17.62%
Vanguard International Growth Portfolio	15.30%

Note 6 - Endowment

The endowment net asset composition by type of fund as of July 31, 2018 is as follows:

Fund type	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-designated endowment	\$ -	\$ 21,880	\$ -	\$ 21,880
Board-designated endowment	3,222,759	-	-	3,222,759
	<u>\$ 3,222,759</u>	<u>\$ 21,880</u>	<u>\$ -</u>	<u>\$ 3,244,639</u>

Changes in the endowment net assets for the year ended July 31, 2018 are as follows:

Fund type	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment, net assets, beginning of year	\$ 3,043,412	\$ 28,650	\$ -	\$ 3,072,062
Investment return				
Investment income	218,650	-	-	218,650
Appreciation (depreciation), realized and unrealized	104,289	-	-	104,289
Total investment return	322,939	-	-	322,939
Appropriation of endowment assets for expenditure	(143,592)	(6,770)	-	(150,362)
Endowment, net assets, end of year	<u>\$ 3,222,759</u>	<u>\$ 21,880</u>	<u>\$ -</u>	<u>\$ 3,244,639</u>

Winchester Community Music School Trust

Notes to Financial Statements July 31, 2018

Note 7 - Fair value measurements

The fair value hierarchy under the guidance is as follows:

- Level 1* Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2* Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly; and
- Level 3* Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance requires the use of observable data if such data is available without undue cost and effort.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the year ended July 31, 2018.

- Mutual funds* Valued at the daily closing price as reported by the fund. Mutual funds held by the Trust are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value ("NAV") and to transact at that price. The mutual funds held by the Trust are deemed to be actively traded.
- Long-term cash* Valued at the daily closing price as reported by the broker.
- 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, 2018:

	Level 1	Level 2	Level 3	Total
Investments				
Mutual funds				
Stock funds	\$ 2,303,667	\$ -	\$ -	\$ 2,303,667
Bond funds	801,329	-	-	801,329
Other funds	226,069	-	-	226,069
Long-term cash	64,703	-	-	64,703
Short-term investments and money market funds	185,009	-	-	185,009
Total investments	\$ 3,580,777	\$ -	\$ -	\$ 3,580,777

Winchester Community Music School Trust

Notes to Financial Statements July 31, 2018

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 8 - 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.

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