

Winchester Community Music School Trust

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

July 31, 2020

Winchester Community Music School Trust

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Independent Auditor's Report

To the Board of Trustees
Winchester Community Music School Trust

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, 2020, 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, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion in our report dated December 18, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended July 31, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

CohnReznick LLP

Boston, Massachusetts
December 16, 2020

Winchester Community Music School Trust

**Statement of Financial Position
July 31, 2020
(With Comparative Totals for July 31, 2019)**

	<u>Assets</u>			<u>2019</u>
	<u>Without donor restrictions</u>	<u>2020 With donor restrictions</u>	<u>Total</u>	
Current assets				
Cash	\$ 380,772	\$ 4,040	\$ 384,812	\$ 315,298
Accounts receivable, net				
Tuition and fees	17,923	-	17,923	5,148
Pledges receivable, current portion, net	5,000	-	5,000	100
Prepaid expenses and other assets	16,048	-	16,048	27,697
Total current assets	<u>419,743</u>	<u>4,040</u>	<u>423,783</u>	<u>348,243</u>
Property and equipment:				
Land	705,755	-	705,755	705,755
Building and improvements	2,840,492	-	2,840,492	2,840,492
Instruments	380,679	-	380,679	348,314
Furniture and fixtures	499,022	-	499,022	499,022
Miscellaneous other	5,000	-	5,000	5,000
Total property and equipment	<u>4,430,948</u>	<u>-</u>	<u>4,430,948</u>	<u>4,398,583</u>
Less accumulated depreciation	<u>(2,214,915)</u>	<u>-</u>	<u>(2,214,915)</u>	<u>(2,114,980)</u>
Net property and equipment	<u>2,216,033</u>	<u>-</u>	<u>2,216,033</u>	<u>2,283,603</u>
Other assets				
Investments	<u>3,749,019</u>	<u>21,880</u>	<u>3,770,899</u>	<u>3,493,331</u>
Total assets	<u>\$ 6,384,795</u>	<u>\$ 25,920</u>	<u>\$ 6,410,715</u>	<u>\$ 6,125,177</u>
	<u>Liabilities and Net Assets</u>			
Current liabilities				
Accounts payable	\$ 2,490	\$ -	\$ 2,490	\$ 7,286
Accrued expenses	52,897	-	52,897	43,268
Notes payable, current maturities	83,245	-	83,245	-
Miscellaneous current liabilities	3,532	-	3,532	3,582
Deferred revenue	321,282	-	321,282	424,258
Total current liabilities	<u>463,446</u>	<u>-</u>	<u>463,446</u>	<u>478,394</u>
Long-term liabilities				
Note payable, long term	<u>188,320</u>	<u>-</u>	<u>188,320</u>	<u>-</u>
Total long-term liabilities	<u>188,320</u>	<u>-</u>	<u>188,320</u>	<u>-</u>
Total liabilities	<u>651,766</u>	<u>-</u>	<u>651,766</u>	<u>478,394</u>
Net assets				
Without donor restrictions	5,733,029	-	5,733,029	5,615,947
With donor restrictions	<u>-</u>	<u>25,920</u>	<u>25,920</u>	<u>30,836</u>
Total net assets	<u>5,733,029</u>	<u>25,920</u>	<u>5,758,949</u>	<u>5,646,783</u>
Total liabilities and net assets	<u>\$ 6,384,795</u>	<u>\$ 25,920</u>	<u>\$ 6,410,715</u>	<u>\$ 6,125,177</u>

See Notes to Financial Statements.

Winchester Community Music School Trust

**Statement of Activities
Year Ended July 31, 2020
(With Comparative Totals for the Year Ended July 31, 2019)**

	2020		Total	2019
	Without donor restrictions	With donor restrictions		
Revenues, gains and other support				
Gross tuition and fees	\$ 1,600,066	\$ -	\$ 1,600,066	\$ 1,617,658
Less financial aid and discounts	(57,183)	-	(57,183)	(65,149)
Net tuition and fees	<u>1,542,883</u>	<u>-</u>	<u>1,542,883</u>	<u>1,552,509</u>
Contributions and grants				
Contributions	161,560	5,000	166,560	174,081
In-kind contributions	36,711	-	36,711	17,283
Grants	5,000	-	5,000	9,350
Investment income, including net realized and unrealized gains on investments	317,628	-	317,628	117,160
Other	-	-	-	5
Net assets released from restrictions				
Satisfaction of program restrictions	<u>9,916</u>	<u>(9,916)</u>	<u>-</u>	<u>-</u>
Total revenue, gains and other support	<u>2,073,698</u>	<u>(4,916)</u>	<u>2,068,782</u>	<u>1,870,388</u>
Expenses				
Program services	1,466,784	-	1,466,784	1,495,522
General and administrative	419,010	-	419,010	400,428
Fundraising	<u>70,822</u>	<u>-</u>	<u>70,822</u>	<u>75,839</u>
Total expenses	<u>1,956,616</u>	<u>-</u>	<u>1,956,616</u>	<u>1,971,789</u>
Change in net assets	117,082	(4,916)	112,166	(101,401)
Net assets, beginning	<u>5,615,947</u>	<u>30,836</u>	<u>5,646,783</u>	<u>5,748,184</u>
Net assets, ending	<u>\$ 5,733,029</u>	<u>\$ 25,920</u>	<u>\$ 5,758,949</u>	<u>\$ 5,646,783</u>

See Notes to Financial Statements.

Winchester Community Music School Trust

**Statement of Functional Expenses
Year Ended July 31, 2020
(With Comparative Totals for the Year Ended July 31, 2019)**

	2020				2019
	Program services	General and administrative	Fundraising	Total	
Payroll and benefits	\$ 1,231,683	\$ 231,781	\$ 63,842	\$ 1,527,306	\$ 1,507,130
Depreciation	68,450	31,485	-	99,935	107,218
Office expense	33,198	33,198	547	66,943	91,711
Maintenance	41,932	20,963	-	62,895	76,436
Utilities	18,607	9,302	-	27,909	41,622
Other program expenses - music and equipment	35,048	-	-	35,048	40,998
Promotion - catalogues and newsletters	21,525	-	-	21,525	25,921
Consulting and accounting fees	-	80,493	-	80,493	46,379
Insurance	11,788	11,788	-	23,576	23,472
Fundraising	-	-	6,433	6,433	6,868
Conference and dues	4,553	-	-	4,553	4,034
Total expenses	\$ 1,466,784	\$ 419,010	\$ 70,822	\$ 1,956,616	\$ 1,971,789

See Notes to Financial Statements.

Winchester Community Music School Trust

**Statement of Cash Flows
Year Ended July 31, 2020
(With Comparative Totals for the Year Ended July 31, 2019)**

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 112,166	\$ (101,401)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	99,935	107,218
Net realized and unrealized (gains) losses on investments	(245,126)	87,446
Investment income on investments reinvested	(72,185)	(100,263)
Donated equipment	(32,365)	(13,500)
Account receivable - change in allowance	272	371
Changes in assets and liabilities		
(Increase) decrease in assets		
Tuition and fees receivables	(13,047)	(4,340)
Pledges receivable	(4,900)	(100)
Prepaid expenses and other assets	11,649	(3,478)
Accounts payable	(4,796)	(12,939)
Accrued expenses	9,579	1,978
Deferred revenue	(102,976)	3,192
Net cash (used in) operating activities	(241,794)	(35,816)
Cash flows from investing activities		
Purchases of investments	(260,924)	(724,980)
Sales of investments	300,667	825,243
Purchases of property and equipment	-	(33,101)
Net cash provided by investing activities	39,743	67,162
Cash flows from financing activities		
Proceeds from note payable	271,565	-
Net cash provided by financing activities	271,565	-
Net increase in cash	69,514	31,346
Cash, beginning	315,298	283,952
Cash, end	\$ 384,812	\$ 315,298
Schedule of noncash investing and financing activities		
Costs incurred for purchase of property and equipment during the year	\$ (32,365)	\$ (46,601)
In-kind donations of property and equipment	32,365	13,500
Payments for property and equipment	\$ -	\$ (33,101)

See Notes to Financial Statements.

Winchester Community Music School Trust

Notes to Financial Statements July 31, 2020

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.

Newly adopted accounting standards

During 2020, the Trust adopted the provisions of Accounting Standards Update ("ASU") No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The guidance clarifies and improves the scope and accounting guidance for contributions received and contributions made. Specifically, the ASU assists not-for-profit entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as an exchange (reciprocal transactions) and whether a contribution is conditional. There are no effects of the new requirements on amounts reported in the Trust's financial statements.

In November 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-18, *Statement of Cash Flows (Topic 230) - Restricted Cash* ("ASU 2016-18"), to address diversity in practice with respect to the cash flows presentation of changes in amounts described as restricted cash and cash equivalents. ASU 2016-18 requires a reporting entity to include amounts described as either restricted cash or restricted cash and cash equivalents (collectively referred to as "restricted cash" herein) when reconciling beginning and ending balances in its statement of cash flows. The update also amends Topic 230 to require disclosures about the nature of restricted cash and provide a reconciliation of cash, cash equivalents and restricted cash between the balance sheet and the statement of cash flows. ASU 2016-18 was adopted retrospectively during the year ended July 31, 2020. The Trust had no restricted cash at July 31, 2020, 2019 or 2018. Consequently, there were no changes to ending cash and restricted cash as of July 31, 2019 or 2018.

The Trust adopted FASB ASU 2014-09, *Revenue from Contracts with Customers*. This ASU provides new revenue recognition guidance that superseded existing revenue recognition guidance. The update, as amended, requires the recognition of revenue related to the transfer of goods or services to customers which reflects the consideration to which the Trust expects to be entitled in exchange for those goods or services, as well as additional qualitative and quantitative disclosures about revenues. The Trust adopted ASU 2014-09 on August 1, 2019.

Analysis of various provisions of this standard resulted in no significant changes in the way the Trust recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

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.

Winchester Community Music School Trust

Notes to Financial Statements July 31, 2020

Financial statement presentation

The financial statements are presented on the basis of net assets without donor restrictions and net assets with donor restrictions, in accordance with guidance issued by the FASB. Accordingly, net assets of the Trust and changes therein are classified and reported as follows:

<i>Without donor restrictions</i>	Net assets that are not subject to donor-imposed restrictions,
<i>With donor restrictions</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 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.

Reclassifications

Certain amounts in the 2019 summarized comparative information have been reclassified to conform to the 2020 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

Winchester Community Music School Trust

Notes to Financial Statements July 31, 2020

estimated useful lives ranging from two to forty years of the respective assets using primarily the straight-line method.

At July 31, 2020, property and equipment with an original cost of \$673,000 was fully depreciated and still in service. No assets were disposed of in the year ended July 31, 2020.

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 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. Donor restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Trust in a manner consistent with the standards 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.

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Notes to Financial Statements July 31, 2020

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 net assets with donor restrictions. There were no deficiencies of this nature as of July 31, 2020.

Revenue recognition

Tuition is recognized as services are provided based on the consideration specified in contracts with the students. Services consist of individual or group lessons based on the terms of the contract. Tuition received in advance of services being performed is recorded as deferred revenue in the accompanying statements of financial position. The Trust provides services in three terms throughout the year: fall term, spring term and summer term. Registration is ongoing. Students may register at any time throughout the year. The contract contains payment terms, as well as the rights and commitments of both parties. Tuition is billed based on the contract with the student. Revenue is not recognized unless collectability under the contract is considered probable, the contract has commercial substance and the contract has been approved.

Registration fees are earned at the time of the students' registration. These fees are billed and collected concurrent with registration.

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Notes to Financial Statements July 31, 2020

Contributed services

During the year ended July 31, 2020, 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 unconditional promises to give, are recognized as revenue in the period received. All contributions are considered to be available for use without donor restriction 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 support with donor restriction that increase this net asset class. This revenue is reclassified to net assets without donor restrictions when the time or purpose restrictions are met.

Conditional promises to give are those that include a barrier that must be overcome and either a right of return of assets received by the Trust or a right of release of the donor's obligation to transfer assets to the Trust. Conditional promises to give are not recognized as contributions until such time as the conditions upon which they depend are substantially met or explicitly waived by the donor. Proceeds received from conditional contributions are recorded as deferred revenue until such time that the conditional barriers to revenue recognition have been overcome.

When a restriction expires, the net assets are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restriction.

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

Functional allocation of expenses

The costs of providing the Trust's programs and supporting services have been summarized on a functional basis in the statements of activities. Costs that can be identified with a specific program or support service are charged directly to that program or support service. Staff costs are allocated based on time and effort. Management and general expenses include costs not identifiable with any specific program, but which provide for the overall support and direction of the Trust.

Advertising and marketing

Advertising and marketing costs are expensed when incurred. Amounts incurred for the year ended July 31, 2020 totaled \$11,233.

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, 2020. 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

Winchester Community Music School Trust

Notes to Financial Statements July 31, 2020

financial statements. Management does not believe its evaluation of tax positions will significantly change within 12 months of July 31, 2020. 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, 2017, 2018 and 2019.

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, 2020 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, 2019, from which the summarized information was derived.

Subsequent events

The Trust has evaluated subsequent events through December 16, 2020, which is the date these financial statements were available to be issued.

Note 3 - Liquidity and availability

Financial assets available for general expenditure within one year consist of the following:

Financial assets at year end	
Cash	\$ 384,812
Accounts receivable	22,923
Investments	<u>3,770,899</u>
Total financial assets	4,178,634
Less amounts not available to be used within one year	
Amounts restricted by donor with time or purpose restrictions	<u>25,920</u>
Financial assets available to meet general expenditures within one year	<u>\$ 4,152,714</u>

The Trust regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. All investments other than those with donor restrictions can be made available based on the discretion of the Board of Trustees.

In addition to financial assets available to meet general expenditures over the next 12 months, the Trust operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted sources.

The Trust has various sources of liquidity at its disposal including cash, investments and a steady revenue stream from tuition revenue.

Winchester Community Music School Trust

**Notes to Financial Statements
July 31, 2020**

Note 4 - Restricted and Board-designated net assets

Net assets with donor restrictions

Net assets with donor restrictions are available for the following purposes at July 31, 2020:

Facilities	\$ 11,455
Financial assistance	10,425
Music therapy	<u>4,040</u>
	<u>\$ 25,920</u>

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, 2020 as follows:

Music therapy	<u>\$ 9,916</u>
	<u>\$ 9,916</u>

Board-designated - Net assets without donor restrictions

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, 2020, \$153,500 was transferred in July 2020. 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, 2020, Board-designated funds totaled \$3,340,765.

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, 2020, activity in the capital reserve fund was as follows:

Balance, beginning of year	\$ 123,308
Investment income	<u>5,894</u>
Balance, end of year	<u>\$ 129,202</u>

Note 5 - Concentration of credit risk

The Trust maintains its cash balances in several accounts in various banks. The cash balance in each bank is insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, these

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**Notes to Financial Statements
July 31, 2020**

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, 2020.

The Trust holds various investment funds in a combination of bonds, mutual funds and other investment securities. At July 31, 2020, the Trust had \$3,770,899 in brokerage accounts, which were not insured and subject to various risks, such as interest rate, market, and credit risks.

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, 2020 were as follows:

	Cost	Fair value
Mutual funds		
Stock funds	\$ 1,011,428	\$ 2,058,904
Bond funds	1,187,714	1,266,862
Other funds	142,767	141,537
	2,341,909	3,467,303
Long-term cash	22,232	22,232
Short-term investments and money market funds	281,364	281,364
	\$ 2,645,505	\$ 3,770,899

For the year ended July 31, 2020, investment activity was as follows:

Investments, beginning of year	\$ 3,493,331
Purchases of investments	260,924
Sales of investments	(300,667)
Net deposits to (withdrawals from) investments	(39,740)
Investment return	357,051
	\$ 3,770,899

For the year ended July 31, 2020, investments were segregated into the following accounts:

General operations	\$ 276,845
Capital campaign	2,206
Capital reserve	129,202
Endowment	3,362,646
Total	\$ 3,770,899

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The investments are invested in several funds and industry segments. At July 31, 2020, funds comprising greater than 10% of the fair value of investments were as follows:

Vanguard Index Trust S&P 500	19.38%
Vanguard Int'l Growth Portfolio	14.18%
Vanguard Total Bond Market Index Admiral	13.80%

Note 7 - Endowment

The endowment net asset composition by type of fund as of July 31, 2020 is as follows:

Fund type	Net assets without donor restrictions	Net assets with donor restrictions	Total
Donor-designated endowment	\$ -	\$ 21,880	\$ 21,880
Board-designated endowment	3,340,766	-	3,340,766
	\$ 3,340,766	\$ 21,880	\$ 3,362,646

Changes in the endowment net assets for the year ended July 31, 2020 are as follows:

Fund type	Net assets without donor restrictions	Net assets with donor restrictions	Total
Endowment, net assets, beginning of year	\$ 3,184,245	\$ 21,880	\$ 3,206,125
Investment return	310,021	-	310,021
Appropriation of endowment assets for expenditure	(153,500)	-	(153,500)
Endowment, net assets, end of year	\$ 3,340,766	\$ 21,880	\$ 3,362,646

Note 8 - 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 values, without donor restricted 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

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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, 2020.

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 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, 2020:

	Level 1	Level 2	Level 3	Total
Investments				
Mutual funds				
Stock funds	\$ 2,058,904	\$ -	\$ -	\$ 2,058,904
Bond funds	1,266,862	-	-	1,266,862
Other funds	141,537	-	-	141,537
Long-term cash	22,232	-	-	22,232
Short-term investments and money market funds	281,364	-	-	281,364
Total investments	<u>\$ 3,770,899</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,770,899</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 - Loan payable

On April 23, 2020, the Trust received loan proceeds in the amount of \$271,565 under the Paycheck Protection Program ("PPP"). Established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), the PPP provides for loans to qualifying businesses in amounts up to 2.5 times the business's average monthly payroll expenses. PPP loans and accrued interest are forgivable after a "covered period" (eight or 24 weeks) as long as the borrower maintains its payroll

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levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. The forgiveness amount may be reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two or five years at an interest rate of 1%, with a deferral of payments for 10 months after the end of the covered period. The Trust intends to use PPP loan proceeds for purposes consistent with the PPP and apply for forgiveness within 10 months of the end of the covered period.

To the extent that the Trust is not granted forgiveness, the Trust will be required to pay interest on the PPP loan at a rate of 1% per annum. If the application for forgiveness is not made within 10 months of the end of the covered period, payments of principal and interest will be required through the maturity date of April 23, 2022. The terms of the loan provide for customary events of default, including payment defaults, breach of representation of warranties, and insolvency events. The PPP loan may be accelerated upon the occurrence of a default event.

The Trust has recorded a note payable and will record forgiveness upon being legally released from the loan obligation. No forgiveness income has been recorded for the year ended July 31, 2020. The Trust is required to repay any remaining balance of \$271,565, plus interest accrued at 1% per annum in monthly payments beginning on April 23, 2021. Principal and interest payments will be required through the maturity date of April 23, 2022.

Note 10 - Employee benefit plan

The Trust sponsors an individual-based tax-sheltered retirement savings plan (the "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 11 - Contingencies

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity. As of July 31, 2020, there was no significant impact to the Trust's operations. However, the Trust is not able to reliably estimate the length or severity of this outbreak. If the length of the outbreak and related effects on the Trust's operations continues for an extended period of time, there could be a loss of revenue and other material adverse effects to the Trust's financial position, results of operations, and cash flows.



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