

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**



**FINANCIAL STATEMENTS**

**Years Ended July 31, 2022 and 2021**

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST  
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## **INDEPENDENT AUDITORS' REPORT**

Board of Trustees  
Winchester Community Music School Trust

### **Opinion**

We have audited the accompanying financial statements of Winchester Community Music School Trust (a nonprofit corporation) which comprise the statement of financial position as of July 31, 2022 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Winchester Community Music School Trust and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Winchester Community Music School Trust's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting

from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Winchester Community Music School Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Winchester Community Music School Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### **Prior Period Financial Statements**

The financial statements of Winchester Community Music School Trust as of and for the year ended July 31, 2021, were audited by other auditors whose reported dated December 14, 2021, expressed an unmodified opinion on those statements.

*Johnson O'Connor Feron & Carucci LLP*

Wakefield, Massachusetts  
December 16, 2022

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**STATEMENTS OF FINANCIAL POSITION**

	July 31,	
	2022	2021
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 240,622	\$ 466,033
Accounts receivable, net	3,642	4,940
Contributions receivable	2,777	-
Prepaid expenses and other assets	67,889	17,692
Total current assets	314,930	488,665
<b>PROPERTY AND EQUIPMENT, NET</b>	2,104,429	2,153,429
<b>INVESTMENTS</b>	4,271,683	4,618,971
Total assets	\$ 6,691,042	\$ 7,261,065
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 38,783	\$ 38,674
Current portion of notes payable	-	30,361
Deferred revenue	414,773	376,352
Total current liabilities	453,556	445,387
<b>NOTES PAYABLE, LESS CURRENT PORTION</b>	-	241,204
Total liabilities	453,556	686,591
<b>NET ASSETS</b>		
Without donor restrictions:		
Undesignated	2,556,517	2,528,864
Board designated	3,648,216	4,021,891
	6,204,733	6,550,755
With donor restrictions:		
Donor designated	32,753	23,719
Total net assets	6,237,486	6,574,474
Total liabilities and net assets	\$ 6,691,042	\$ 7,261,065

See notes to financial statements.

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**STATEMENTS OF ACTIVITIES**

	Year Ended July 31, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES</b>			
Tuition and fees, net	\$ 1,566,749	\$ -	\$ 1,566,749
Gain on forgiveness of note payable	271,565	-	271,565
Contributions and grants	173,134	22,427	195,561
In-kind donations	28,801	-	28,801
Net investment return	(378,460)	-	(378,460)
Net assets released from restrictions	13,393	(13,393)	-
Total revenues	1,675,182	9,034	1,684,216
<b>EXPENSES</b>			
<u>Program services -</u>			
Program services	1,494,374	-	1,494,374
<u>Supporting services -</u>			
General and administrative	394,252	-	394,252
Fundraising	132,578	-	132,578
Total supporting services	526,830	-	526,830
Total expenses	2,021,204	-	2,021,204
Change in net assets	(346,022)	9,034	(336,988)
<b>NET ASSETS - BEGINNING OF YEAR</b>	6,550,755	23,719	6,574,474
<b>NET ASSETS - END OF YEAR</b>	\$ 6,204,733	\$ 32,753	\$ 6,237,486

See notes to financial statements.

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**STATEMENTS OF ACTIVITIES**

	Year Ended July 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES</b>			
Tuition and fees, net	\$ 1,276,605	\$ -	\$ 1,276,605
Gain on forgiveness of note payable	271,565	-	271,565
Contributions, gifts and grants	152,655	23,108	175,763
In-kind donations	32,947	-	32,947
Net investment return	843,811	-	843,811
Net assets released from restrictions	25,309	(25,309)	-
Total revenues	2,602,892	(2,201)	2,600,691
<b>EXPENSES</b>			
<u>Program services -</u>			
Program services	1,317,412	-	1,317,412
<u>Supporting services -</u>			
General and administrative	385,195	-	385,195
Fundraising	82,559	-	82,559
Total supporting services	467,754	-	467,754
Total expenses	1,785,166	-	1,785,166
Change in net assets	817,726	(2,201)	815,525
<b>NET ASSETS - BEGINNING OF YEAR</b>	5,733,029	25,920	5,758,949
<b>NET ASSETS - END OF YEAR</b>	\$ 6,550,755	\$ 23,719	\$ 6,574,474

See notes to financial statements.

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**STATEMENTS OF FUNCTIONAL EXPENSES**

	Year Ended July 31, 2022			
	Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	\$ 1,068,202	\$ 192,101	\$ 68,659	\$ 1,328,962
Employee benefits and payroll taxes	110,952	24,024	8,189	143,165
Depreciation	70,444	39,251	-	109,695
Repairs and maintenance	56,585	48,760	-	105,345
Performance expense	85,100	-	-	85,100
Professional fees	-	24,042	43,985	68,027
Bank and credit card fees	19,852	19,852	538	40,242
Office supplies and expense	17,699	17,698	401	35,798
Utilities	23,743	11,869	-	35,612
Insurance	13,031	13,031	-	26,062
Advertising and promotion	16,082	-	-	16,082
Fundraising	-	-	10,719	10,719
Education and training	6,680	415	-	7,095
Payroll fees	3,209	3,209	87	6,505
Dues and subscription	2,795	-	-	2,795
Total expenses	\$ 1,494,374	\$ 394,252	\$ 132,578	\$ 2,021,204

See notes to financial statements.



**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**STATEMENTS OF FUNCTIONAL EXPENSES**

	Year Ended July 31, 2021			
	Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	\$ 954,929	\$ 198,699	\$ 67,477	\$ 1,221,105
Employee benefits and payroll taxes	102,934	23,843	7,889	134,666
Depreciation	67,333	30,250	-	97,583
Repairs and maintenance	46,678	45,857	-	92,535
Performance expense	49,999	-	-	49,999
Professional fees	-	20,920	-	20,920
Bank and credit card fees	16,795	16,796	278	33,869
Office supplies and expense	21,579	22,969	210	44,758
Utilities	22,306	11,151	-	33,457
Insurance	12,069	12,068	-	24,137
Advertising and promotion	14,438	-	-	14,438
Fundraising materials and activities	-	-	6,663	6,663
Education and training	2,125	117	-	2,242
Payroll fees	2,526	2,525	42	5,093
Dues and subscription	3,701	-	-	3,701
Total expenses	\$ 1,317,412	\$ 385,195	\$ 82,559	\$ 1,785,166

See notes to financial statements.

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**STATEMENTS OF CASH FLOWS**

	Years Ended July 31,	
	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (336,988)	\$ 815,525
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	109,695	97,583
Contributed property and equipment capitalized	(22,568)	(17,000)
Realized gains on investment sales	(54,283)	(56,608)
Unrealized (gain) loss in market value of investments	593,044	(706,587)
Gain on forgiveness of note payable	(271,565)	(271,565)
Allowance for uncollectible accounts receivable	72	25
(Increase) decrease in operating assets:		
Accounts receivable	1,226	12,958
Contributions receivable	(2,777)	5,000
Prepaid expenses and other current assets	(50,197)	(1,644)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(9,441)	(25,619)
Deferred revenue	38,421	55,070
Net cash used by operating activities	<u>(5,361)</u>	<u>(92,862)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(360,042)	(305,084)
Proceeds on sales of investments	168,569	220,207
Purchase of property and equipment	(28,577)	(12,605)
Net cash used by investing activities	<u>(220,050)</u>	<u>(97,482)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of notes payable	-	271,565
Net cash provided by financing activities	<u>-</u>	<u>271,565</u>
Net increase (decrease) in cash and cash equivalents	(225,411)	81,221
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>466,033</u>	<u>384,812</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 240,622</u>	<u>\$ 466,033</u>

See notes to financial statements.

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**STATEMENTS OF CASH FLOWS**

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	<u>Years Ended July 31,</u>	
	<u>2022</u>	<u>2021</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH</b>		
<b>INVESTING AND FINANCING ACTIVITY</b>		
Forgiveness of principal on notes payable	\$ 271,565	\$ 271,565
Acquisition of property and equipment through donations	22,568	-
Acquisition of property and equipment through accounts payable	9,550	

See notes to financial statements.

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

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**1. STATEMENT OF PURPOSE**

Winchester Community Music School Trust (the Organization) is a non-profit, community supported, charitable organization whose mission is to provide outstanding and diverse musical education and performance, accessible to all, in Winchester, neighboring communities, and beyond.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Method of Accounting –**

The financial statements of the Organization have been prepared on the accrual basis of accounting. Accordingly, assets are recorded when the Organization obtains the rights of ownership or is entitled to claim receipt, and liabilities are recorded when the obligation is incurred.

**Use of Estimates –**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Date of Management’s Review –**

Subsequent events have been evaluated by management through December 16, 2022, the date the financial statements were available to be issued.

**Cash and Cash Equivalents –**

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

**Accounts Receivable –**

Accounts receivables are recorded at the invoiced amount and do not bear interest. Accounts receivables are presented in the statement of financial position net of estimated uncollectible amounts. The Organization establishes an allowance for estimated uncollectible accounts sufficient to cover anticipated credit losses. The Organization determines its allowance based on management’s evaluation of outstanding accounts receivable at the end of the year. Adjustments are made in periods any excess or shortfall is identified. Individual uncollectible accounts are written off against the allowance when collection of the individual accounts appears doubtful. The allowance for doubtful accounts at July 31, 2022 and 2021 was \$1,000 and \$928, respectively.

**Contributions and Grants Receivable –**

Contributions and grants receivable consist of unconditional promises to give to be collected over a donor specified term. The Organization uses the allowance method to account for uncollectible promises to give. The allowance is based on management’s estimate of possible bad debts. Management believes that all contributions and grants receivable are fully collectible; therefore, there was no allowance for uncollectible promises to give at July 31, 2022 and 2021.

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investments –**

Investments are reported at fair market value based on current market prices. Changes in fair market value are reflected in the statements of activities. Investment income and gains restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

**Fair Value of Financial Instruments –**

Fair value of a financial instrument is the amount that would be received in an asset sale or paid to transfer a liability in an orderly transaction between unaffiliated market participants. Assets and liabilities measured at fair value are categorized on whether the inputs are observable in the market and the degree that the inputs are observable. The categorization of financial instruments within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The hierarchy is prioritized into three levels (with Level 3 being the lowest) defined as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

ASC 825-10, *Financial Instruments*, permits an entity to measure many financial instruments and certain other assets and liabilities at fair value or on an instrument-by-instrument basis. The Organization has not adopted any of the additional fair value options allowed in the standard. Management has determined that the fair value of its financial instruments not carried at fair value, including cash, prepaid expenses, and miscellaneous liabilities are substantially equivalent to their carrying values as of July 31, 2022 due to their relatively short-term nature.

**Endowment –**

The Organization's endowments consist of funds established for a variety of purposes. The endowments include only endowment funds with donor restrictions. In conformity with accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Endowment (Continued) –**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor requires the Organization to retain. Deficiencies of this nature are reported in net assets with donor restrictions. There were no such deficiencies at July 31, 2022 and 2021.

**Property and Equipment –**

Property and equipment are recorded at cost if purchased or estimated fair value if contributed. The Organization has a policy of capitalizing assets with a cost basis over \$1,000, which are not in the nature of replacements or repairs. The Organization provides for depreciation of property and equipment using the straight-line method over the estimated useful lives of the related assets, which range from three to forty years.

**Net Assets –**

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

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. The Organization records all promises to give receivable as with donor restrictions until payment is received. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

**Paycheck Protection Program –**

The Organization has elected to account for their Paycheck Protection Program (PPP) loan in accordance with FASB ASC 470: Debt. Accordingly, the outstanding principal amount owed on the loan is recognized in notes payable in the accompanying statements of financial position and any accrued interest is recognized in accrued expenses. When the Organization is legally released from the debt, or forgiveness is granted, the corresponding outstanding principal and accrued interest will be derecognized and a gain on extinguishment will be recognized into income and presented as a separate line item in the accompanying statements of activities.

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue Recognition –**

Tuition revenue is recognized as services consisting of individual or group lessons based on the terms of the contract, in an amount that reflects the consideration the Organization expects to be entitled to in exchange for the services performed. Tuition revenue received in advance is deferred to the applicable period in which the related services are performed. Registration fees are recognized at the time of the students' registration as the performance obligation has been satisfied.

The Organization grants financial aid and discounts to eligible students. During the year ended July 31, 2022 and 2021, the Organization provided financial aid and discounts totaling \$56,988 and \$52,315, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Contributions and grants received in advance of conditions being met are reflected in the statements of financial position as a refundable advance.

**Contract Balances –**

Accounts receivable and contract liabilities were as follows:

	July 31,		
	2022	2021	2020
Accounts receivable	\$ 3,642	\$ 4,940	\$ 17,923
Contract liabilities	\$ 414,773	\$ 376,352	\$ 321,282

**Disaggregation of Revenue from Contracts with Customers –**

The following table disaggregates the Organization's revenue based on the timing of satisfaction of performance obligations:

	July 31,	
	2022	2021
Performance obligations satisfied over time	\$ 1,531,347	\$ 1,251,405
Performance obligations satisfied at a point in time	35,402	25,202
	\$ 1,566,749	\$ 1,276,607

Revenue from performance obligations satisfied at a point in time consists of registration fees.

Revenue from performance obligations satisfied over time consists of tuition revenue consisting of individual or group lessons.

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Non-Cash Donations –**

The Organization's non-cash donations consist primarily of donated materials, securities, equipment, and professional services. Donation of materials, securities and equipment are recorded at fair market value based on the price of comparable items at date of donation.

The Organization recognizes donated services that create or enhance nonfinancial assets, or that require specialized skills, are provided by individuals possessing skills, and would typically need to be purchased if not provided by the donation. In addition, a substantial number of volunteers donate significant amounts of their time in the furtherance of the Organization's programs. The value of this contributed time is not reflected in the accompanying financial statements, since it does not meet the recognition criteria in accordance with U.S. GAAP.

**Net Investment Return –**

Change in fair market value of securities and realized gains and losses have been reflected in the statement of activities and changes in net assets. Interest, dividends, realized and unrealized gains and losses on investments are recorded as revenue and support of unrestricted net assets unless the income and gains and losses are restricted by donor or law. As required under Generally Accepted Accounting Principles, investment advisory fees are presented net of investment return on the statement of activities.

**Functional Expenses –**

The Organization allocates expenses on a functional basis among its programs and supporting services. Supporting services are those related to operating and managing the Organization and its programs on a day-to-day basis and are composed of the following:

*Management and general* – includes all activities related to the Organization's internal management and accounting for program services.

*Fundraising* – includes activities related to maintaining contributor information, writing grant proposals, distribution of materials and other similar projects related to the procurement of funds for the Organization's programs.

Expenses that can be identified with a specific program or supporting service are allocated directly to those classifications. The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. These expenses include salaries, employee benefits and payroll taxes, which are allocated based on estimates of time and effort. Allocations of functional expenses are based on management's discretion and estimates. These variables may change from year to year.



**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Income Taxes –**

The Organization is organized and operated exclusively for charitable and educational purposes. Income related to these purposes is exempt from federal and state income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Unrelated business income would be taxable according to applicable Internal Revenue Code sections. The provision for federal and state income taxes has been computed on rental income and related concession sales that are subject to unrelated business income tax.

The Organization regularly reviews and evaluates its tax positions taken in its filed returns and recognizes the benefit from a tax position only if it is more likely than not that the position would be sustained upon audit based solely on the technical merits of the tax position. The Organization accrues interest and penalties on uncertain tax positions as a component of the provision for income taxes.

The Organization files federal and Massachusetts tax returns. The statute of limitations for these jurisdictions is generally three years. The Organization had no returns under examination as of July 31, 2022.

**Advertising Expense –**

Advertising costs are expensed as incurred and amounted to \$16,082 and \$14,438 for the years ended July 31, 2022 and 2021, respectively.

**Recently Issued Accounting Pronouncements –**

In September 2020, the FASB issued Accounting Standards Update No. 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The ASU applies to organizations that receive contributed nonfinancial assets and addresses presentation and disclosure requirements. Contributed nonfinancial assets, as defined in the ASU, will need to be presented as a separate line item in the statement of activities. Disclosure requirements included within the ASU require the organization to include qualitative information, policies, description of donor-imposed restrictions, valuation techniques used, and the principal market used to arrive at the fair value measure. The Organization adopted the new standard effective August 1, 2021. The adoption of this ASU did not have a significant impact on the Organization's financial statements.

**Reclassifications –**

Certain amounts in the prior year's financial statements have been reclassified for comparative purposes to conform to the presentation in the current year's financial statements. These reclassifications have no effect on the previously reported change in net assets.

**3. CONCENTRATION OF CREDIT AND MARKET RISK**

Financial instruments that potentially subject the Organization to concentrations of credit and market risk consist principally of cash and investments.

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

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**3. CONCENTRATION OF CREDIT AND MARKET RISK (Continued)**

**Cash and Cash Equivalents –**

The Organization maintains its cash in bank deposit accounts with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed the federally insured limits. The Organization has not experienced losses in any of these accounts.

**Investments –**

The Organization invests in securities which are exposed to market and credit risk. Due to the level of risk associated with such investments and the level of uncertainty related to changes on the value of such investments, it is at least reasonably possible that changes in the near term could materially affect investment balances and the amounts reported in the financial statements.

**4. LIQUIDITY AND FUNDS AVAILABLE**

The following table reflects the Organization’s financial assets as of July 31, 2022 and 2021, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year or because the donor has set aside the funds for a specific time period or purpose.

	July 31,	
	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 240,622	\$ 466,033
Accounts receivable, net	3,642	4,940
Contributions receivable	2,777	-
Investments	4,271,683	4,618,971
Financial assets, at year end	4,518,724	5,089,944
Less those unavailable for general expenditure within one year, due to:		
Board-designated endowment	3,648,216	4,021,892
Donor-designated endowment	21,880	21,880
Assets restricted for time or purpose	10,873	1,839
	3,680,969	4,045,611
Financial assets available to meet cash needs for general expenditure within one year	\$ 837,755	\$ 1,044,333

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

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**4. LIQUIDITY AND FUNDS AVAILABLE (Continued)**

The Organization receives significant contributions without donor restrictions and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization manages its liquidity and reserves following two guiding principles: Operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization currently has a board designated fund established as a cash reserve which it intends to build over time through operations.

**5. INVESTMENTS AND NET INVESTMENT RETURN**

Investments are as follows:

	July 31,	
	2022	2021
Mutual funds	\$ 2,055,263	\$ 2,540,104
Exchange traded funds	1,498,084	1,625,686
Cash reserves	709,835	450,974
Money market fund	8,501	2,207
	\$ 4,271,683	\$ 4,618,971

Net investment return consisted of the following for the years ended July 31, 2022 and 2021:

	July 31,	
	2022	2021
Interest and dividend income	160,301	144
Realized gains	54,283	56,608
Unrealized gains (losses)	(593,044)	787,059
Less: investment fees	-	-
	\$ (378,460)	\$ 843,811

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

**6. FAIR VALUE MEASUREMENTS**

The 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 years ended July 31, 2022 and 2021.

*Mutual funds and exchange traded funds* – The fair value of mutual funds and exchange traded funds is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

*Money market funds* – The fair value of money market funds is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

The following table is a summary of investments that the Fund measures at fair value on a recurring basis:

Description	Assets at Fair Value as of July 31, 2022			
	Total	Level 1	Level 2	Level 3
Exchange traded funds				
U.S equity	\$ 837,655	\$ 837,655	\$ -	\$ -
U.S Fixed Income	349,131	349,131	-	-
Real Estate Fund	172,091	172,091	-	-
Non-U.S. equity	139,207	139,207	-	-
Total exchange traded funds	<u>1,498,084</u>	<u>1,498,084</u>	<u>-</u>	<u>-</u>
Mutual funds				
U.S equity	941,965	941,965	-	-
U.S Fixed Income	769,982	769,982	-	-
Non-U.S. equity	343,316	343,316	-	-
Total mutual funds	<u>2,055,263</u>	<u>2,055,263</u>	<u>-</u>	<u>-</u>
Cash	709,835	709,835	-	-
Money market funds	<u>8,501</u>	<u>8,501</u>	<u>-</u>	<u>-</u>
Total assets measured at fair value	<u>\$ 4,271,683</u>	<u>\$ 4,271,683</u>	<u>\$ -</u>	<u>\$ -</u>

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

**6. FAIR VALUE MEASUREMENTS (Continued)**

Description	Assets at Fair Value as of July 31, 2021			
	Total	Level 1	Level 2	Level 3
Exchange traded funds				
U.S equity	\$ 863,385	\$ 863,385	\$ -	\$ -
U.S Fixed Income	382,121	382,121	-	-
Real Estate Fund	184,838	184,838	-	-
Non-U.S. equity	195,342	195,342	-	-
Total exchange traded funds	1,625,686	1,625,686	-	-
Mutual funds				
U.S equity	988,242	988,242	-	-
U.S Fixed Income	855,562	855,562	-	-
Non-U.S. equity	696,300	696,300	-	-
Total mutual funds	2,540,104	2,540,104	-	-
Cash	450,974	450,974	-	-
Money market funds	2,207	2,207	-	-
Total assets measured at fair value	\$ 4,618,971	\$ 4,618,971	\$ -	\$ -

**7. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

	July 31,	
	2022	2021
Building and building improvements	\$ 2,840,492	\$ 2,840,492
Land and land improvements	716,799	716,799
Instruments	411,429	397,679
Equipment	270,284	263,978
Furniture and fixtures	241,978	241,978
Construction in progress	40,640	-
Artwork	5,000	5,000
	4,526,622	4,465,926
Less: Accumulated depreciation	2,422,193	2,312,497
	\$ 2,104,429	\$ 2,153,429

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

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**7. PROPERTY AND EQUIPMENT (Continued)**

Depreciation expense related to property and equipment totaled \$109,695 and \$97,583 for the years ended July 31, 2022 and 2021, respectively.

**8. NOTES PAYABLE**

Notes payable consisted of the following:

	July 31,	
	2022	2021
Payroll Protection Program loan with interest rate of 1.00%. The loan is available to pay certain payroll costs, utilities, rent, mortgage interest and interest on other debt obligations over a 24-week period from the time the loan is obtained. Provided the loan amount is used to pay these costs and the Organization maintains certain employment benchmarks, the loan was be eligible for forgiveness. The loan was forgiven in full during the year ended July 31, 2022.	\$ -	\$ 271,565
	-	271,565
Less: Current portion	-	30,361
	\$ -	\$ 241,204

**9. ENDOWMENT FUNDS**

The Organization follows guidance on the net asset classifications and financial statement disclosures related to donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) which was enacted by the Commonwealth of Massachusetts effective June 30, 2009. As such, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Organization retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c ) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Board in a manner that is consistent with the standards of prudence prescribed by UPMIFA and in accordance with the Organization’s spending policy. The Fund’s policy prohibits spending from underwater endowment funds.

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

**9. ENDOWMENT FUNDS (Continued)**

*Investment Return Objectives, Risk Parameters and Strategies* – The Organization 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 Organization must hold in perpetuity or for donor-specified periods, as well as Board-designated funds. The Organization’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 Organization 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 Organization 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 Organization 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.

*Spending Policy* – The Organization’s spending policy involves the utilization of a spending rate determined at the discretion of the Board, not to exceed a spending rate of 5% of its Board – designated endowment fund’s average fair value over the prior three years. 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.

Following is a summary of endowment net asset composition by type of fund:

	Year ended July 31, 2022		
	Without Donor Restrictions	With Donor Restrictions	Endowment Net Assets
Donor restricted funds	\$ -	\$ 21,880	\$ 21,880
Board designated funds	3,648,216	-	3,648,216
Endowment funds	\$ 3,648,216	\$ 21,880	\$ 3,670,096
	Year ended July 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Endowment Net Assets
Donor restricted funds	\$ -	\$ 21,880	\$ 21,880
Board designated funds	4,021,892	-	4,021,892
Endowment funds	\$ 4,021,892	\$ 21,880	\$ 4,043,772

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

**9. ENDOWMENT FUNDS (Continued)**

The following is a summary of the changes in endowment net assets were as follows:

	Year ended July 31, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total Endowment Net Assets
Endowment net assets, beginning of year	\$ 4,021,892	\$ 21,880	\$ 4,043,772
Investment return, net	(373,676)		(373,676)
Contributions and grants	-	-	-
Appropriation of endowment assets pursuant to spending-rate policy	-	-	-
Endowment net assets, end of year	\$ 3,648,216	\$ 21,880	\$ 3,670,096
	Year ended July 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total Endowment Net Assets
Endowment net assets, beginning of year	\$ 3,340,766	\$ 21,880	\$ 3,362,646
Investment return, net	841,597		841,597
Contributions and grants	-	-	-
Appropriation of endowment assets pursuant to spending-rate policy	(160,471)	-	(160,471)
Endowment net assets, end of year	\$ 4,021,892	\$ 21,880	\$ 4,043,772



**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

**10. NET ASSETS**

The following summarizes net assets as of:

	July 31,	
	2022	2021
Without donor restrictions:		
Board Designated	\$ 3,648,216	\$ 4,021,892
Undesignated	2,556,517	2,528,863
Total net assets without donor restrictions	6,204,733	6,550,755
With donor restrictions:		
Subject to expenditure for specified purpose		
Music therapy	6,996	1,839
Concerts and activities	2,877	-
Musical instruments	1,000	-
Total	10,873	1,839
Endowments:		
Subject to endowment spending policy and appropriation:		
Corpus of endowment funds to be held in perpetuity	21,880	21,880
Total net assets without donor restrictions	32,753	23,719
Total net assets	\$ 6,237,486	\$ 6,574,474

During the years ended June 30, 2022 and 2021, certain assets with donor restrictions were released from restriction by satisfaction of the restricted purpose specified by the donor and were reclassified as net assets without donor restrictions as follows:

	Years Ended July 31,	
	2022	2021
Music therapy	\$ 8,593	\$ 9,926
Facilities	4,000	12,500
Financial assistance	500	-
Concerts and activities	300	-
Program events	-	1,000
Program supplies	-	1,883
Total net assets released from donor restrictions	\$ 13,393	\$ 25,309

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**  
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**11. DONATED SERVICES AND ASSETS**

The Organization receives significant in-kind contributions of time and pro bono services from members of the community and items to be sold at its annual special event auction. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Contributed auction items are valued at the gross selling price received. The Organization recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of the donation.

During fiscal years July 31, 2022 and 2021, the Organization received donated services for architectural and engineering consulting services. The Organization also received contributions of instruments and goods for the Organization’s programs. Donated services are valued at the standard hourly rates charged for those services. Donated goods are valued at the wholesale prices that would be received for selling similar products.

	July 31,	
	2022	2021
Property and equipment	\$ 22,568	\$ 17,000
Instruments	5,310	4,547
Goods	923	10,300
Services	-	1,100
	\$ 28,801	\$ 32,947
Total donated services and assets		

**12. RETIREMENT PLAN**

The Organization adopted a 403(b)-plan with a salary reduction provision qualifying under Section 403 (b) of the Internal Revenue Code. All employees are eligible for the retirement plan. Employees may make contributions to the plan through salary reductions (subject to IRS limits) Contributions under the plan vest immediately. The plan provides no sponsor matching or contributions by the Organization.

**13. COMMITMENTS**

In March 2022, the Organization entered into a campaign consulting agreement with a vendor for developmental and consulting services to support the Organizations programs totaling \$265,000 through September 2024. The agreement calls for three equal payments of \$88,333 through the end of the agreement. Total costs incurred and paid during the year ended July 31, 2022 totaled \$42,742.

In July 2022, the organization entered into a service agreement to redesign the Organization’s website with estimated costs totaling \$43,250. The agreement calls for payments being made based on milestones of the services. No costs were incurred during the year ended July 31, 2022.

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