

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST



FINANCIAL STATEMENTS

Years Ended July 31, 2023 and 2022

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
TABLE OF CONTENTS**

	Page
INDEPENDENT AUDITORS' REPORT	1
 FINANCIAL STATEMENTS:	
Statements of Financial Position.....	3
Statements of Activities	4
Statements of Functional Expenses.....	6
Statements of Cash Flows	8
Notes to Financial Statements.....	10



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 statements of financial position as of July 31, 2023 and 2022 and the related statements of activities, functional expenses and cash flows for the years 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, 2023 and 2022 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' 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 audits. 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.

Auditors' 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 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 audits.

Johnson O'Connor Feron & Carucci LLP

Wakefield, Massachusetts
December 19, 2023

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
STATEMENTS OF FINANCIAL POSITION

	July 31,	
	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 983,743	\$ 728,435
Accounts receivable, net	7,730	3,642
Current portion of contributions receivable, net	29,150	2,777
Prepaid expenses and other assets	159,754	67,889
Total current assets	1,180,377	802,743
PROPERTY AND EQUIPMENT, NET	2,545,536	2,104,429
OTHER ASSETS		
Investments	3,930,006	3,783,870
Website design costs, net	38,925	-
Contributions receivable, net, less current portion	82,496	-
Total other assets	4,051,427	3,783,870
Total assets	\$ 7,777,340	\$ 6,691,042
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 75,576	\$ 38,783
Deferred revenue	471,212	414,773
Total current liabilities	546,788	453,556
NET ASSETS		
Without donor restrictions:		
Undesignated	2,741,628	2,556,517
Board designated	3,468,607	3,648,216
	6,210,235	6,204,733
With donor restrictions	1,020,317	32,753
Total net assets	7,230,552	6,237,486
Total liabilities and net assets	\$ 7,777,340	\$ 6,691,042

See notes to financial statements.

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
STATEMENTS OF ACTIVITIES

	Year Ended July 31, 2023		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES			
Tuition and fees, net	\$ 1,769,552	\$ -	\$ 1,769,552
Contributions, gifts and grants	253,076	737,317	990,393
In-kind donations	36,090	266,968	303,058
Net investment return	197,442	1,270	198,712
Rental income	150	-	150
Gain on forgiveness of note payable	-	-	-
Net assets released from restrictions	17,991	(17,991)	-
Total revenues	<u>2,274,301</u>	<u>987,564</u>	<u>3,261,865</u>
EXPENSES			
<u>Program services -</u>			
Program services	<u>1,681,326</u>	<u>-</u>	<u>1,681,326</u>
<u>Supporting services -</u>			
General and administrative	426,861	-	426,861
Fundraising	160,612	-	160,612
Total supporting services	<u>587,473</u>	<u>-</u>	<u>587,473</u>
Total expenses	<u>2,268,799</u>	<u>-</u>	<u>2,268,799</u>
Change in net assets	5,502	987,564	993,066
NET ASSETS - BEGINNING OF YEAR	<u>6,204,733</u>	<u>32,753</u>	<u>6,237,486</u>
NET ASSETS - END OF YEAR	<u>\$ 6,210,235</u>	<u>\$ 1,020,317</u>	<u>\$ 7,230,552</u>

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
REVENUES			
Tuition and fees, net	\$ 1,566,749	\$ -	\$ 1,566,749
Contributions, gifts and grants	173,134	22,427	195,561
In-kind donations	28,801	-	28,801
Net investment return	(378,460)	-	(378,460)
Rental income	-	-	-
Gain on forgiveness of note payable	271,565	-	271,565
Net assets released from restrictions	13,393	(13,393)	-
Total revenues	<u>1,675,182</u>	<u>9,034</u>	<u>1,684,216</u>
EXPENSES			
<u>Program services -</u>			
Program services	<u>1,494,374</u>	<u>-</u>	<u>1,494,374</u>
<u>Supporting services -</u>			
General and administrative	394,252	-	394,252
Fundraising	132,578	-	132,578
Total supporting services	<u>526,830</u>	<u>-</u>	<u>526,830</u>
Total expenses	<u>2,021,204</u>	<u>-</u>	<u>2,021,204</u>
Change in net assets	(346,022)	9,034	(336,988)
NET ASSETS - BEGINNING OF YEAR	<u>6,550,755</u>	<u>23,719</u>	<u>6,574,474</u>
NET ASSETS - END OF YEAR	<u>\$ 6,204,733</u>	<u>\$ 32,753</u>	<u>\$ 6,237,486</u>

See notes to financial statements.

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
STATEMENTS OF FUNCTIONAL EXPENSES

	Year Ended July 31, 2023			
	Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	\$ 1,206,504	\$ 207,676	\$ 39,796	\$ 1,453,976
Employee benefits and payroll taxes	129,290	27,522	5,062	161,874
Professional fees	-	30,596	102,582	133,178
Repairs and maintenance	65,399	52,624	-	118,023
Depreciation	68,502	35,770	-	104,272
Performance expense	92,658	-	-	92,658
Utilities	34,506	17,250	-	51,756
Bank and credit card fees	23,664	23,663	-	47,327
Office supplies and expense	20,068	15,129	-	35,197
Insurance	13,262	13,263	-	26,525
Advertising and promotion	17,409	-	-	17,409
Fundraising materials and activities	-	-	13,172	13,172
Payroll fees	3,315	3,314	-	6,629
Education and training	3,533	54	-	3,587
Dues and subscriptions	3,216	-	-	3,216
Total expenses	\$ 1,681,326	\$ 426,861	\$ 160,612	\$ 2,268,799

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
Professional fees	-	24,042	43,985	68,027
Repairs and maintenance	56,585	48,760	-	105,345
Depreciation	70,444	39,251	-	109,695
Performance expense	85,100	-	-	85,100
Utilities	23,743	11,869	-	35,612
Bank and credit card fees	19,852	19,852	538	40,242
Office supplies and expense	17,699	17,698	401	35,798
Insurance	13,031	13,031	-	26,062
Advertising and promotion	16,082	-	-	16,082
Fundraising materials and activities	-	-	10,719	10,719
Payroll fees	3,209	3,209	87	6,505
Education and training	6,680	415	-	7,095
Dues and subscriptions	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 CASH FLOWS

	Years Ended July 31,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 993,066	(336,988)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	104,272	109,695
Contributed property and equipment capitalized	(299,468)	(22,568)
Realized (gain) loss on investment sales	(52,416)	(54,283)
Unrealized (gain) loss in market value of investments	(10,893)	593,044
Gain on forgiveness of note payable	-	(271,565)
Loss on disposal of property and equipment	1,798	-
Allowance for uncollectible contribution receivables	5,000	-
Allowance for uncollectible accounts receivable	(89)	72
(Increase) decrease in operating assets:		
Accounts receivable	(3,999)	1,226
Contributions receivable	(113,869)	(2,777)
Prepaid expenses and other current assets	(91,865)	(50,197)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	34,405	(9,441)
Deferred revenue	56,439	38,421
Net cash provided (used) by operating activities	<u>622,381</u>	<u>(5,361)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(704,754)	(314,102)
Proceeds on sales of investments	621,927	168,569
Purchase of property and equipment	(245,321)	(28,577)
Purchases of website design costs	(38,925)	-
Net cash used by investing activities	<u>(367,073)</u>	<u>(174,110)</u>
Net increase (decrease) in cash and cash equivalents	255,308	(179,471)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>728,435</u>	<u>\$ 907,906</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 983,743</u>	<u>\$ 728,435</u>

See notes to financial statements.

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
STATEMENTS OF CASH FLOWS

	Years Ended July 31,	
	2023	2022
SUPPLEMENTAL DISCLOSURE OF NON-CASH		
INVESTING AND FINANCING ACTIVITY		
Acquisition of property and equipment through donations	\$ 299,468	\$ 22,568
Acquisition of property and equipment through accounts payable	11,938	9,550
Forgiveness of principal on notes payable	-	271,565

See notes to financial statements.

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
NOTES TO FINANCIAL STATEMENTS

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 19, 2023, 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, 2023 and 2022 was \$911 and \$1,000, respectively.

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions Receivable –

Contributions 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. The allowance for uncollectible promises to give at July 31, 2023 was \$5,000. At July 31, 2022, management believed that all contributions and grants receivable are fully collectible; therefore, there was no allowance for uncollectible promises to give.

The Organization discounts contributions and grants that are not due within one year to their present value at a risk-free rate of return based on the yield of a U.S. Treasury Security with a maturity date similar to the expected collection period. These discounts are ratably amortized over the life of the contributions and grants receivable and are recorded as contributions, gifts and grants in the statements of activities. The risk free discount rate was 4.29% for all promises to give received during the year ending July 31, 2023.

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. Cash and cash equivalents held for investment purposes are considered investments. 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.

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (Continued) –

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, 2023 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.

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, 2023 and 2022.

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.

Website Design Costs –

The Organization's policy is to amortize website design costs using the straight-line method over the estimated useful lives of the related assets, which is three 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.

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued) –

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.

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, 2023 and 2022, the Organization provided financial aid and discounts totaling \$66,942 and \$56,988, 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,		August 1,
	2023	2022	2021
Accounts receivable	\$ 7,730	\$ 3,642	\$ 4,940
Contract liabilities	\$ 471,212	\$ 414,773	\$ 376,352

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued) –

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,	
	2023	2022
Performance obligations satisfied over time	\$ 1,716,437	\$ 1,531,347
Performance obligations satisfied at a point in time	53,115	35,402
	\$ 1,769,552	\$ 1,566,749

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.

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.

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2023 and 2022.

Advertising Expense –

Advertising costs are expensed as incurred and amounted to \$17,409 and \$16,082 for the years ended July 31, 2023 and 2022, respectively.

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements –

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which supersedes existing guidance for accounting for leases under *Topic 840, Leases*. The FASB also subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU 2018-10, *Codification Improvements to Topic 842, Leases*; ASU 2018-11, *Leases (Topic 842): Targeted Improvements*; ASU 2018-20, *Narrow-scope Improvements for Lessors*; and ASU 2019-01, *Leases (Topic 842): Codification Improvements*. The most significant change in the new leasing guidance is the requirement to recognize ROU assets and lease liabilities for operating and finance leases on the statement of financial position.

The Organization elected to adopt these ASUs effective August 1, 2022. The Organization elected the package of practical expedients which allowed the Organization to not reassess previous accounting conclusions regarding lease identification, lease classification and initial direct costs. The Organization elected the short-term lease recognition exemption which provided the option to not recognize right-of-use assets and related liabilities that arise from certain leases with terms of twelve months or less. The Organization also elected the accounting policy to not separate lease and non-lease components for real estate and equipment leases entered into after adoption. The Organization also elected the accounting policy to utilize a risk-free discount rate to calculate lease liabilities for real estate leases when the rate implicit in the lease is not known.

The adoption did not have a material 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 cash equivalents, contributions receivable and investments.

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.

Contributions Receivable –

Credit risk associated with contributions receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts due are from Board members, corporations and individuals supportive of the Organization's mission. At July 31, 2023 and 2022, approximately 100% of the Organization's contributions receivable was due from two donors and one donor, respectively. For the years ended July 31, 2023 and 2022, one donor, respectively accounted for approximately 50% and 13% of contributions, gifts and grants.

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
NOTES TO FINANCIAL STATEMENTS

3. CONCENTRATION OF CREDIT AND MARKET RISK (Continued)

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, 2023 and 2022, 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 and board has set aside the funds for a specific time period, purpose or a long-term investment as board designated endowment. Amounts expected to be (or that have been) appropriated from the board designated endowment for general expenditure within one year of the statement of financial position date have not been subtracted as unavailable.

	July 31,	
	2023	2022
Financial assets:		
Cash and cash equivalents	\$ 983,743	\$ 728,435
Accounts receivable, net	7,730	3,642
Contributions receivable	111,646	2,777
Investments	3,930,006	3,783,870
Financial assets, at year end	5,033,125	4,518,724
Less those unavailable for general expenditure within one year, due to:		
Board-designated endowment	3,468,607	3,648,216
Donor-designated endowment	23,151	21,880
Assets restricted for time or purpose	997,166	10,873
	4,488,924	3,680,969
Financial assets available to meet cash needs for general expenditure within one year	\$ 544,201	\$ 837,755

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
NOTES TO FINANCIAL STATEMENTS

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. CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following:

	July 31,	
	2023	2022
Amounts due in:		
Less than one year	\$ 30,650	\$ 2,777
One to five years	100,000	-
	130,650	2,777
Less: Allowance for uncollectible contributions receivable	6,500	-
Less: Unamortized net present value discount	12,504	-
Less: Current portion	29,150	2,777
Contributions receivable, net of current portion	\$ 82,496	\$ -

6. INVESTMENTS AND NET INVESTMENT RETURN

Investments are as follows:

	July 31,	
	2023	2022
Mutual funds	\$ 1,895,224	\$ 2,055,263
Exchange traded funds	1,568,269	1,498,084
Money market fund	438,241	8,501
Cash reserves	28,272	222,022
	\$ 3,930,006	\$ 3,783,870

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
NOTES TO FINANCIAL STATEMENTS

6. INVESTMENTS AND NET INVESTMENT RETURN (Continued)

Net investment return consisted of the following for the years ended July 31, 2023 and 2022:

	July 31,	
	2023	2022
Interest and dividend income	\$ 135,403	\$ 160,301
Realized gains	52,416	54,283
Unrealized gains (losses)	10,893	(593,044)
	<u>\$ 198,712</u>	<u>\$ (378,460)</u>

7. 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, 2023 and 2022.

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.

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
NOTES TO FINANCIAL STATEMENTS

7. FAIR VALUE MEASUREMENTS (Continued)

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, 2023			
	Total	Level 1	Level 2	Level 3
Mutual funds				
U.S equity	1,064,083	1,064,083	-	-
U.S Fixed Income	542,532	542,532	-	-
Non-U.S. equity	288,609	288,609	-	-
Total mutual funds	<u>1,895,224</u>	<u>1,895,224</u>	<u>-</u>	<u>-</u>
Exchange traded funds				
U.S equity	\$ 941,047	\$ 941,047	\$ -	\$ -
U.S Fixed Income	317,747	317,747	-	-
Non-U.S. equity	161,206	161,206	-	-
Real Estate Fund	148,269	148,269	-	-
Total exchange traded funds	<u>1,568,269</u>	<u>1,568,269</u>	<u>-</u>	<u>-</u>
Money market funds	438,241	438,241	-	-
Cash	<u>28,272</u>	<u>28,272</u>	<u>-</u>	<u>-</u>
Total assets measured at fair value	<u>\$ 3,930,006</u>	<u>\$ 3,930,006</u>	<u>\$ -</u>	<u>\$ -</u>

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
NOTES TO FINANCIAL STATEMENTS

7. FAIR VALUE MEASUREMENTS (Continued)

Description	Assets at Fair Value as of July 31, 2022			
	Total	Level 1	Level 2	Level 3
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>
Exchange traded funds				
U.S equity	\$ 837,655	\$ 837,655	\$ -	\$ -
U.S Fixed Income	349,131	349,131	-	-
Non-U.S. equity	139,207	139,207	-	-
Real Estate Fund	172,091	172,091	-	-
Total exchange traded funds	<u>1,498,084</u>	<u>1,498,084</u>	<u>-</u>	<u>-</u>
Money market funds	8,501	8,501	-	-
Cash	<u>222,022</u>	<u>222,022</u>	<u>-</u>	<u>-</u>
Total assets measured at fair value	<u>\$ 3,783,870</u>	<u>\$ 3,783,870</u>	<u>\$ -</u>	<u>\$ -</u>

8. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	July 31,	
	2023	2022
Building and building improvements	\$ 2,840,492	\$ 2,840,492
Land and land improvements	716,799	716,799
Instruments	440,734	411,429
Equipment	278,440	270,284
Furniture and fixtures	241,978	241,978
Construction in progress	545,860	40,640
Artwork	5,000	5,000
	<u>5,069,303</u>	<u>4,526,622</u>
Less: Accumulated depreciation	<u>2,523,767</u>	<u>2,422,193</u>
	<u>\$ 2,545,536</u>	<u>\$ 2,104,429</u>

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
NOTES TO FINANCIAL STATEMENTS

8. PROPERTY AND EQUIPMENT (Continued)

Depreciation expense related to property and equipment totaled \$104,272 and \$109,695 for the years ended July 31, 2023 and 2022, respectively.

9. WEBSITE DESIGN COSTS, NET

Website design costs, net consist of costs associated with the Organization contracting a third party to redesign their website. Total costs incurred and capitalized as of July 31, 2023 totaled \$38,925. Website design costs, net have not been placed in service as of July 31, 2023.

Subsequent to year end, website design costs were placed in service on November 15, 2023. Estimated amortization expense for the next four year is expected to be as follows:

<u>Years Ending July 31,</u>	
2024	\$ 10,212
2025	14,417
2026	14,417
2027	4,204
	<hr/>
	\$ 43,250
	<hr/> <hr/>

10. 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

10. 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.

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
NOTES TO FINANCIAL STATEMENTS

10. ENDOWMENT FUNDS (Continued)

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

	Year ended July 31, 2023		
	Without Donor Restrictions	With Donor Restrictions	Total Endowment
	<u>(Board Designated)</u>	<u>(Donor Designated)</u>	<u>Net Assets</u>
Endowment net assets, beginning of year	\$ 3,648,216	\$ 21,880	\$ 3,670,096
Investment return, net	165,302	1,271	166,573
Contributions and grants	-	-	-
Appropriation of endowment assets pursuant to spending-rate policy	<u>(344,911)</u>	<u>-</u>	<u>(344,911)</u>
Endowment net assets, end of year	<u>\$ 3,468,607</u>	<u>\$ 23,151</u>	<u>\$ 3,491,758</u>
	Year ended July 31, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total Endowment
	<u>(Board Designated)</u>	<u>(Donor Designated)</u>	<u>Net Assets</u>
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	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 3,648,216</u>	<u>\$ 21,880</u>	<u>\$ 3,670,096</u>

During the year ended July 31, 2023, the Organization appropriated amounts from its endowment for which it was eligible per its spending policy for both the current year and the prior year, as the Organization did not withdraw funds from its endowment during the year ended July 31, 2022

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
NOTES TO FINANCIAL STATEMENTS

11. NET ASSETS

The following summarizes net assets as of:

	July 31,	
	2023	2022
Without donor restrictions:		
Board Designated	\$ 3,468,607	\$ 3,648,216
Undesignated	2,741,628	2,556,517
Total net assets without donor restrictions	6,210,235	6,204,733
With donor restrictions:		
Subject to expenditure for specified purpose		
Capital campaign	990,566	-
Music therapy	6,500	6,996
Concerts and activities	100	2,877
Musical instruments	-	1,000
	997,166	10,873
Endowments:		
Subject to endowment spending policy and appropriation:		
Corpus of endowment funds to be held in perpetuity	23,151	21,880
Total net assets with donor restrictions	1,020,317	32,753
Total net assets	\$ 7,230,552	\$ 6,237,486

During the years ended July 31, 2023 and 2022, 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,	
	2023	2022
Music therapy	\$ 6,995	\$ 8,593
Financial assistance	3,502	500
Concerts and activities	3,494	300
Facilities	3,000	4,000
Musical instruments	1,000	-
Total net assets released from donor restrictions	\$ 17,991	\$ 13,393

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
NOTES TO FINANCIAL STATEMENTS

12. 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, 2023 and 2022, 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,	
	2023	2022
Property and equipment	\$ 299,468	\$ 22,568
Instruments	3,150	5,310
Goods	440	923
Total donated services and assets	<u>\$ 303,058</u>	<u>\$ 28,801</u>

Donor-imposed restriction associated with the donated services or assets totaled \$266,968. There were no donor-imposed restrictions associated with the donated services or assets for the year ended July 31, 2022.

13. 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.

14. CAPITAL CAMPAIGN PROJECT

During the year ended July 31, 2023, the Organization started a capital campaign project to expand the space the Organization is utilizing. The Organization raised \$990,566 related to the capital campaign during the year ended July 31, 2023.

During the year ended July 31, 2023, the Organization entered into contracts with vendors for survey, geotechnical architectural services, legal services and design consulting services related to the capital campaign project with estimated costs totaling \$436,170. Total costs incurred and paid during the year ended July 31, 2023 totaled \$495,815 and \$229,195, respectively. All costs incurred as of July 31, 2023 have been capitalized as construction in process within property and equipment.

WINCHESTER COMMUNITY MUSIC SCHOOL TRUST
NOTES TO FINANCIAL STATEMENTS

15. 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, 2023 and 2022 totaled \$176,666 and \$42,742, respectively.

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. Total costs incurred and paid during the year ended July 31, 2023 totaled \$38,925. No costs were incurred during the year ended July 31, 2022.

101 Edgewater Drive
Suite 210
Wakefield, MA 01880

T (781) 914-3400

www.johnsonconnor.com