

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**

FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JULY 31, 2011



**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT**

**YEAR ENDED JULY 31, 2011**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
**Winchester Community Music School Trust**  
Winchester, Massachusetts

We have audited the accompanying statement of financial position of Winchester Community Music School Trust as of July 31, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Winchester Community Music School Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Trust's 2010 financial statements, and, in our report dated December 21, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Winchester Community Music School Trust as of July 31, 2011, and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Ercolini & Company LLP*

Boston, Massachusetts  
December 21, 2011

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**

(a Nonprofit Corporation)

STATEMENT OF FINANCIAL POSITION

JULY 31, 2011

(with comparative totals for 2010)

**ASSETS**

	2011			Total	2010
	Unrestricted	Restricted			
		Temporarily	Permanent		
<b>Current assets:</b>					
Cash	\$ 181,863	\$ 5,000	\$ -	\$ 186,863	\$ 148,025
Accounts receivable					
Tuition and fees	561	-	-	561	382
Pledges receivable, net	77,339	55,494	-	132,833	135,056
Prepaid expenses and other assets	14,270	-	-	14,270	13,589
Total current assets	<u>274,033</u>	<u>60,494</u>	<u>-</u>	<u>334,527</u>	<u>297,052</u>
<b>Property and equipment:</b>					
Land	685,331	-	-	685,331	685,331
Building and improvements	2,571,830	-	-	2,571,830	2,552,411
Instruments	291,209	-	-	291,209	291,209
Furniture and fixtures	334,147	-	-	334,147	270,014
Miscellaneous other	5,000	-	-	5,000	5,000
Total property and equipment	<u>3,887,517</u>	<u>-</u>	<u>-</u>	<u>3,887,517</u>	<u>3,803,965</u>
Less - accumulated depreciation	<u>(1,248,053)</u>	<u>-</u>	<u>-</u>	<u>(1,248,053)</u>	<u>(1,125,106)</u>
Net property and equipment	<u>2,639,464</u>	<u>-</u>	<u>-</u>	<u>2,639,464</u>	<u>2,678,859</u>
<b>Other assets:</b>					
Pledges receivable, net	96,191	17,102	-	113,293	177,047
Investments	2,818,513	4,927	10,000	2,833,440	2,587,010
Total other assets	<u>2,914,704</u>	<u>22,029</u>	<u>10,000</u>	<u>2,946,733</u>	<u>2,764,057</u>
Total assets	<u>\$ 5,828,201</u>	<u>\$ 82,523</u>	<u>\$ 10,000</u>	<u>\$ 5,920,724</u>	<u>\$ 5,739,968</u>

**LIABILITIES**

<b>Current liabilities:</b>					
Accounts payable	\$ 7,895	\$ -	\$ -	\$ 7,895	\$ 7,893
Accrued expenses	51,663	-	-	51,663	40,399
Miscellaneous current liabilities	2,003	-	-	2,003	1,483
Prepaid revenue	201,402	-	-	201,402	168,262
Total current liabilities	<u>262,963</u>	<u>-</u>	<u>-</u>	<u>262,963</u>	<u>218,037</u>
Total liabilities	<u>262,963</u>	<u>-</u>	<u>-</u>	<u>262,963</u>	<u>218,037</u>

**NET ASSETS (DEFICIENCY)**

Unrestricted	5,565,238	-	-	5,565,238	5,370,993
Temporarily restricted	-	82,523	-	82,523	140,938
Permanently restricted	-	-	10,000	10,000	10,000
Total net assets (deficiency)	<u>5,565,238</u>	<u>82,523</u>	<u>10,000</u>	<u>5,657,761</u>	<u>5,521,931</u>
Total liabilities and net assets (deficiency)	<u>\$ 5,828,201</u>	<u>\$ 82,523</u>	<u>\$ 10,000</u>	<u>\$ 5,920,724</u>	<u>\$ 5,739,968</u>

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**

(a Nonprofit Corporation)

STATEMENT OF ACTIVITIES

YEAR ENDED JULY 31, 2011

(with comparative totals for 2010)

	<b>2011</b>				<b>2010</b>
	<b>Unrestricted</b>	<b>Restricted</b>		<b>Total</b>	
		<b>Temporarily</b>	<b>Permanently</b>		
<b>Revenues, gains and other support:</b>					
Gross tuition and fees	\$ 1,173,314	\$ -	\$ -	\$ 1,173,314	\$ 1,146,608
Less: financial aid and discounts	(58,022)	-	-	(58,022)	(47,675)
Net tuition and fees	1,115,292	-	-	1,115,292	1,098,933
Contributions and Grants					
Contributions	191,898	3,064	-	194,962	530,006
In-kind contributions	5,508	-	-	5,508	13,994
Grants	11,200	4,000	-	15,200	15,650
Investment income, including net realized and unrealized gains (losses) on investments	317,124	3	-	317,127	241,917
Other	2,830	-	-	2,830	3,525
Net assets released from restrictions:					
Satisfaction of program restrictions	54,474	(54,474)	-	-	-
Satisfaction of time restrictions	11,008	(11,008)	-	-	-
Total revenue, gains and other support	1,709,334	(58,415)	-	1,650,919	1,904,025
<b>Expenses:</b>					
Program services	1,047,561	-	-	1,047,561	1,037,989
General and administrative	372,627	-	-	372,627	355,204
Fundraising	94,901	-	-	94,901	139,542
Total expenses	1,515,089	-	-	1,515,089	1,532,735
Change in net assets	194,245	(58,415)	-	135,830	371,290
<b>Net assets, beginning</b>	5,370,993	140,938	10,000	5,521,931	5,150,641
<b>Net assets, ending</b>	\$ 5,565,238	\$ 82,523	\$ 10,000	\$ 5,657,761	\$ 5,521,931

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**

(a Nonprofit Corporation)

**STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED JULY 31, 2011

(with comparative totals for 2010)

	<b>2011</b>				
	<b>Program Services</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total</b>	<b>2010</b>
Payroll and benefits	\$ 803,049	\$ 248,742	\$ 82,433	\$ 1,134,224	\$ 1,123,972
Depreciation	84,357	38,590	-	122,947	118,192
Office expense	26,754	26,754	230	53,738	48,166
Utilities	28,459	14,227	-	42,686	40,936
Maintenance	34,855	17,425	-	52,280	48,122
Consulting and accounting fees	-	18,756	-	18,756	19,367
Promotion - catalogues & newsletters	21,244	-	-	21,244	27,497
Other program expenses - music & equipment	36,526	-	-	36,526	30,231
Insurance	8,133	8,133	-	16,266	15,795
Fundraising	-	-	12,238	12,238	56,641
Conference / dues	4,184	-	-	4,184	3,816
Total expenses	<u>\$ 1,047,561</u>	<u>\$ 372,627</u>	<u>\$ 94,901</u>	<u>\$ 1,515,089</u>	<u>\$ 1,532,735</u>

See notes to financial statements.

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**

(a Nonprofit Corporation)

STATEMENT OF CASH FLOWS

YEAR ENDED JULY 31, 2011

(with comparative totals for 2010)

	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets:	\$ 135,830	\$ 371,290
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	122,947	118,192
Net realized and unrealized (gains) losses on investments	(263,518)	(177,739)
Interest income on investments reinvested	(52,856)	(55,329)
Contributions restricted for long-term purposes	-	(100,000)
Donated equipment	-	(10,274)
Amortization of discount on pledges	4,560	(215)
Other adjustments to reconcile net profit (loss) to net cash provided by (used in) operating activities (include detail)		
Allowance for doubtful accounts	(3,233)	7,203
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Tuition and fees receivables	(179)	(382)
Pledges receivable	62,414	(93,986)
Prepaid expenses and other assets	(681)	18,558
Increase (decrease) in liabilities:		
Accounts payable	295	(7,184)
Accrued expenses	11,784	6,268
Prepaid revenue	33,140	(786)
Net cash provided by (used in) operating activities	<u>50,503</u>	<u>75,616</u>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(602,087)	(165,213)
Sales of investments	694,433	301,086
Net (deposits to) withdrawals from investments	(22,402)	(164,298)
Purchases of property and equipment	(83,845)	(36,393)
Net cash provided by (used in) investing activities	<u>(13,901)</u>	<u>(64,818)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from contributions restricted for long-term purposes -		
Capital improvements	2,236	52,639
Net cash provided by (used in) financing activities	<u>2,236</u>	<u>52,639</u>
Net increase (decrease) in cash	38,838	63,437
Cash, beginning of year	148,025	84,588
Cash, end of year	<u>\$ 186,863</u>	<u>\$ 148,025</u>
<b>Schedule of noncash investing and financing activities:</b>		
Costs incurred for purchase of property and equipment during the year	\$ (83,552)	\$ (47,660)
In-kind donations of property and equipment	-	10,274
Amounts included in accounts payable at beginning of year	(993)	-
Amounts included in accounts payable at end of year	700	993
Payments for property and equipment	<u>\$ (83,845)</u>	<u>\$ (36,393)</u>

See notes to financial statements.

# WINCHESTER COMMUNITY MUSIC SCHOOL TRUST

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JULY 31, 2011

### 1. Organization

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

### 2. Summary of significant accounting policies

#### Basis of accounting

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

#### Financial statement presentation

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

*Unrestricted net assets* - Net assets that are not subject to donor-imposed restrictions.

*Temporarily restricted net assets* - Net assets subject to explicit or implicit donor-imposed restrictions that may or will be met either by actions of the Trust and/or the passage of time.

*Permanently restricted net assets* - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Trust. Generally, the donors of these assets permit the Trust to use all or part of the income earned on related investments for general or specific purposes.

#### Use of estimates

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

#### Risks and uncertainties

The Trust maintains an investment portfolio consisting of stocks and mutual funds that are invested in equity securities, bonds, money market and other investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of these investments will occur in the near term and such changes could materially affect the Trust's investment account balances. The fair value of the Trust's investments held at July 31, 2011 have depreciated in value by approximately 4% as of November 16, 2011.



# WINCHESTER COMMUNITY MUSIC SCHOOL TRUST

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JULY 31, 2011

### 2. Summary of significant accounting policies - continued

#### **Accounts receivable**

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

#### **Property, equipment and depreciation**

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

At July 31, 2011, property and equipment with an original cost of \$277,533 was fully depreciated and still in service.

#### **Investments**

The Trust's investments consist of marketable equity securities, money market funds and long-term cash which are carried at their fair values. Unrealized gains and losses are included in the changes in net assets. Gains and losses on the disposition of investments are determined based on various methods, including the average cost method, first-in first-out method, and last-in last-out method, depending on the type of underlying fund. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

#### **Endowments**

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

# WINCHESTER COMMUNITY MUSIC SCHOOL TRUST

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JULY 31, 2011

### 2. Summary of significant accounting policies - continued

#### Endowments - continued

##### *Interpretation of Relevant Law*

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

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

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

##### *Investment and Spending Policies*

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

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

# WINCHESTER COMMUNITY MUSIC SCHOOL TRUST

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JULY 31, 2011

### 2. Summary of significant accounting policies - continued

#### **Endowments - continued**

##### *Investment and Spending Policies - continued*

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

##### *Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Trust to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies of this nature as of July 31, 2011.

#### **Revenue recognition**

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

#### **Contributed services**

During the year ended July 31, 2011, the value of contributed services meeting the requirements for recognition in the financial statements under FASB's accounting guidance, was not material and has not been recorded. In addition, individuals volunteer their time and perform a variety of tasks that assist the Trust, but these services do not meet the criteria for recognition as contributed services.

#### **Contributions and donor restrictions**

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

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

# WINCHESTER COMMUNITY MUSIC SCHOOL TRUST

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JULY 31, 2011

### 2. Summary of significant accounting policies - continued

#### Contributions and donor restrictions - continued

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

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

During fiscal year 2008, the Board of Trustees endorsed the School's next major capital campaign, Keys to the Future. The Keys to the Future campaign focuses on four strategic priorities that will keep the School vibrant and successful into the future. The four priorities are: (1) attract, support, and retain exceptional faculty, (2) provide additional tuition assistance, (3) support new innovative programming and (4) enhance the facility with capital improvements.

#### Functional allocation of expenses

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

#### Advertising and marketing

Advertising and marketing costs are expensed when incurred. Amounts incurred for the year ended July 31, 2011 totaled \$16,991.

#### Income taxes

The Trust is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Trust's tax-exempt purpose is subject to taxation as unrelated business income. The Trust had no unrelated business income for the year ended July 31, 2011. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Management has evaluated significant tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition in the financial statements. Management does not believe its evaluation of tax positions will significantly change within twelve months of July 31, 2011. Any changes in tax positions will be recorded when the ultimate outcome becomes known. The Trust's income tax returns are subject to examination by taxing authorities generally for the years ended July 31, 2008, 2009 and 2010.

#### Prior year summarized information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Trust's financial statements for the year ended July 31, 2010, from which the summarized information was derived.

# WINCHESTER COMMUNITY MUSIC SCHOOL TRUST

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JULY 31, 2011

### **2. Summary of significant accounting policies - continued**

#### **Recent accounting pronouncements**

In January 2010, the Financial Accounting Standards Board (FASB) issued guidance to amend the disclosure requirements related to recurring and non-recurring fair value measurements. The guidance requires new disclosures on significant transfers of assets and liabilities in and out of Level 1 (quoted prices in active markets for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires separate disclosure in the reconciliation of Level 3 fair value measurements (significant unobservable inputs) of information on purchases, sales, issuances, and settlements of the assets and liabilities measured using Level 3 inputs. The guidance also clarifies certain existing disclosures. The new disclosures and clarifications of existing disclosures are effective for fiscal years and interim periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the reconciliation of Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Adoption by the Trust of the applicable required disclosures in 2011 had no impact on the Trust's financial statements. The Trust does not believe that its adoption of the required disclosures for 2012 will have a material impact on the Trust's 2012 financial statements.

In May, 2011, the FASB issued guidance which further amends the measurement and disclosure requirements related to recurring and nonrecurring fair value measurements. The standard clarifies the fair value measurement guidance applicable to highest-and-best-use and valuation premise, measuring fair value of an instrument classified in equity and financial instruments managed within a portfolio, and the application of premiums and discounts in a fair value measurement. Additionally, the guidance requires expanded disclosure of fair value measurements categorized in Level 3, use of an asset in a way that differs from the asset's highest-and-best-use, and items not measured at fair value but for which fair value is required to be disclosed. These disclosures are effective for fiscal years and interim periods beginning after December 15, 2011. The Trust does not believe that its adoption of the guidance in 2013 will have a material impact on the Trust's 2013 financial statements.

#### **Subsequent events**

The Trust has evaluated subsequent events through December 21, 2011, the date the financial statements were available to be issued.

### **3. Restricted and board designated net assets**

#### **Permanently restricted**

During 2005, the Trust received a \$10,000 donation which stipulated that the principal be maintained in perpetuity. The income from the investment of these funds is restricted to provide scholarships to students.

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JULY 31, 2011

**3. Restricted and board designated net assets - continued**

**Temporarily restricted**

Temporarily restricted net assets are available for the following purposes at July 31, 2011:

Annual Fund	\$ 23,324
Financial Aid	10,486
Facilities	44,288
Scholarships	425
Recitals	<u>4,000</u>
Total	<u>\$ 82,523</u>

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the donor during the period ended July 31, 2011 as follows:

Annual Fund	\$ 11,008
Facilities	<u>54,474</u>
Total	<u>\$ 65,482</u>

**Board designated - unrestricted**

The Board of Trustees has designated certain funds to be held as reserves. Funds designated by the Board are held in investments. The Trust's policy is to transfer, on an annual basis at the end of the fiscal year, an amount to operations equal to five percent (5%) of the average market value of the reserved assets for the previous twelve quarters. For the year ended July 31, 2011, \$99,694 was scheduled to be transferred, and was transferred in July 2011. All Board designated funds are classified as long-term since the amount to be transferred in the next fiscal year is not currently estimatable. As of July 31, 2011, Board designated funds totaled \$2,406,645.

During the year ended July 31, 2010 the Trust conducted and completed a capital needs assessment to determine the useful lives of the Trust's property and equipment and current estimates of costs of major repairs and replacements that may be required in the future. In May 2010, the Board of Trustees approved the establishment of a capital reserve fund, effective August 1, 2010, into which contributions will be made annually to accumulate funds to pay the expenses when major capital assets need to be repaired or replaced. The opening balance of \$150,000 was deposited to the reserve in September 2010. An amount that is determined and approved by the Board will be deposited annually at fiscal year end. In addition, it is the Board's intent to maintain a minimum balance of at least \$50,000 in the reserve as of the end of each fiscal year. For the year ended July 31, 2011 activity in the capital reserve fund was as follows:

Balance, beginning of year	\$ -
Deposits	150,000
Withdrawals	( 23,881)
Investment income	<u>783</u>
Balance, end of year	<u>\$ 126,902</u>

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JULY 31, 2011

**4. Concentration of credit risk**

The Organization maintains its cash accounts with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. In addition, effective December 31, 2010, all funds in a non-interest bearing account are insured in full by the FDIC through December 31, 2012. This temporary unlimited coverage is in addition to and separate from the \$250,000 coverage available to depositors under the FDIC's general deposit insurance rules. As of July 31, 2011, the Organization's cash balances were fully insured by the FDIC.

The Trust has not experienced any losses on its accounts, and monitors the credit-worthiness of the financial institutions with which it conducts business. Management believes that the Trust is not exposed to any significant credit risk with respect to its cash balances.

The Trust holds various investment funds in a combination of bonds, mutual funds and other investment securities. At July 31, 2011, the Trust had \$2,833,440 in brokerage accounts, which were not insured and subject to various risks, such as interest rate, market, and credit risks.

**5. Pledges receivable**

The Trust had pledges and contributions receivable representing the following at July 31, 2011:

	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
Capital Campaign	\$ 133,382	\$ 112,583	\$ 245,965
Annual Fund	<u>12,749</u>	<u>12,950</u>	<u>25,699</u>
	146,131	125,533	271,664
Allowance on pledges	( 7,281)	( 6,277)	( 13,558)
Discount on pledges	<u>( 6,017)</u>	<u>( 5,963)</u>	<u>( 11,980)</u>
<b>Total</b>	<b><u>\$ 132,833</u></b>	<b><u>\$ 113,293</u></b>	<b><u>\$ 246,126</u></b>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Capital Campaign	\$ 191,370	\$ 54,595	\$ 245,965
Annual Fund	<u>500</u>	<u>25,199</u>	<u>25,699</u>
	191,870	79,794	271,664
Allowance on pledges	( 9,568)	( 3,990)	( 13,558)
Discount on pledges	<u>( 8,772)</u>	<u>( 3,208)</u>	<u>( 11,980)</u>
<b>Total</b>	<b><u>\$ 173,530</u></b>	<b><u>\$ 72,596</u></b>	<b><u>\$ 246,126</u></b>

**WINCHESTER COMMUNITY MUSIC SCHOOL TRUST**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JULY 31, 2011

**5. Pledges receivable - continued**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Receivables in less than one year	\$ 85,287	\$ 60,844	\$ 146,131
Receivables in one to five years	106,583	18,950	125,533
Receivables in more than five years	<u>-</u>	<u>-</u>	<u>-</u>
	191,870	79,794	\$ 271,644
Allowance on pledges	( 9,568)	( 3,990)	( 13,558)
Discount on pledges	<u>( 8,772)</u>	<u>( 3,208)</u>	<u>( 11,980)</u>
Total	<u>\$ 173,530</u>	<u>\$ 72,596</u>	<u>\$ 246,126</u>

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

Pledges receivable measured at fair value and net realizable value consist of the following at July 31, 2011:

Measured at fair value	\$ 243,811
Measured at net realizable value	<u>2,315</u>
	<u>246,126</u>

**6. Investments**

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

The cost and fair value of these investments at July 31, 2011 were as follows:

	<u>Cost</u>	<u>Fair Value</u>
Mutual funds	\$ 1,583,939	\$ 1,814,906
Stocks	505,025	667,342
Cash	169,538	169,538
Short-term investments and money market funds	<u>181,654</u>	<u>181,654</u>
	<u>\$ 2,440,156</u>	<u>\$ 2,833,440</u>



# WINCHESTER COMMUNITY MUSIC SCHOOL TRUST

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JULY 31, 2011

### 6. Investments - continued

For the year ended July 31, 2011, investment activity was as follows:

Investments, beginning of year	\$ 2,587,010
Purchases of investments	602,087
Sales of investments	( 694,433)
Net deposits to investments	22,402
Investment income:	
Dividends and interest, net of fees of \$381	52,856
Realized and unrealized gain (loss)	<u>263,518</u>
 Investments, end of year	 <u>\$ 2,833,440</u>

For the year ended July 31, 2011, investments were segregated into the following accounts:

General operations	\$ 138,386
Capital campaign	151,083
Capital reserve	126,902
Scholarships	10,425
Endowment	<u>2,406,644</u>
 Total	 <u>\$ 2,833,440</u>

The investments are invested in several funds and industry segments. At July 31, 2011, funds comprising greater than 10% of the fair value of investments were as follows:

	<u>Percent</u>
Vanguard Index Trust S&P 500	24.41%
Vanguard International Growth Portfolio	12.26%

### 7. Endowments

The endowment net asset composition by type of fund as of July 31, 2011 is as follows:

<u>Fund Type</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-designated endowment	\$ -	\$ 425	\$ 10,000	\$ 10,425
Board-designated endowment	<u>2,406,644</u>	<u>-</u>	<u>-</u>	<u>2,406,644</u>
 Total	 <u>\$ 2,406,644</u>	 <u>\$ 425</u>	 <u>\$ 10,000</u>	 <u>\$ 2,417,069</u>

# WINCHESTER COMMUNITY MUSIC SCHOOL TRUST

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JULY 31, 2011

### 7. Endowments - continued

Changes in the endowment net assets for the year ended July 31, 2011 are as follows:

<u>Fund Type</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,821,697	\$ 422	\$ 10,000	\$ 1,832,119
Investment return:				
Investment income	45,903	3	-	45,906
Appreciation (depreciation), realized and unrealized	<u>270,921</u>	<u>-</u>	<u>-</u>	<u>270,921</u>
Total investment return	316,824	3	-	316,827
Contributions	368,000	-	-	368,000
Appropriation of endowment assets for expenditure	( 99,694)	-	-	( 99,694)
Investment management fees	<u>( 183)</u>	<u>-</u>	<u>-</u>	<u>( 183)</u>
Endowment net assets, end of year	<u>\$ 2,406,644</u>	<u>\$ 425</u>	<u>\$ 10,000</u>	<u>\$ 2,417,069</u>

### 8. Fair value measurements

Effective August 1, 2008, the Trust adopted FASB's guidance on fair value measurements. The guidance establishes a new framework for measuring fair value and expands related disclosures. Broadly, the guidance framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants. The guidance establishes a three-level hierarchy based upon observable and non-observable inputs.

The fair value hierarchy under the guidance is as follows:

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

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

# WINCHESTER COMMUNITY MUSIC SCHOOL TRUST

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JULY 31, 2011

### 8. Fair value measurements

The following table sets forth by level, within the fair value hierarchy, the Trust's fair value of assets measured on a recurring basis as of July 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ 2,833,440	\$ -	\$ -	\$ 2,833,440
Pledges receivable	<u>-</u>	<u>-</u>	<u>243,811</u>	<u>243,811</u>
Total assets at fair value	<u>\$ 2,833,440</u>	<u>\$ -</u>	<u>\$ 243,811</u>	<u>\$ 3,077,251</u>

The fair value of pledges receivable that are due in more than one year is estimated by discounting expected future cash flows using a rate of return determined by management of the Trust.

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

The changes in assets measured at fair value for which the Trust has used Level 3 inputs are as follows for the year ended July 31, 2011:

Balance, August 1, 2010	\$ 305,406
Unrealized gains (losses)	-
New promises received	28,000
Collections	( 88,100)
Contributed revenue	( 4,526)
General and administrative (write-offs)	<u>3,031</u>
Balance, July 31, 2011	<u>\$ 243,811</u>

### 9. Employee benefit plan

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

### 10. Related party transactions

A member of the Board of Trustees owns an electrical company, which provides services to the Trust. Total costs incurred to this company totaled \$8,566 for the year ended July 31, 2011. The vendor relationship with this company is subject to the same procurement requirements, policies and controls as the Trust applies to its other vendors.

# WINCHESTER COMMUNITY MUSIC SCHOOL TRUST

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JULY 31, 2011

### **11. Commitments and contingencies**

In August 2011, the Trust entered into a construction contract to expand the Trust's parking area. The work is scheduled to begin in August 2011 and is expected to be completed by December 2011. The Trust is funding this expansion through a combination of contributions and cash on hand. The total cost of the project is expected to cost approximately \$112,000.