Rosie's House: A Music Academy for Children, Inc.

Financial Statements

For the Year Ended June 30, 2017

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Financial Statements
Year Ended June 30, 2017

ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC.
JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Rosie's House: A Music Academy for Children, Inc.

Report on Financial Statements

We have audited the accompanying financial statements of Rosie's House: A Music Academy for Children, Inc. (Organization) which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, and functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rosie's House: A Music Academy for Children, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
February 6, 2018

ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS

Current Assets	
Cash and cash equivalents	$ 208,022
Prepaid expenses	2,434
Beneficial interest in assets held by others	11,659
Total Current Assets	222,115
Other Assets	
Prepaid expenses	1,225
Certificates of Deposit	115,411
Total Other Assets	116,636
Noncurrent Assets	
Property and equipment (net of accumulated depreciation of $235,443)	174,651
Total Noncurrent Assets	174,651
Total Assets	$ 513,402

NET ASSETS

Net Assets	
Unrestricted	$ 420,402
Temporarily restricted	93,000
Total Net Assets	513,402
Total Net Assets	$ 513,402

The accompanying notes are an integral part of these financial statements.

ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Support	**Unrestricted**	**Temporarily Restricted**	**Total**
Contributions	$ 346,790	$	$ 346,790
Donated instruments	20,395		20,395
Donated newspaper ad	20,000		20,000
Grants	119,353	148,000	267,353
Investment income	912		912
Realized and unrealized gain on beneficial interest in assets held by others, net of investment expense of $527	934		934
Special events, less direct benefit to donors of $6,300	69,092		69,092
Donated facilities	40,000		40,000
Miscellaneous income	654		654
Total revenues	618,130	148,000	766,130
Net assets released from restrictions			
Satisfaction of program restrictions	70,000	(70,000)	
Total support and net assets released from restrictions	688,130	78,000	766,130
Expenses			
Program services	432,576		432,576
Management and general	101,446		101,446
Fundraising	79,076		79,076
Total expenses	613,098		613,098
Increase (decrease) in unrestricted net assets	75,032	78,000	153,032
Increase (decrease) in Net Assets	75,032	78,000	153,032
Net Assets, July 1, 2016	345,370	15,000	360,370
Net Assets, June 30, 2017	$ 420,402	$ 93,000	$ 513,402

The accompanying notes are an integral part of these financial statements.

ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services	Management & General	Fundraising	Total
Salaries	$ 233,778	$ 34,327	$ 40,902	$ 309,007
Benefits	10,237	3,052	2,714	16,003
Payroll taxes	16,185	3,972	2,903	23,060
Professional fees	11,516	12,626	157	24,299
Program supplies	24,464	-	614	25,078
Office expenses	9,331	2,540	1,865	13,736
Telephone	2,571	775	467	3,813
Conferences, conventions, & meetings	2,838	361	268	3,467
Travel	5,027	-	-	5,027
Depreciation	16,377	4,619	-	20,996
Occupancy	30,980	9,020	-	40,000
Postage and shipping	2,100	3,453	1,042	6,595
Insurance	7,939	2,586	1,870	12,395
Utilities	7,534	2,237	28	9,799
Marketing and public relations	23,678	21,878	22,844	68,400
Miscellaneous	28,021	-	3,402	31,423
	$ 432,576	$ 101,446	$ 79,076	$ 613,098

The accompanying notes are an integral part of these financial statements.

ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

Increase in Cash and Cash Equivalents	
Cash Flows From Operating Activities:	
Increase in net assets	$ 153,032
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	20,996
Donated instruments	(20,395)
Unrealized gain	(934)
Decrease in prepaids	147
Net cash provided by operating activities	152,846
Cash flows from investing activities:	
Increase in investments	(910)
Purchase of property and equipment	(26,617)
Net cash used for investing activities	(27,527)
Net increase in cash and cash equivalents	125,319
Cash and cash equivalents, July 1, 2016	82,703
Cash and cash equivalents, June 30, 2017	$ 208,022

The accompanying notes are an integral part of these financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rosie's House: A Music Academy for Children, Inc. (Organization) is a private, nonprofit organization formed in 1996. The Organization was established to provide music education and enrichment to children and youth from low income families in the Phoenix area. Each student is provided with a loaned instrument and receives cost-free, individualized music instruction by professional music educators. The Organization's music education program enables students to build confidence and self-esteem, to experience personal success, and to develop the social skills necessary to become a responsible and productive member of our community.

The more significant accounting policies are described below.

A. Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

B. Basis of Presentation

The financial statements of the Organization have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to not-for-profit entities. The Financial Accounting Standards Board (FASB) is the accepted standard-setting body for establishing not-for-profit accounting and financial reporting principles. The Organization is required to report information regarding its financial position and activities according to three classes based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general purposes. The Organization has no permanently restricted net assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Restricted and Unrestricted Revenue

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

D. Expense Allocation

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

E. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

F. Donated Instruments

Donated instruments, when received, are recorded as contributions in the accompanying financial statements at their fair values at the date of donation.

G. Donated Services

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. No amounts have been recognized as contributions in the financial statements for volunteer services since the recognition criteria were not met. However, the fair value of donated advertising in the amount of $20,000 was included as contributions and program expenses in the accompanying financial statements.

H. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Investments

The Organization reports investments at fair value. The Organization's investments consist of time deposits with a maturity at purchase in excess of three months. Investment income, gains and losses are included in the change in net assets. Investment income and gains restricted by donors 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.

J. Concentrations of Credit and Market Risk

Financial instruments that potentially expose the Organization to concentrations of credit and market risk consist primarily of cash equivalents and investments. The Organization maintains its cash and cash equivalents in bank deposit accounts, which, for short periods of time, may exceed federally insured limits. There was no uninsured cash at year end. To minimize risk, cash and investment accounts are maintained at high-quality financial institutions and credit exposure is limited to any one institution.

K. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

L. Property and Equipment

All acquisitions of property and equipment with a cost in excess of $500 or more are capitalized. Donated instruments and office furniture and equipment with an appraised value of $25 of more are also capitalized at appraised value. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from 10 years for instruments and 5 to 10 years for all other property. Depreciation expense for the current fiscal year was $20,996.

M. Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and similar State of Arizona tax provisions. The Organization's Form 990, *Return of Organization Exempt from Income* is generally subject to examination by the Internal Revenue Service for three years after the date filed.

N. Subsequent Events

Subsequent events have been evaluated through February 6, 2018, which is the date the financial statements were available to be issued.

NOTE 2 – BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

At June 30, 2017, the following investment was designated for the future endowment of the Organization:

	Cost	Market Value	Unrealized Gain
Funds held by the Arizona Community Foundation for the benefit of the Organization's endowment	$ 6,925	$ 11,659	$ 4,734

The net income from the designated fund is to be distributed at least annually for the support of operations, programs and other needs of the Organization. The principal of the fund may be invaded upon request of a majority of the Organization's Board of Directors and upon approval of the Arizona Community Foundation's Board of Directors.

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value is defined as the price that the Organization would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date.

Accounting standards establish a three-tier fair value hierarchy that prioritizes the inputs to valuation techniques. Inputs refer broadly to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Observable inputs are those that reflect the assumptions that market participants would use in pricing the asset and are based on market data obtained from independent sources. Unobservable inputs reflect the Organization's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

Level 1: Quoted prices in active markets for identical investments.

Level 2: Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

The level of fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

NOTE 3 –INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair Values Measured on Recurring Basis

Fair values of assets measured on a recurring basis at year end are as follows:

	Fair Value	(Level 1)	(Level 2)
Investments			
Certificates of deposit	$ 115,411	$ 115,411	$
Beneficial interest in assets held by others	11,659		11,659
Total assets	$ 127,070	$ 115,411	$ 11,659

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value.

Investments – Investments consist of a certificate of deposit with a maturity date of April 27, 2018. Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

Beneficial interest in assets held by others - The beneficial interest in assets held by others consists of pooled funds held by the Arizona Community Foundation. The fair value of such funds is determined by an investment advisory group for the Arizona Community Foundation and is generally categorized in Level 2 of the value hierarchy.

NOTE 4 – ENDOWMENTS

As of year end, the Board of Trustees had designated $11,659 of unrestricted net assets as a general endowment fund to support the mission of the Organization. The principal of the fund may be invaded upon request of a majority of the Organization's Board of Directors and upon approval of the Arizona Community Foundation's Board of Directors.

As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with board designated endowment funds are classified and reported as unrestricted net assets.

All endowment funds are invested with the Arizona Community Foundation (ACF), and as such the Foundation follows the investment strategy as dictated by ACF. ACF follows a strategy of long-term total return. Investments are diversified to avoid any single security or class of securities having a disproportionate impact on the total portfolio.

NOTE 4 – ENDOWMENTS

In accordance with Uniform Prudent Management of Institutional Funds Act (UPMIFA), which has been adopted by the State of Arizona, the Organization considers the following factors in making a determination to appropriate or accumulate endowment funds:

a. The duration and preservation of the fund
b. The purpose of the donor-restricted endowment fund
c. General economic conditions
d. The possible effect of inflation and deflation
e. The expected total return from income and the appreciation of investments
f. Other resources of the organization
g. The investment policies of the organization

Composition of and changes in endowment net assets for the current fiscal year were as follows.

Board-designated endowment net assets, beginning of year	$	10,725
Investment income		1,461
Administrative expenses		527
Board-designated endowment net assets, end of year	$	11,659

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following.

Instruments	$ 319,498
Furniture and equipment	90,596
Total property and equipment	410,094
Less accumulated depreciation	(235,443)
Net property and equipment	$ 174,651

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are consisted of the following as of year-end:

Country Music Association	$	5,000
Steele Foundation		10,000
Piper Charitable Trust – Special Purpose		78,000
Total Temporarily Restricted Net Assets	$	93,000

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets released from restriction due to payment were as follows:

Country Music Association	$	35,000
Steele Foundation		20,000
Piper Foundation		15,000
Total Temporarily Restricted Net Assets	$	70,000

NOTE 7 – INVESTMENT EXPENSES

Expenses relating to investment revenues, including custodial fees and investment advisory fees, amounted to $527 and have been netted against investment revenues in the accompanying Statement of Activities.

NOTE 8 – GRANTS

Principal sources of funding come from corporate, foundation and private grants. Grants received for which program expenses have not been incurred are reported as temporarily restricted net assets.

NOTE 9 – COMMITMENTS

The Organization has a one year memorandum of understanding agreement which expires June 30, 2018, whereby it may utilize approximately 3,260 square feet of classroom space for its teaching programs and approximately 410 square feet for its administrative offices. The agreement calls for an annual payment of $10 and may be unilaterally cancelled by either party with a 180 day written notice of termination. The fair rental value of the premises is approximately $40,000 per year. The organization is responsible for its share of utility costs.

NOTE 10 – LINE OF CREDIT

The Organization has a revolving line of credit with a bank whereby it may borrow up to $113,650. The line is collateralized by a certificate of deposit, held by the lending bank, in the amount of approximately $115,411 as of year-end. The line matures on April 26, 2018, and have a variable interest rate which was at 2% as of year-end. Interest on any outstanding balance is due monthly with any unpaid principal due on or before April 26, 2018. The outstanding balance as of year-end was $0.