



**Rosie's House: A Music Academy for Children, Inc.**  
**Financial Statements**  
for the Year Ended June 30, 2019

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

Financial Statements  
Year Ended June 30, 2019

**ROSIE’S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC.  
YEAR ENDED JUNE 30, 2019**

**TABLE OF CONTENTS**

INDEPENDENT AUDITOR’S REPORT .....	1
FINANCIAL STATEMENTS	
Statement of Financial Position.....	3
Statement of Activities .....	4
Statement of Functional Expenses .....	5
Statement of Cash Flows .....	6
Notes to Financial Statements .....	7

## 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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 the Organization as of June 30, 2019, 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.

***Change in Accounting Principle***

As described in Note 1, the Organization implemented the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), for the year ended June 30, 2019, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.  
Phoenix, Arizona  
September 25, 2019

**ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2019**

**Assets**

Current Assets

Cash and cash equivalents	\$	435,799
Prepaid expenses		2,028
Beneficial interest in assets held by others		11,353
Total Current Assets		449,180

Other Assets

Certificates of Deposit		118,246
Total Other Assets		118,246

Noncurrent Assets

Property and equipment (net of accumulated depreciation of \$280,168)		204,417
Total Noncurrent Assets		204,417

Total Assets	\$	771,843
--------------	----	---------

**Liabilities**

Current Liabilities

Accounts payable	\$	2,022
Accrued payroll and benefits		13,932
Total Current Liabilities		15,954

**Net Assets**

Without donor restrictions		
Undesignated	\$	644,536
Designated by the board		11,353

With donor restrictions		
Time restricted		50,000
Purpose restricted		50,000
		100,000

Total Net Assets		755,889
------------------	--	---------

Total Net Assets and Liabilities	\$	771,843
----------------------------------	----	---------

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, 2019**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b><u>Revenues, support and gains</u></b>			
Contributions	\$ 499,134	\$ 50,000	\$ 549,134
Donated instruments	57,437		57,437
Grants	227,768	50,000	277,768
Investment returns, net	2,538		2,538
Special events, less direct benefit to donors of \$5,600	82,182		82,182
Donated facilities	40,000		40,000
Miscellaneous income	387		387
Net assets released from restrictions	57,000	(57,000)	
Total revenues, support and gains	966,446	43,000	1,009,446
<b><u>Expenses</u></b>			
Program services	510,530		510,530
Management and general	84,394		84,394
Fundraising	203,146		203,146
Total expenses	798,070		798,070
<b>Change in net assets</b>	168,376	43,000	211,376
<b>Net assets, beginning of year</b>	487,513	57,000	544,513
<b>Net assets, end of year</b>	\$ 655,889	\$ 100,000	\$ 755,889

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, 2019**

	<u>Program Services</u>	<u>Management &amp; General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 326,631	\$ 39,952	\$ 60,165	\$ 426,748
Benefits	13,849	3,710	1,823	19,382
Payroll taxes	26,395	3,629	5,232	35,256
Professional fees	4,140	8,808	47,483	60,431
Program supplies	14,180	-	-	14,180
Office expenses	8,603	1,598	9,830	20,031
Telephone	3,641	1,021	511	5,173
Conferences, conventions, & meetings	910	245	104	1,259
Travel	1,487	152	476	2,115
Depreciation	31,863	2,942	-	34,805
Occupancy	30,800	8,800	400	40,000
Postage and shipping	603	229	3,331	4,163
Insurance	9,839	2,811	1,406	14,056
Utilities	19,393	6,166	257	25,816
Marketing and public relations	3,454	1,834	30,345	35,633
Miscellaneous	14,742	2,497	47,383	64,622
<b>Total expenses by function</b>	<b>\$ 510,530</b>	<b>\$ 84,394</b>	<b>\$ 208,746</b>	<b>\$ 803,670</b>
Less expenses included with revenues on the statement of activities				
Cost of direct benefits to donors	-	-	(5,600)	(5,600)
<b>Total expenses included in the expense section on the statement of activities</b>	<b>\$ 510,530</b>	<b>\$ 84,394</b>	<b>\$ 203,146</b>	<b>\$ 798,070</b>

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, 2019**

**Cash Flows From Operating Activities:**

Change in net assets	\$	211,376
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		34,805
Donated instruments		(57,437)
(Gain) loss on disposal of assets		3,481
Unrealized gain (loss)		(94)
Decrease (increase) in prepaids		3,605
Increase (decrease) in accounts payable		(618)
Increase (decrease) in payroll liabilities		<u>13,932</u>
<b>Net cash provided by operating activities</b>		<u>209,050</u>
<b>Cash flows from investing activities:</b>		
Investment income/loss		(1,471)
Proceeds from sale of assets		10,000
Purchase of property and equipment		<u>(10,048)</u>
<b>Net cash provided by/used for investing activities</b>		<u>(1,519)</u>
<b>Net increase in cash and cash equivalents</b>		207,531
<b>Cash and cash equivalents, beginning of year</b>		<u>228,268</u>
<b>Cash and cash equivalents, end of year</b>	\$	<u><u>435,799</u></u>

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

**ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

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 the community.

**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.

**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 two classes based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified as follows:

*Net assets without donor restrictions* – Net assets that are not subject to donor-imposed stipulations.

*Net assets with donor restrictions* – Net assets subject to donor-imposed stipulations. Donor restrictions are temporary in nature; those restrictions will be met either by actions of the Organization and/or the passage of time. Currently, there are no donor restrictions that are perpetual in nature.

Donor-restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

**Use of 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.

**ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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.

**Investments**

The Organization reports investments at fair value. Net investment income return is reported in the Statement of Activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment expense.

**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. At year end, the carrying amount of the Organization's deposits was \$435,799 and the bank balance was \$436,936. At year end, \$186,936 of the Organization's deposits were uninsured and uncollateralized. To minimize risk, cash accounts are maintained at high-quality financial institutions and credit exposure is limited to any one institution.

**Donated Instruments**

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

**Property and Equipment**

All acquisitions of property and equipment with a cost in excess of \$500 and all expenses for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Donated instruments, office furniture, and other equipment with an appraised value of \$25 or more are also capitalized at the 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 \$34,805.

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators are present.

**ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Beneficial Interest in Assets Held by Community Foundation**

The Organization has established an endowment fund that is perpetual in nature with the Arizona Community Foundation (ACF) and named the Organization as the beneficiary. The Organization granted variance power to ACF, which allows ACF to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if in the sole judgment of ACF's Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The fund is held and invested by ACF for the Organization's benefit and is reported at fair value in the statements of financial position, with distributions and changes in fair value recognized in the statements of activities.

**Revenue Recognition**

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively.

**Donated Services and In-Kind Contributions**

Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies net assets with donor restrictions to net assets without restrictions at that time.

Volunteers contribute significant amounts of time to the Organization's program services, administration, and fundraising activities; however the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed in generally accepted accounting principles.

**Functional Allocation of Expenses**

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. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and benefits	Time and effort
Occupancy	Square footage

**ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Advertising**

The Organization uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. During the current fiscal year, advertising costs totaled \$20,051.

**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 Taxes*, is generally subject to examination by the Internal Revenue Service for three years after the date filed.

**New Accounting Pronouncement**

During the fiscal year, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

**Date of Management's Review**

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 25, 2019, which is the date the financial statements were available to be issued.

**NOTE 2 – CERTIFICATES OF DEPOSIT**

Certificates of deposit are comprised of the following at fiscal year end:

Certificate of deposit maturing in less than one year	\$ 118,246
Total	<u>\$ 118,246</u>

Certificates of deposit are reported at cost plus accrued interest which approximates fair value. The certificates bear interest at 1.734 percent.

**ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 3 – LIQUIDITY AND AVAILABILITY**

The following represents the Organization's financial assets at fiscal year end:

Financial assets at year end:	
Cash and cash equivalents	\$ 435,799
Board endowment	11,353
CDs maturing in less than one year	<u>118,246</u>
Total financial assets	<u>565,398</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	100,000
Less: Net assets with time restrictions to be met in less than a year	<u>(50,000)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 615,398</u>

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization's goal is to maintain cash in its operating account below the FDIC insured amount of \$250,000. As part of its liquidity plan, excess cash is invested in a high-yield saving account and certificates of deposit. The Organization has a \$113,000 credit line available to meet cash flow needs. The line of credit matures on April 26, 2020. The interest rate is two percent, with interest due monthly and principal due upon maturity. No funds were borrowed under this agreement during the fiscal year.

**NOTE 4 – 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.

**ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS**

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.

Fair Values Measured on Recurring Basis

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

	Hierarchy Level	Fair Value
Investments		
Certificates of deposit	Level 1	\$ 118,246
Contribution receivable – Beneficial Interest in Assets held by Community Foundation	Level 3	11,353
Total assets		\$ 129,599

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

*Investments* – Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

The Organization recognizes transfers into and out of levels within the fair value hierarchy at the end of the reporting period. There were no transfers between levels during the current fiscal year.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows:

	Assets Held by Community Foundation
Beginning of year	\$ 11,816
Investment return, net	(463)
End of year	\$ 11,353

**ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following.

Instruments	\$ 428,860
Vehicles, furniture and equipment	<u>55,725</u>
Total property and equipment	484,585
Less: Accumulated depreciation and amortization	<u>(280,168)</u>
Net property and equipment	<u><u>\$ 204,417</u></u>

**NOTE 6 - ENDOWMENTS**

The Organization's endowment consists of funds designated by the Board to function as endowments. 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 generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

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

**ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 6 - ENDOWMENTS**

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.

Changes in Endowment Net Assets as of year end:

	Without Donor Restriction
Endowment net assets, beginning of year	\$ 11,816
Investment return, net	314
Amounts appropriated for expenditure	(777)
Endowment net assets, end of year	\$ 11,353

**NOTE 7 – NET ASSETS**

Net assets with donor restrictions were as follows:

Specific purpose	
To pay for a new facility	\$ 50,000
Passage of Time	
Piper Foundation	50,000
Total	\$ 100,000

Net assets released from donor restrictions are as follows:

Satisfaction of time restrictions	
Piper Foundation	\$ 57,000
Total	\$ 57,000

**ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 8 – DONATED SERVICES**

The fair value of donated services included as contributions in the financial statements and the corresponding program expenses for the current year ended is as follows:

Instruments	\$ 57,437
Facility	40,000
Total	<u>\$ 97,437</u>

**NOTE 9 – COMMITMENTS AND CONTINGENCIES**

The Organization is subject to certain loss contingencies, such as litigation, arising in the normal conduct of its activities. In the opinion of management, the liability, if any, for such contingencies will not have a material effect on the Organization's financial position.

The Organization has a one year memorandum of understanding agreement which expires July 31, 2020, 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 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. Additionally, the Organization agreed to a separate one-year memorandum of understanding which also expires July 31, 2020, whereby the Organization agrees to pay \$36,000 for additional space usage and utilities.