Rosie's House: A Music Academy for Children, Inc.
Financial Statements
for the Year Ended June 30, 2021

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Financial Statements Year Ended June 30, 2021

ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC. YEAR ENDED JUNE 30, 2021

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors

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

Report on Audit of Financial Statements

Opinion

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, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rosie's House: A Music Academy for Children, Inc. as of June 30, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* for the Audit of the Financial Statements section of our report. We are required to be independent of Rosie's House: A Music Academy for Children, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our auditopinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 the Organization's ability to continue as a going concern for a
 reasonable period of time.

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

Heinfeld Meeth & Co. PC

Heinfeld, Meech & Co., P.C. Scottsdale, Arizona October 12, 2021

ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC. STATEMENT OF FINANCIAL POSITION JUNE 30, 2021

Assets

Current Assets		
Cash and cash equivalents	\$	1,363,220
Prepaid expenses		37,486
Beneficial interest in assets held by others		12,550
Accounts receivable		5,792
Contributions receivable		583,880
Total Current Assets	_	2,002,928
Other Assets		
Security deposit		202,850
Certificates of deposit	_	371,291
Total Other Assets	_	574,141
Noncurrent Assets		
Contributions receivable, net		1,090,925
Property and equipment (net of accumulated depreciation of \$303,726)		236,335
Total Noncurrent Assets	_	1,327,260
	_	
Total Assets	\$	3,904,329
	_	
<u>Liabilities</u>		
Current Liabilities		
Accounts payable	\$	2,915
Accrued payroll and benefits		13,179
Total Current Liabilities	_	16,094
Net Assets		
Without donor restrictions		
Undesignated	\$	728,214
Designated by the board		12,550
With donor restrictions		
Time restricted		50,000
Purpose restricted		3,097,471
-	_	-
Total Net Assets		3,888,235
Total Net Assets and Liabilities		
	\$	3,904,329

ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC. STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2021

		Without Donor Restrictions	With Donor Restrictions	Total
Revenues, support and gains				
Contributions	\$	483,120 \$	2,188,858 \$	2,671,978
Donated instruments		77,541		77,541
In-kind contributions		24,000		24,000
Grants		189,218	1,032,600	1,221,818
Investment returns, net		3,264		3,264
Special event		2,500		2,500
Miscellaneous income		4,587		4,587
Net assets released from restrictions	_	289,787	(289,787)	
Total revenues, support and gains	_	1,074,017	2,931,671	4,005,688
Expenses				
Program services		629,367		629,367
Management and general		126,882		126,882
Fundraising	_	279,104		279,104
Total expenses	_	1,035,353		1,035,353
Change in net assets		38,664	2,931,671	2,970,335
Net assets, beginning of year	_	702,100	215,800	917,900
Net assets, end of year	\$_	740,764 \$	3,147,471 \$	3,888,235

ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC. STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2021

]	Program	Ma	nagement			
		Services	&	General	Fu	ndraising	Total
Salaries	\$	315,681	\$	45,813	\$	70,789	\$ 432,283
Benefits		27,914		2,765		5,286	35,965
Payroll taxes		25,639		4,214		5,443	35,296
Professional fees		2,617		9,737		139,176	151,530
Program supplies		63,642		-		-	63,642
Office expenses		8,217		2,102		9,967	20,286
Telephone		5,587		1,582		731	7,900
Conferences, conventions & meetings		66		429		7	502
Depreciation		35,031		1,758		-	36,789
Occupancy		65,921		43,038		9,519	118,478
Postage and shipping		3,335		952		1,211	5,498
Insurance		7,901		2,258		1,129	11,288
Utilities		2,565		613		306	3,484
Marketing and public relations		34,342		8,626		33,856	76,824
Miscellaneous		30,909		2,995		1,684	 35,588
Total expenses	\$	629,367	\$	126,882	\$	279,104	\$ 1,035,353

ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2021

Cash flows from operating activities:

Change in net assets	\$	2,970,335
Adjustments to reconcile change in net assets to		
net cash provided by operating activities:		
Depreciation		36,789
Donated instruments		(77,541)
Unrealized gain (loss)		476
Changes in assets and liabilities:		
Prepaid expenses		(25,041)
Accounts receivable		(5,792)
Contributions receivable		(1,674,805)
Security deposit		(201,330)
Accounts payable		796
Payroll liabilities	_	3,189
Net cash provided by operating activities		1,027,076
Cash flows from investing activities:		
Purchase of certificate of deposit		(250,000)
Investment income/loss		(3,527)
Purchase of property and equipment	_	(3,699)
Net cash used for investing activities	_	(257,226)
Net increase in cash and cash equivalents		769,850
Cash and cash equivalents, beginning of year	_	593,370
Cash and cash equivalents, end of year	\$	1,363,220

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.

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 \$1,363,219 and the bank balance was \$1,421,964. At year end, \$921,964 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.

Revenue Recognition

Contributions and Grants. The Organization recognizes contributions and grants when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. The Organization did not have any conditional promises to give at June 30, 2021.

Contributions Receivable

Unconditional promises to give that are expected to be collected in less than one year are reported at net realizable value. Unconditional promises to give that are expected to be collected in periods greater than one year are recorded at net present value of expected cash flows. Management does not believe an allowance for uncollectible amounts is necessary based on historical experience with donors, and accordingly has made no allowance for doubtful accounts.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Accounts receivable are considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary.

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 \$250 or more are also capitalized at the appraised value. In May of 2021, the Organization adopted a new policy in which all acquisitions of property and equipment, with the exception of instruments with a cost in excess of \$2,000 are capitalized. The threshold for all instruments remained \$250. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from 10 years for instruments and 3 to 10 years for all other property. Depreciation expense for the current fiscal year was \$36,789.

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.

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 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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:

Expense	Method of Allocation
Salaries and benefits	Time and effort
Occupancy	Square footage

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 \$19,929.

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.

Management has evaluated the tax positions taken or expected to be taken, if any, on its exempt organization filings, and the likelihood that upon examination those positions would be sustained. Based on the results of this evaluation, management believes there are no uncertain tax positions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements Issued Not Yet Effective

In February 2016, the FASB issued ASU Update 2016-02, *Leases (Topic 842)*. The ASU will require entities to recognize assets and liabilities for both capital and operating leases with lease terms of more than 12 months on the statement of financial position. This ASU is effective for fiscal years beginning after December 15, 2021. The Organization is currently evaluating the effect that this pronouncement will have on its consolidated financial statements and related disclosures.

Date of Management's Review

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 12, 2021, which is the date the financial statements were available to be issued.

NOTE 2 – CERTIFICATES OF DEPOSIT

Certificates of deposit maturing in less than one year were \$371,291 at fiscal year end.

Certificates of deposit are reported at cost plus accrued interest which approximates fair value. The certificates bear interest at 0.6 percent.

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	\$ 1,363,220
Contributions receivable	1,674,805
CDs maturing in less than one year	371,291
Total financial assets	 3,409,316
Less amounts not available to be used within one year:	
Net assets with donor restrictions	3,147,471
Less: Net assets with restrictions to be met in less than a year	 633,880
Financial assets available to meet general expenditures over the	
next twelve months	\$ 895,725

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, 2022. 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.

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	Fa	air Value
Investments			
Certificates of deposit	Level 1	\$	371,291
Contribution receivable – Beneficial Interest			
in Assets held by Community Foundation	Level 3		12,550
Total assets		\$	383,841

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.

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Beneficial Interest in Assets held by Community Foundation (ACF) – Fair values for these assets are based on the endowment fund balance as reported by ACF at fiscal year end. Endowment fund balances, which are determined by ACF quarterly, are the price at which the Organization can withdraw assets from the Foundation.

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	
	Community	
	For	undation
Beginning of year	\$	10,472
Investment return, net		2,839
Amounts appropriated for expenditure		(761)
End of year	\$	12,550

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable consist of the following:

Contributions receivable before unamortized discount	\$ 1,702,180
Less: Unamortized discount	(27,375)
Total	1,674,805
Less: Allowance for uncollectibles	- 0 -
Net contributions receivable	1,674,805
Amounts due in:	
Less than one year	583,880
One to five years	1,118,300
Total	\$ 1,702,180

The discount rate used to determine the present value of contributions receivable is commensurate with the risks involved and was 0.87 percent.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following.

Instruments	\$ 492,247
Vehicles, furniture and equipment	47,814
Total property and equipment	 540,061
Less: Accumulated depreciation and amortization	(303,726)
Net property and equipment	\$ 236,335

NOTE 7 - 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.

All endowment funds are invested with the Arizona Community Foundation (ACF), and as such the Foundation follows the investment strategy as dictated by ACF. Endowment funds are invested in ACF's Long Term Diversified Pool, the objective of which is to grow capital long term through a highly-diversified portfolio designed to reduce public market volatility through diversification and enhance returns through private market investments.

Changes in Endowment Net Assets as of year end:

	Without Donor	
	_	striction
Endowment net assets, beginning of year	\$	10,472
Investment return, net		2,839
Amounts appropriated for expenditure		(761)
Endowment net assets, end of year	\$	12,550

NOTE 8 – NET ASSETS

Net assets with donor restrictions were as follows:

Specific purpose	
Campaign for a new facility	\$ 3,097,471
Passage of Time	
BHHS Legacy Foundation	50,000
Total	\$ 3,147,471

Net assets released from donor restrictions are as follows:

Satisfaction of purpose restrictions	
Campaign for a new facility	\$ 269,787
Satisfaction of time restrictions	
BHHS Legacy Foundation	20,000
Total	\$ 289,787

NOTE 9 – OPERATING LEASE COMMITMENTS

In June 2020, the Organization entered a noncancelable operating lease with a term of six months to rent office space. Additionally, in December of 2020, the Organization entered a noncancelable operating lease with a term of five years with the option of second and third terms of five additional years each with written notice for each extended term. Total rent expense incurred under operating leases totaled \$94,479 during the fiscal year.

The following is a schedule by years of future minimum rental payments under the leases at year end:

Year End:		
	2022	\$ 201,770
	2023	205,808
	2024	209,923
	2025	214,122
	2026	126,350
Total		\$ 957,973

NOTE 10 – DONATED INSTRUMENTS AND SUPPLIES

The fair value of donated instruments and supplies included as contributions in the financial statements and the corresponding program expenses for the current year ended was \$77,541 and \$24,000, respectively.

NOTE 11 – CONCENTRATIONS

The Organization received a substantial portion of its total revenues, approximately 12 percent from one contributor. Additionally, approximately 29 percent of contributions receivable were pledged by two contributors. Loss of such donors in the near-term could cause a significant reduction in the Organization's ability to purchase a permanent building.

NOTE 12 – EMPLOYEE BENEFIT PLAN

The Organization has a 401(k) plan available to all employees, who can elect to participate in a tax-deferred plan or Roth plan. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code if they wish. At the Organization's discretion, employer contributions can be given to employees who have completed at least 320 service hours during the plan year and were still employed at the end of the plan year. Plan expenses were \$8,224 for the fiscal year.