

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

Financial Statements and  
Independent Auditors' Report

June 30, 2024

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## Independent Auditors' Report

To the Board of Directors of  
Rosie's House: A Music Academy for Children, Inc.  
Mesa, Arizona

### **Opinion**

We have audited the accompanying financial statements of Rosie's House: A Music Academy for Children, Inc. (the Organization, an Arizona nonprofit corporation), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses, and cash flows for 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 the Organization as of June 30, 2024, 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 the Organization 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 audit opinion.

### **Responsibilities of Management for the Financial Statements**

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about 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.

*Fester & Chapman, PLLC*

October 23, 2024

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

Statement of Financial Position

June 30, 2024

ASSETS

Current assets:	
Cash	\$ 3,864,148
Certificates of deposit	262,721
Contributions receivable, current portion	601,992
Prepaid expenses	<u>24,892</u>
Total current assets	4,753,753
Contributions receivable, noncurrent portion, net	186,277
Property and equipment, net	<u>4,372,895</u>
Total assets	<u>\$ 9,312,925</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 5,363
Accrued expenses	72,999
Refundable advances	35,402
Note payable, current portion	<u>35,505</u>
Total current liabilities	149,269
Note payable, noncurrent, net	<u>2,444,826</u>
Total liabilities	2,594,095
Net assets:	
Without donor restrictions	5,895,561
With donor restrictions	<u>823,269</u>
Total net assets	<u>6,718,830</u>
Total liabilities and net assets	<u>\$ 9,312,925</u>

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

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

Statement of Activities

Year ended June 30, 2024

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Public support and revenue:			
Contributions	\$ 886,660	\$ 591,667	\$ 1,478,327
Foundation grants	874,667		874,667
Government grants	139,792		139,792
Special events, net of costs of direct donor benefits of \$136,142	123,277		123,277
In-kind contributions	106,845		106,845
Interest income	115,537		115,537
Other revenue	16,311		16,311
Net assets released from restrictions	<u>4,505,546</u>	<u>(4,505,546)</u>	
Total public support and revenue	6,768,635	(3,913,879)	2,854,756
Expenses:			
Program services	1,464,546		1,464,546
Management and general	240,058		240,058
Fundraising	<u>253,844</u>		<u>253,844</u>
Total expenses	<u>1,958,448</u>		<u>1,958,448</u>
Change in net assets, before loss on asset disposal	4,810,187	(3,913,879)	896,308
Loss on asset disposal	<u>(13,329)</u>		<u>(13,329)</u>
Change in net assets	4,796,858	(3,913,879)	882,979
Net assets, beginning of year	<u>1,098,703</u>	<u>4,737,148</u>	<u>5,835,851</u>
Net assets, end of year	<u>\$ 5,895,561</u>	<u>\$ 823,269</u>	<u>\$ 6,718,830</u>

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

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

Statement of Functional Expenses

Year ended June 30, 2024

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries	\$ 649,878	\$ 107,871	\$ 106,210	\$ 863,959
Benefits	59,893	6,523	6,858	73,274
Payroll taxes	52,426	7,030	7,117	66,573
Professional fees	122,534	3,201	22,660	148,395
Supplies	71,373	3,707	1,082	76,162
Office expenses	10,177	1,908	636	12,721
Telephone	4,082	1,167	583	5,832
Conferences, conventions and meetings	191	556	27	774
Dues and subscriptions	7,138	1,338	446	8,922
Travel	770	391	110	1,271
Depreciation	138,317	16,135		154,452
Occupancy	188,342	30,046	15,558	233,946
Repairs and maintenance	6,902	1,972	986	9,860
Postage and shipping	4,602	2,288	1,450	8,340
Printing	15,853	4,536	9,303	29,692
Insurance	14,053	2,758	3,266	20,077
Bank fees	3,714	81	8,419	12,214
Utilities	17,435	3,269	1,090	21,794
Marketing and public relations	22,789	8,353	3,352	34,494
Fundraising			63,481	63,481
Miscellaneous	44,222	1,290	1,210	46,722
Interest expense		35,638		35,638
In-kind expenses	29,855			29,855
	<u>\$ 1,464,546</u>	<u>\$ 240,058</u>	<u>\$ 253,844</u>	<u>\$ 1,958,448</u>
Total expenses				

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

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

Statement of Cash Flows

Year ended June 30, 2024

Cash flows from operating activities:	
Change in net assets	\$ 882,979
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	154,452
Donated instruments capitalized	(24,009)
Loss on disposal of assets	13,329
Collections of capital campaign contributions	(550,000)
Changes in:	
Contributions receivable, net	791,719
Prepaid expenses	6,130
Accounts payable	(26,026)
Accrued expenses	24,599
Refundable advances	<u>35,402</u>
Net cash provided by operating activities	<u>1,308,575</u>
Cash flows from investing activities:	
Purchases of property and equipment	(1,603,168)
Purchases of certificates of deposit	<u>(6,765)</u>
Net cash used by investing activities	<u>(1,609,933)</u>
Cash flows from financing activities:	
Proceeds from capital campaign contributions	550,000
Principal payments on note payable	<u>(2,512)</u>
Net cash provided by financing activities	<u>547,488</u>
Change in cash	246,130
Cash, beginning of the year	<u>3,618,018</u>
Cash, end of the year	<u><u>\$ 3,864,148</u></u>
<u>Supplemental disclosures:</u>	
Note payable obtained in exchange for building acquisition	\$ 2,600,000
Cash paid for interest	\$ 35,638

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, 2024

NOTE 1 - BACKGROUND AND 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 the community.

The significant accounting policies of the Organization are as follows:

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*, requiring the Organization to report information regarding its financial position and activities according to the following net asset classifications:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Use of Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certificates of Deposit: Certificates of deposit are recorded at cost, plus accrued interest, which approximates fair value.

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

Notes to Financial Statements

June 30, 2024

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -  
CONTINUED

Contributions Receivable: Contributions receivable expected to be collected within one year are recorded at net realizable value. Contributions receivable expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discount is included in contribution revenue in the consolidated statement of activities. Management determines the allowance for contributions receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. At June 30, 2024, the Organization considers the balance to be fully collectible within one year, and accordingly no allowance for uncollectible amounts has been recorded in the financial statements.

Property and Equipment: Purchased property and equipment of \$2,000 or greater are recorded at cost, or if donated, at estimated fair value at the date of gift. Depreciation is computed using the straight-line method based on estimated useful lives of the assets as follows:

Building	39 years
Instruments	5 - 15 years
Vehicles, furniture and equipment	3 - 10 years

Refundable Advances: Refundable advances are conditional contributions received prior to the Organization incurring qualifying expenses or meeting other donor-imposed conditions required for revenue recognition.

Loan Issuance Costs: Loan issuance costs are included as a contra-liability account netted with the related debt on the statement of financial position and amortized using a straight-line basis over the life of the loan. See Note 6.

Revenue and Revenue Recognition: Special events revenue is comprised of an exchange element based upon the direct benefits donors receive and a contribution element for the difference. Special events revenue is recognized in an amount equal to the fair value of direct benefits to donors when the special event takes place. The contribution element of special event revenue is recognized immediately, unless there is a right of return if the special event does not take place.

Contributions are recognized as revenue 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 substantially met.

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

Notes to Financial Statements

June 30, 2024

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contributions: Contributions are reported in accordance with the FASB ASC subtopic of *Revenue Recognition for Not-for-Profit Entities*. Contributions received are recorded as net assets without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor restricted support is reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

The use of donated property is recorded as contributions at the estimated fair value at the date of donation, and shown as revenues and expenses in the financial statements. Donated services are recorded when the following criteria are met:

- i) The services require specialized skills, the services are provided by individuals possessing those skills, and the services would typically need to be purchased if not donated; or
- ii) The services enhance or create an asset.

Functional Expenses: The costs of providing various program and supporting services have been presented on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on estimates of facility usage and the estimated percentage of payroll costs benefiting the program or supporting services. Payroll and related expenses are allocated based on estimates of time and effort devoted to each function. Depreciation and utilities are allocated based on square footage.

Income Taxes: The Organization is exempt from federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

Concentrations:

Credit Risk: The Organization maintains cash and certificates of deposit that are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC). Balances may at times exceed insured or covered amounts. Management believes it is not exposed to any significant credit risk on cash and investment balances.

Revenue: During the year ended June 30, 2024, the Organization received approximately 47% of its contributions and grants from two sources including a bequest.

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

Notes to Financial Statements

June 30, 2024

NOTE 2 - LIQUIDITY AND AVAILABILITY

The Organization monitors its liquidity so that it is able to meet its operating needs and other contractual commitments. The Organization has the following financial assets that could readily be made available within one year of its fiscal year end to fund expenses without limitations:

Current financial assets:	
Cash	\$ 3,864,148
Certificates of deposit	262,721
Contributions receivable, current portion	<u>601,992</u>
Total financial assets available for expenditure within one year	4,728,861
Less amounts unavailable for general expenditure within one year:	
Net assets with donor restrictions, less current portion of pledges	<u>(221,277)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,507,584</u>

In addition to financial assets available to meet general expenditures over the year, the Organization operates with a balanced budget and anticipates covering its general expenditures by collecting contributions and other revenues.

NOTE 3 - CONTRIBUTIONS RECEIVABLE, NET

The Organization's contributions receivable consisted of the following at June 30, 2024:

Due in one year	\$ 601,992
Due in two to three years	<u>195,717</u>
	797,709
Discount to net present value (4.7% to 5.1%)	<u>(9,440)</u>
	<u>\$ 788,269</u>

At June 30, 2024, 54% of the Organization's contributions receivable were due from two donors.

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

Notes to Financial Statements

June 30, 2024

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at June 30, 2024:

Building	\$ 3,400,000
Land	850,000
Instruments	248,231
Vehicles, furniture and equipment	<u>87,975</u>
	4,586,206
Less accumulated depreciation	<u>(213,311)</u>
Total property and equipment, net	<u><u>\$ 4,372,895</u></u>

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

During the year ended June 30, 2024, the Organization received \$591,667 in donor-restricted contributions, and released \$4,505,546 for capital campaign receivables collected and other donor-restricted purposes. Net assets with donor restrictions at June 30, 2024 consisted of the following:

Time restrictions	\$ 788,269
Purpose restrictions	<u>35,000</u>
	<u><u>\$ 823,269</u></u>

NOTE 6 - NOTE PAYABLE

In May 2024, the Organization entered into an agreement for a \$2.6 million note payable to a financial institution to purchase the building it formerly leased. The note is due in May 2034, secured by real property, with interest at 7.75% through 2029, adjusted to 3.42% plus the 5 Year Fixed-Rate Advance Rate as published by the federal Home Loan Bank of Des Moines through maturity. The Organization was in compliance with required restrictive debt covenants at June 30, 2024.

Principal payments are due as follows for the years ending June 30:

2025	\$ 35,505
2026	38,398
2027	41,526
2028	44,370
2029	47,597
Thereafter	<u>2,390,092</u>
	2,597,488
Less: loan issuance costs	<u>(117,157)</u>
	<u><u>\$ 2,480,331</u></u>

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

Notes to Financial Statements

June 30, 2024

NOTE 7 - IN-KIND CONTRIBUTIONS

In-kind support for the Organization's is summarized as follows for the year ended June 30, 2024:

	<u>Functional allocation</u>	<u>Amount</u>
Donated instruments - capitalized	Programs	\$ 24,009
Donated instruments - expensed	Programs	40,078
Professional services	Programs	3,370
Auction items	Fundraising	<u>39,388</u>
Total in-kind contributions		<u>\$ 106,845</u>

Donated instruments and auction items are valued based on estimated retail cost. Professional services are valued based on quotes provided by donors at pricing that would otherwise be charged to the public.

NOTE 8 - DEFINED CONTRIBUTION RETIREMENT 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 \$16,953 for the year ended June 30, 2024.

NOTE 9 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 23, 2024, the date the Organization's financial statements were available to be issued.