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

Financial Statements

for the Year Ended June 30, 2022

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Financial Statements
Year Ended June 30, 2022

ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC.
YEAR ENDED JUNE 30, 2022

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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, 2022, 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, 2022, 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 audit opinion.

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 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 Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Scottsdale, Arizona
November 10, 2022

ROSIE'S HOUSE: A MUSIC ACADEMY FOR CHILDREN, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022

Assets	
Current Assets	
Cash and cash equivalents	$ 2,809,380
Prepaid expenses	4,601
Beneficial interest in assets held by others	11,002
Accounts receivable	6,267
Contributions receivable	712,750
Total Current Assets	3,544,000
Other Assets	
Security deposit	202,850
Certificates of Deposit	373,470
Silent auction items	280
Total Other Assets	576,600
Noncurrent Assets	
Contributions receivable, net	1,569,379
Property and equipment (net of accumulated depreciation of $343,159)	235,889
Total Noncurrent Assets	1,805,268
Total Assets	$ 5,925,868
Liabilities	
Current Liabilities	
Accounts payable	$ 862
Accrued payroll and benefits	32,505
Deferred rent	26,680
Total Current Liabilities	60,047
Net Assets	
Without donor restrictions	
Undesignated	$ 740,468
Designated by the board	11,002
With donor restrictions	
Time restricted	5,114,351
Total Net Assets	5,865,821
Total Net Assets and Liabilities	$ 5,925,868

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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, support and gains			
Contributions	$ 508,784	$ 1,538,737	$ 2,047,521
Donated instruments	27,990		27,990
In-kind contributions	2,000		2,000
Grants	285,000	985,000	1,270,000
Investment returns, net	3,283		3,283
Special event	150,982		150,982
Miscellaneous income	7,191		7,191
Net assets released from restrictions	556,857	(556,857)	
Total revenues, support and gains	1,542,087	1,966,880	3,508,967
Expenses			
Program services	964,377		964,377
Management and general	203,356		203,356
Fundraising	363,648		363,648
Total expenses	1,531,381		1,531,381
Change in net assets	10,706	1,966,880	1,977,586
Net assets, beginning of year	740,764	3,147,471	3,888,235
Net assets, end of year	$ 751,470	$ 5,114,351	$ 5,865,821

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, 2022

	Program Services	Management & General	Fundraising	Total
Salaries	$ 431,543	$ 75,503	$ 89,871	$ 596,917
Benefits	24,941	21,222	4,915	51,078
Payroll taxes	34,000	5,776	6,875	46,651
Professional fees	2,370	18,367	139,541	160,278
Program supplies	143,926	643	322	144,891
Office expenses	12,245	5,692	11,410	29,347
Telephone	9,328	2,479	1,333	13,140
Conferences, conventions & meetings	351	445	34	830
Depreciation	38,795	2,306		41,101
Occupancy	166,450	46,366	23,183	235,999
Postage and shipping	4,766	2,370	726	7,862
Insurance	10,014	2,862	1,431	14,307
Utilities	9,709	2,774	1,387	13,870
Marketing and public relations	32,072	8,820	10,313	51,205
Fundraising event			63,165	63,165
Miscellaneous	43,867	7,731	9,142	60,740
Total expenses	$ 964,377	$ 203,356	$ 363,648	$ 1,531,381

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, 2022

Cash flows from operating activities:		
Change in net assets	$	1,977,586
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		41,101
Donated instruments		(27,990)
(Gain) loss on disposal of assets		1,657
Unrealized gain (loss)		(902)
Changes in assets and liabilities:		
Prepaid expenses		32,885
Accounts receivable		(475)
Contributions receivable		(607,324)
Silent auction items		(280)
Accounts payable		(2,053)
Payroll liabilities		19,326
Deferred rent		26,680
Net cash provided by operating activities		1,460,211
Cash flows from investing activities:		
Investment income/loss		271
Purchase of property and equipment		(14,322)
Net cash used for investing activities		(14,051)
Net increase in cash and cash equivalents		1,446,160
Cash and cash equivalents, beginning of year		1,363,220
Cash and cash equivalents, end of year	$	2,809,380

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

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 $2,809,380 and the bank balance was $2,799,960. At year end, $353,722 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, 2022.

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 $2,000 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. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from 10 years for instruments and three to 10 years for all other property. Depreciation expense for the current fiscal year was $41,101.

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 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.

Deferred Rent

The Organization has entered into operating lease agreements for its facilities, some of which contain provisions for future rent increases. The Organization records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent, which is reflected in a separate line item in the accompanying statement of financial position.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. During the fiscal year, the estimated dollar amount of volunteer time contributed was $9,293.

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 $22,780.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

New Accounting Pronouncement
During the fiscal year, the Organization adopted Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958). The update increases transparency of contributed nonfinancial assets through enhancements to presentation and disclosures. The adoption did not have a significant impact on the Organization's financial statements.

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 November 10, 2022, 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 $373,470 at fiscal year end.

Certificates of deposit are reported at cost plus accrued interest which approximates fair value. The certificates bear interest at 0.5 and 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	$ 2,809,380
Accounts receivable	6,267
Contributions receivable	2,282,129
CDs maturing in less than one year	373,470
Total financial assets	5,471,246
Less amounts not available to be used within one year:	
Net assets with donor restrictions	5,114,352
Less: Net assets with restrictions to be met in less than a year	(757,750)
Financial assets available to meet general expenditures over the next twelve months	$ 1,114,644

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.

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.

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

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	Fair Value
Investments		
Certificates of deposit	Level 1	$ 373,470
Contribution receivable – Beneficial Interest in Assets held by Community Foundation	Level 3	11,002
Total assets		$ 384,472

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.

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.

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

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	$ 12,550
Investment loss, net	(1,360)
Amounts appropriated for expenditure	(188)
End of year	$ 11,002

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable consist of the following:

Contributions receivable before unamortized discount	$ 2,412,250
Less: Unamortized discount	(130,121)
Total	2,282,129
Less: Allowance for uncollectibles	- 0 -
Net contributions receivable	$ 2,282,129

Amounts due in:	
Less than one year	$ 712,750
One to five years	1,699,500
Total	$ 2,412,250

The discount rate used to determine the present value of contributions receivable is commensurate with the risks involved and was 3.01 percent.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following.

Instruments	$ 521,515
Vehicles, furniture and equipment	57,533
Total property and equipment	579,048
Less: Accumulated depreciation	(343,159)
Net property and equipment	$ 235,889

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 Restriction
Endowment net assets, beginning of year	$ 12,550
Investment loss, net	(1,360)
Amounts appropriated for expenditure	(188)
Endowment net assets, end of year	$ 11,002

NOTE 8 – NET ASSETS

Net assets with donor restrictions were as follows:

Passage of Time	
Campaign for capacity growth	$ 5,069,351
BHHS Legacy Foundation	45,000
Total	$ 5,114,351

Net assets released from donor restrictions are as follows:

Satisfaction of time restrictions	
Campaign for capacity growth	$ 501,857
BHHS Legacy Foundation	55,000
Total	$ 556,857

NOTE 9 – OPERATING LEASE COMMITMENTS

In December of 2020 (Organization took hold of space in February of 2021 and therefore payments began on February 1, 2021), the Organization leased office space under the provisions of a long-term lease agreement 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 $206,437 during the fiscal year. In addition, at the commencement of the lease agreement, the Organization was required to pay a security deposit of $200,000.

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

Year End:		
	2023	$ 205,808
	2024	209,923
	2025	214,122
	2026	126,350
Total		$ 756,203

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 $27,990 and $2,000, respectively.

NOTE 11 – CONCENTRATIONS

The Organization received a substantial portion of its total revenues, approximately 23 percent from one contributor. Loss of such donors in the near-term could cause a significant reduction in the Organization's ability to purchase a permanent building. In addition, the Organization received a significant portion of its contribution receivable balance from two contributors, constituting approximately 45 percent of the total contribution receivable balance.

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 $11,414 for the fiscal year.