Financial Statements
June 30, 2019 and 2018

Catholic Education Arizona

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Independent Auditor's Report

The Board of Directors
Catholic Education Arizona
Phoenix, Arizona

Report on the Financial Statements
We have audited the accompanying financial statements of Catholic Education Arizona (the Organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 Organization'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 Organization'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.

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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 2018, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Phoenix, Arizona
December 18, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 23,672,901	$ 21,920,203
Certificates of deposits	1,029,152	1,297,300
Contributions receivable	21,412	148,651
Scholarship refunds receivable	325,047	257,600
Prepaid expenses	25,087	-
	25,073,599	23,623,754
Property and Equipment		
Furniture and equipment	15,950	14,340
Computer equipment	19,731	15,814
Leasehold improvements	12,820	12,820
	48,501	42,974
Less accumulated depreciation	(33,304)	(25,475)
Total property and equipment	15,197	17,499
Total assets	$ 25,088,796	$ 23,641,253
Liabilities and Net Assets		
Liabilities		
Scholarship awards payable	$ 20,751,535	$ 18,659,425
Accounts payable and accrued expenses	61,552	36,730
Total liabilities	20,813,087	18,696,155
Net Assets without Donor Restrictions	4,275,709	4,945,098
Total liabilities and net assets	$ 25,088,796	$ 23,641,253

	2019	2018
Revenues and Other Support		
Contributions - individual	$ 11,896,440	$ 12,971,214
Contributions - corporate	8,651,722	6,047,710
Other contributions	215,383	228,292
Interest income	146,558	74,811
Total revenues and other support	20,910,103	19,322,027
Expenses		
Program services	20,401,246	17,458,311
Supporting services expenses		
Management and general	753,973	586,487
Fundraising	424,273	449,495
Total supporting services expenses	1,178,246	1,035,982
Total expenses	21,579,492	18,494,293
Change in Net Assets	(669,389)	827,734
Net Assets without Donor Restrictions, Beginning of Year	4,945,098	4,117,364
Net Assets without Donor Restrictions, End of Year	$ 4,275,709	$ 4,945,098

	Program Services	Management and General	Fundraising	Total
Scholarship Awards				
Individual	$ 6,701,052	$ -	$ -	$ 6,701,052
Switcher	4,102,503	-	-	4,102,503
Corporate	7,786,550	-	-	7,786,550
Matching awards	174,325	-	-	174,325
Discretionary awards	1,418,082	-	-	1,418,082
Total scholarship awards	20,182,512	-	-	20,182,512
Other Expenses				
Salaries and benefits	66,553	253,128	243,562	563,243
Professional services	80,192	176,013	41,732	297,937
Advertising and promotion	-	32,626	68,397	101,023
Printing	32,030	563	35,356	67,949
Credit card fees	-	192,329	-	192,329
Postage and delivery	5,462	3,971	4,214	13,647
Other	34,497	95,343	31,012	160,852
Total other expenses	218,734	753,973	424,273	1,396,980
Total expenses	$ 20,401,246	$ 753,973	$ 424,273	$ 21,579,492

	Program Services	Management and General	Fundraising	Total
Scholarship Awards				
Individual	$ 7,322,511	$ -	$ -	$ 7,322,511
Switcher	4,345,974	-	-	4,345,974
Corporate	5,442,939	-	-	5,442,939
Matching awards	124,300	-	-	124,300
Discretionary awards	-	-	-	-
Total scholarship awards	17,235,724	-	-	17,235,724
Other Expenses				
Salaries and benefits	108,152	188,129	270,105	566,386
Professional services	75,629	121,890	37,045	234,564
Advertising and promotion	-	8,979	52,820	61,799
Printing	6,178	11,217	48,157	65,552
Credit card fees	-	178,403	-	178,403
Postage and delivery	6,010	7,975	3,191	17,176
Other	26,618	69,894	38,177	134,689
Total other expenses	222,587	586,487	449,495	1,258,569
Total expenses	$ 17,458,311	$ 586,487	$ 449,495	$ 18,494,293

	2019	2018
Operating Activities		
Change in net assets	$ (669,389)	$ 827,734
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	8,963	7,590
Loss on disposal of property and equipment	2,867	-
Changes in assets and liabilities		
Contributions receivable	127,239	(29,896)
Scholarship refunds receivable	(67,447)	(257,600)
Prepaid expenses	(25,087)	9,906
Scholarship awards payable	2,092,110	89,304
Accounts payable and accrued expenses	24,822	878
Net Cash from Operating Activities	1,494,078	647,916
Cash Flows from Investing Activities		
Purchase of property and equipment	(9,528)	(21,326)
Proceeds from sale of certificates of deposit	268,148	431,106
Net Cash from Investing Activities	258,620	409,780
Net Change in Cash and Cash Equivalents	1,752,698	1,057,696
Cash and Cash Equivalents, Beginning of Year	21,920,203	20,862,507
Cash and Cash Equivalents, End of Year	$ 23,672,901	$ 21,920,203

Note 1 - Principal Business Activity and Significant Accounting Policies

Principal Business Activity

Catholic Education Arizona (the Organization) was founded in 1998 and provides educational scholarships and tuition grants to eligible families to use at any qualified Catholic school in the State of Arizona. The Organization is a school tuition organization as defined in Arizona Revised Statute 43-1089, and as such, must allocate at least 90% of its qualifying annual revenue for educational scholarships or tuition grants.

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 assets and liabilities.

Cash and Cash Equivalents

The Organization maintains its available cash at multiple financial institutions. Deposits at each financial institution are insured at limited amounts by the Federal Deposit Insurance Corporation (FDIC). In the normal course of operations, the Organization, at times, may maintain deposits in excess of the guaranteed amount.

For purposes of the statements of cash flows, the Organization considers all highly-liquid investments with original maturities of three months or less to be cash equivalents.

Certificates of Deposit

The Organization maintains investments in certificates of deposit at multiple financial institutions. These certificates of deposit earn interest between 0% and 1.82% per annum, and have maturities ranging from four to eight months, with penalties for early withdrawal.

Contributions Receivable and Credit Policies

Contributions receivable consist primarily of noninterest-bearing amounts of promises to give that are to be collected over the next twelve months. Due to the nature, historical experience, and an assessment of economic conditions of these receivables, management has determined the allowance to be $0 for the years ended June 30, 2019 and 2018, respectively. Receivables are reported at the amount management expects to collect on balances outstanding at year-end.

Property and Equipment

Property and equipment are stated at historical cost, or if donated, at the fair market value at the date of the gift. It is the Organization's policy to capitalize property and equipment with a useful life greater than one year and a cost or fair market value in excess of $500. Depreciation of property and equipment is computed using straight-line method over the estimated useful lives of the assets, which range from three to ten years.

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. The Organization has determined that for the years ended June 30, 2019 and 2018 there were no indicators of asset impairment.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

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. The Organization reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. 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 statements of activities as net assets released from restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, and contributions receivable or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Scholarship Awards

Annually, the Organization's board of directors approves the scholarship amounts funded by individual and corporate contributions qualifying for the state tax credit that will be paid in the succeeding year. Scholarship awards were $18,590,105 and $17,111,424 for the years ended June 30, 2019 and 2018, respectively, which represents 90% of total scholarship contributions. Scholarship awards are allocated as contributions are received during the year and paid out to the schools in the following year resulting in scholarship awards payable. Scholarship awards payable were $20,751,535 and $18,659,425 as of June 30, 2019 and 2018, respectively, consisting of all fiscal year contributions plus payable balances of awards contributed in prior years.

In addition, the Organization’s board of directors approved discretionary scholarships in the amount of $1,418,082 and $0 for the years ended June 30, 2019 and 2018, respectively. Funds for these discretionary scholarships are used from the remaining 10% of contributions received in past years.

At times, the Organization is not the first to award scholarships to students resulting in an overfunded award recipient. Thus, the Organization is refunded any amounts awarded in excess of recipient's tuition limit. Receivables from scholarship refunds were $325,047 and $257,600 as of June 30, 2019 and 2018, respectively.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, professional services, advertising and promotion, printing, postage and delivery, and other expenses, which are allocated on the basis of estimates of time and effort.

Advertising Costs

The Organization uses various forms of advertising to solicit contributions and promote its programs among the public. Advertising costs are expensed as incurred. Advertising expenses were $101,023 and $61,799 for the years ended June 30, 2019 and 2018, respectively.

Income Taxes

The Organization is organized as an Arizona non-profit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contributions deduction under Section 170, and has been determined not to be a private foundation under Sections 509(a)(3). The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Organization has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Management believes that it has appropriate support for any tax positions taken affecting the Organization's annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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 and those differences could be material.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of ASU 2014-09 is that revenue should be recognized in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle, which may require the use of judgment and estimates. The Organization may adopt ASU 2014-09 either by using a full retrospective approach for all periods presented or a modified retrospective approach. This standard is effective for annual reporting periods beginning after December 15, 2018.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the statements of financial position for most leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the statements of activities. The effective date for this standard has been delayed to annual reporting periods beginning after December 15, 2021.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*. ASU 2018-08 clarifies and refines existing guidance to help explain the scope of contributions and applies to both resource providers and resource recipients. ASU 2018-08 clarifies two revenue recognition issues. First, in the case of grants and similar contracts with government agencies, unless the resource provider receives commensurate value from the resource recipient, the transaction is most likely a contribution, not an exchange transaction. Second, relates to distinguishing between conditional and unconditional contributions. For a donor-imposed condition to exist, it must have both a measurable barrier that must be overcome and a right of return of the gift to the donor or a release from the donor's promise to give. The Organization may adopt ASU 2018-08 by using a modified prospective approach. A full retrospective approach for all periods presented is also permitted. For resource recipients, this standard is effective for annual reporting periods beginning after December 15, 2018. For resources providers, this standard is effective for annual reporting periods beginning after December 15, 2019. Early adoption of the amendment is permitted.

Change in Accounting Policy

As of July 1, 2018, the Organization adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities.* The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Organization's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Organization's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Organization's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The standard improves the usefulness and understandability of the financial statement reporting. Accordingly, the accompanying financial statements and related notes follow the net asset classification, presentation, and disclosure requirements prescribed by ASU. The Organization has adopted this standard as management believes the standard improves the usefulness and understandability of the Organization's financial reporting.

Subsequent Events

The Organization has evaluated subsequent events through December 18, 2019, the date that these financial statements were available to be issued.

Note 2 - Liquidity and Availability

The Organization's current financial assets at June 30, 2019 available to meet cash needs for general expenditures within 12 months of the statement of financial position date are as follows, which are free of internal and external restrictions:

Cash and cash equivalents	$ 23,672,901
Certificates of deposits	1,029,152
Scholarship refunds receivable	325,047
	$ 25,027,100

The Organization manages its exposure to liquidity risk by regularly monitoring the liquidity required to meet its operating needs and other contractual commitments. The Organization prepares an annual budget to manage liquidity and to determine general expenditures over the next 12 months and anticipates collecting revenue sufficient to cover general expenditures during that period.

Note 3 - Operating Leases

The Organization leases its office space under a non-cancelable operating lease agreement which expires during January 2020. The Organization also leases certain office equipment under operating lease agreements with terms of five years, which expire between 2021 and 2023. Rent expense incurred under these operating lease agreements, including month-to-month obligations, was $51,138 and $48,948 for the years ended June 30, 2019 and 2018, respectively.

Future minimum lease payments under these agreements are as follows:

Years Ending June 30,	Amount
2020	$ 29,007
2021	2,484
2022	876
2023	365
	$ 32,732

Note 4 - Retirement Plans

The Organization participates in a 403(b) plan (the Plan), as well as a defined benefit retirement plan, which are multi-employer retirement plans sponsored by the Diocese of Phoenix, which cover substantially all employees who meet certain length of service requirements. Under the terms of the Plan, the Organization may elect to make discretionary contributions to the Plan. Participants are 100% vested in all contributions made by the Organization on their behalf. The Organization made contributions of $1,107 and $3,717 to the Plan during the years ended June 30, 2019 and 2018, respectively.

Under the terms of the defined benefit retirement plan, pension benefits are based on each participant's average compensation during the highest-earning five consecutive calendar years of employment and years of service. The Organization contributes 5% of employee compensation to fund its share of the defined benefit retirement plan. The Organization made contributions of $40,386 and $39,401 to the defined benefit retirement plan during the years ended June 30, 2019 and 2018, respectively. The portion of the defined benefit retirement plan’s assets and liabilities allocable to the Organization has not been determined with respect to accumulated benefits. In the event of withdrawals from the defined benefit retirement plan and under certain other conditions, a contributor to a multi-employer plan may be liable to the defined benefit retirement plan for a portion of the underfunded status, if any.

Note 5 - Concentrations

Three vendors represent 14%, 13% and 10% of expenses excluding scholarships, salaries, and payroll tax expenses for the year ended June 30, 2019. Two vendors represent 18% and 15% of expenses excluding scholarships, salaries, and payroll tax expenses for the year ended June 30, 2018.

One corporation comprised 17% and 12% of corporate contributions for the years ended June 30, 2019 and 2018, respectively.