Financial Statements
June 30, 2022 and 2021

Catholic Education Arizona

EideBailly®

Independent Auditor's Report

The Board of Directors
Catholic Education Arizona
Phoenix, Arizona

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Catholic Education Arizona, which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Catholic Education Arizona as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities of the Audit of the Financial Statements section of our report. We are required to be independent of Catholic Education Arizona and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 Catholic Education Arizona's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities of 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 GAAS 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 GAAS, 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 Catholic Education Arizona'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 Catholic Education Arizona'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.

Eide Bailly LLP

Phoenix, Arizona
November 17, 2022

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	$ 28,725,353	$ 22,256,413
Certificates of deposits	3,355,676	3,345,184
Scholarship refunds receivable	173,422	145,754
Prepaid expenses and other assets	11,795	11,268
	32,266,246	25,758,619
Property and Equipment		
Furniture and equipment	46,609	44,059
Computer equipment	45,784	56,329
Leasehold improvements	107,941	107,156
	200,334	207,544
Less accumulated depreciation	(91,201)	(69,021)
Total property and equipment	109,133	138,523
Total assets	$ 32,375,379	$ 25,897,142
Liabilities and Net Assets		
Current Liabilities		
Scholarship awards payable	$ 29,545,217	$ 23,665,739
Accounts payable and accrued expenses	35,444	19,059
	29,580,661	23,684,798
Deferred rent	15,409	18,510
Lease incentive obligation, net	55,434	74,999
Total liabilities	29,651,504	23,778,307
Net Assets without Donor Restrictions	2,723,875	2,118,835
Total liabilities and net assets	$ 32,375,379	$ 25,897,142

	2022	2021
Revenues and Other Support		
Contributions - individual	$ 10,438,255	$ 10,952,847
Contributions - corporate	13,684,100	10,222,710
Other contributions	371,944	275,766
Interest income	31,060	71,858
Total revenues and other support	24,525,359	21,523,181
Expenses		
Program services	22,517,311	19,778,701
Supporting services expenses		
Management and general	773,934	795,397
Fundraising	629,074	532,098
Total supporting services expenses	1,403,008	1,327,495
Total expenses	23,920,319	21,106,196
Change in Net Assets	605,040	416,985
Net Assets without Donor Restrictions, Beginning of Year	2,118,835	1,701,850
Net Assets without Donor Restrictions, End of Year	$ 2,723,875	$ 2,118,835

	Program Services	Management and General	Fundraising	Total
Scholarship Awards				
Individual	$ 5,737,994	$ -	$ -	$ 5,737,994
Switcher	3,658,006	-	-	3,658,006
Corporate	11,415,690	-	-	11,415,690
Disabled/Displaced	900,000	-	-	900,000
Employer matching and donations	207,665	-	-	207,665
Discretionary awards	97,321	-	-	97,321
Total scholarship awards	22,016,676	-	-	22,016,676
Other Expenses				
Compensation, other salaries and wages, and benefits	272,361	279,125	272,361	823,847
Pension plan contributions	24,363	25,101	24,363	73,827
Payroll taxes	15,477	15,946	15,477	46,900
Professional services	84,234	-	74,686	158,920
Legal fees	-	3,329	-	3,329
Accounting fees	6,745	6,745	6,745	20,235
Advertising and promotion	30,608	114,348	93,133	238,089
Office expenses	53	37,506	-	37,559
Information technology	2,639	2,929	5,513	11,081
Rent	22,086	22,086	22,086	66,258
Travel	-	2,458	4,869	7,327
Conventions and meetings	-	14,740	222	14,962
Depreciation and amortization	11,906	11,909	11,906	35,721
Insurance	4,502	4,502	4,502	13,506
Printing	-	3,356	-	3,356
Credit card fees	-	179,521	-	179,521
Continuing professional education	-	800	-	800
Postage and delivery	167	6,721	189	7,077
Miscellaneous expenses	25,494	42,812	93,022	161,328
Total other expenses	500,635	773,934	629,074	1,903,643
Total expenses	$ 22,517,311	$ 773,934	$ 629,074	$ 23,920,319

	Program Services	Management and General	Fundraising	Total
Scholarship Awards				
Individual	$ 6,057,916	$ -	$ -	$ 6,057,916
Switcher	3,796,938	-	-	3,796,938
Corporate	9,200,439	-	-	9,200,439
Employer matching and donations	170,360	-	-	170,360
Discretionary awards	50,000	-	-	50,000
Total scholarship awards	19,275,653	-	-	19,275,653
Other Expenses				
Compensation, other salaries and wages and benefits	278,473	284,567	278,473	841,513
Pension plan contributions	24,524	25,267	24,524	74,315
Payroll taxes	16,780	17,288	16,780	50,848
Professional services	77,683	-	48,343	126,026
Accounting fees	6,467	6,467	6,467	19,401
Advertising and promotion	26,257	61,855	68,080	156,192
Office expenses	52	26,490	-	26,542
Information technology	2,797	2,797	5,393	10,987
Rent	21,478	21,478	21,477	64,433
Travel	-	1,090	2,985	4,075
Conventions and meetings	-	7,967	198	8,165
Depreciation and amortization	11,617	11,620	11,617	34,854
Insurance	4,131	4,131	4,131	12,393
Printing	9,009	1,396	7,489	17,894
Credit card fees	-	280,048	-	280,048
Moving expense	459	459	461	1,379
Continuing professional education	-	4,493	-	4,493
Postage and delivery	3,647	1,895	13,470	19,012
Miscellaneous expenses	19,674	36,089	22,210	77,973
Total other expenses	503,048	795,397	532,098	1,830,543
Total expenses	$ 19,778,701	$ 795,397	$ 532,098	$ 21,106,196

	2022	2021
Operating Activities		
Change in net assets	$ 605,040	$ 416,985
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	35,721	34,854
Amortization of lease incentive obligation	(19,565)	(19,565)
Loss on sale of property and equipment	116	-
Changes in assets and liabilities		
Scholarship refunds receivable	(27,668)	(102,278)
Prepaid expenses and other assets	(527)	(105)
Scholarship awards payable	5,879,478	3,306,207
Accounts payable and accrued expenses	16,385	(28,389)
Deferred rent	(3,101)	5,518
Net Cash from Operating Activities	6,485,879	3,613,227
Investing Activities		
Purchases of property and equipment	(6,447)	(8,455)
Purchases of certificates of deposit	(10,492)	(41,668)
Net Cash used for Investing Activities	(16,939)	(50,123)
Net Change in Cash and Cash Equivalents	6,468,940	3,563,104
Cash and Cash Equivalents, Beginning of Year	22,256,413	18,693,309
Cash and Cash Equivalents, End of Year	$ 28,725,353	$ 22,256,413

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 0.1% and 0.55% per annum, and have maturities ranging from nine to twelve months, with penalties for early withdrawal.

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 the straight-line method over the estimated useful lives of the assets, which range from three to ten years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation is removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

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, 2022 and 2021 there were no indicators of asset impairment.

Deferred Rent

Certain leases require escalating rent payments over the lease term. The total rent payments are divided by the total number of months to compute an amount, which is charged to expense on a straight-line basis over the lease term. Deferred rent occurs when the monthly straight-line expense is greater than the monthly rent paid.

Lease Incentive Obligation

There are certain leases held by the Organization that have included provisions for lease incentives related to tenant improvement allowances. The funding for the purchase of leasehold improvements have been recorded as tenant improvements, are included in property and equipment, and are depreciated over the life of the lease. A corresponding liability has been recorded for the lease incentive obligation. This obligation is being amortized over the life of the lease with annual amortization being netted against rent expense.

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. There were no net assets with donor restrictions for the years ended June 30, 2022 and 2021.

Revenue and Revenue Recognition

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or 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.

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 $21,711,690 and $19,055,293 for the years ended June 30, 2022 and 2021, respectively, which represents 90% of total scholarship contributions for both years. 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.

In addition, the Organization’s board of directors approved discretionary scholarships in the amount of $97,321 and $50,000 for the years ended June 30, 2022 and 2021, respectively. Funds for these discretionary scholarships are used from the remaining 10% of contributions received in past years, as well as other contributions received.

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 $173,422 and $145,754 as of June 30, 2022 and 2021, 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 compensation, other salaries and wages, and benefits, pension plan contributions, professional services, accounting fees, advertising and promotion, office expenses, information technology, rent, depreciation and amortization, insurance, printing, postage and delivery, and miscellaneous expenses, which are allocated based on a defined allocation plan as determined by management.

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 $53,866 and $30,617 for the years ended June 30, 2022 and 2021, 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. For the years ended June 30, 2022 and 2021, there were no significant estimates.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updates (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 statement of financial position for all 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 statement of activities. The effective date for this standard has been delayed to annual reporting periods beginning after January 1, 2022. Adoption of the standard will have a significant impact on the Organization's financial statements, including bringing leases onto the statement of financial position as a right of use asset and lease liability.

Subsequent Events

The Organization has evaluated subsequent events through November 17, 2022, 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, 2022 and 2021 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:

	2022	2021
Cash and cash equivalents	$ 28,725,353	$ 22,256,413
Certificates of deposits	3,355,676	3,345,184
Scholarship refunds receivable	173,422	145,754
	$ 32,254,451	$ 25,747,351

The Organization manages its exposure to liquidity risk by regularly monitoring the liquidity required to meet its operating needs. The Organization has contractual commitments to fund scholarships for 90% of qualifying contributions received as a result of the Organization's Student Tuition Organization status. Awards payable from the Organization were $29,545,217 and $23,665,739 for the years ended June 30, 2022 and 2021, respectively. 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 August 2025. The Organization also leases certain office equipment under operating lease agreements with terms of five years, which expire between November 2022 and December 2024. Rent expense incurred under these operating lease agreements, including month-to-month obligations, was $77,062 and $76,520 for the years ended June 30, 2022 and 2021, respectively.

Future minimum lease payments under these agreements are as follows:

Years Ending June 30,	Amount
2023	$ 91,076
2024	92,808
2025	90,949
2026	14,790
	$ 289,623

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 $4,984 and $5,235 to the Plan during the years ended June 30, 2022 and 2021, 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 9.5% of employee compensation to fund its share of the defined benefit retirement plan. The Organization made contributions of $68,843 and $69,080 to the defined benefit retirement plan during the years ended June 30, 2022 and 2021, 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

The following table summarizes the Organization’s concentrations of expense, excluding scholarships, salaries, and payroll tax expense as of June 30:

	2022	2021
Vendor A	11%	12%
Vendor B	10%	13%

The following table summarizes the Organization’s concentrations of corporate contributions as of June 30:

	2022	2021
Contributor A	15%	0%
Contributor B	18%	0%
Contributor C	0%	26%