Financial Statements
June 30, 2018

Catholic Education Arizona

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 statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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.

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

Eide Bailly LLP

Phoenix, Arizona
December 19, 2018

Assets	
Cash and cash equivalents	$ 21,920,203
Certificates of deposits	1,297,300
Contributions receivable	148,651
Scholarship refunds receivable	257,600
	23,623,754
Property and equipment	
Furniture and equipment	14,340
Computer equipment	15,814
Leasehold improvements	12,820
	42,974
Less accumulated depreciation	(25,475)
Total property and equipment	17,499
Total assets	$ 23,641,253
Liabilities and Net Assets	
Scholarship awards payable	$ 18,659,425
Accounts payable and accrued expenses	36,730
Total liabilities	18,696,155
Unrestricted Net Assets	4,945,098
Total liabilities and net assets	$ 23,641,253

Revenues and Other Support	
Contributions - individual	$ 12,971,214
Contributions - corporate	6,047,710
Other contributions	228,292
Interest income	74,811
Total revenues and other support	19,322,027
Expenses	
Program services	17,636,714
Supporting services expenses	
Management and general	408,084
Fundraising	449,495
Total supporting services expenses	857,579
Total expenses	18,494,293
Change in Net Assets	827,734
Unrestricted Net Assets, Beginning of Year	4,117,364
Unrestricted Net Assets, End of Year	$ 4,945,098

	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
	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
	400,990	408,084	449,495	1,258,569
Total expenses	$ 17,636,714	$ 408,084	$ 449,495	$ 18,494,293

Operating Activities	
Change in net assets	$ 827,734
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	7,590
Changes in assets and liabilities	
Contributions receivable	(29,896)
Scholarship refunds receivable	(257,600)
Prepaid expenses	9,906
Scholarship awards payable	89,304
Accounts payable and accrued expenses	878
Net Cash from Operating Activities	647,916
Cash Flows from Investing Activities	
Purchase of property and equipment	(21,326)
Proceeds from sale of certificates of deposits	431,106
Net Cash from Investing Activities	409,780
Net Change in Cash and Cash Equivalents	1,057,696
Cash and Cash Equivalents, Beginning of Year	20,862,507
Cash and Cash Equivalents, End of Year	$ 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

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 statement 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 1.69% per annum, and have maturities ranging from six to eighteen 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 year ended June 30, 2018. Accordingly, no allowance for doubtful accounts is reflected in these financial statements. 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 year ended June 30, 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-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets available for use in general operations.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Organization and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Organization's board of directors.

The Organization reports contributions restricted by donors as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There were no temporarily restricted net assets as of June 30, 2018.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Organization. The restrictions stipulate that resources be maintained permanently but permit the Organization to expend the income generated in accordance with the provisions of the agreements. There were no permanently restricted net assets as of June 30, 2018.

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 that will be paid in the succeeding year. Scholarship awards were $17,111,424 for the year ended June 30, 2018, 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 as of June 30, 2018 were $18,659,425.

In addition, the Organization's board of directors approved discretionary scholarships in the amount of $0 for the year ended June 30, 2018. Funds for these discretionary scholarships are to be 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 as of June 30, 2018 were $257,600.

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. Accordingly, certain costs have been allocated among the programs and support services benefitted. Administration expenses include those expenses that are not directly identifiable with any specific program but provide for the overall support and direction of the Organization.

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 $61,799 for the year ended June 30, 2018.

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 entity expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five-step process in order to achieve this core principle which may require the use of judgment and estimates. The entity may adopt ASU 2014-09 either by using a full retrospective approach for all periods presented or a modified retrospective approach. Additionally, in April 2016, FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. The amendments in this standard clarify the process of identifying performance obligations and the licensing implementation guidance. These standards are effective for annual reporting periods beginning after June 30, 2018, and interim reporting periods within annual reporting periods beginning after June 30, 2019. Earlier application is permitted only as of annual reporting periods beginning after June 30, 2016. The Organization has not yet selected a transition method and is currently evaluating the impact of these standards on its financial statements.

In February 2016, the FASB issued ASU 2016- 02, *Leases (Topic 842)* to improve financial reporting about leasing transactions. The ASU affects all lease transactions. Lessors will classify leases as either a sales-type, direct financing, or operating lease. In a sales-type lease, the lessor transfers control of the underlying asset to the lessee. At lease commencement, the lessor should derecognize the leased asset and record its net investment in the lease. The net investment in the lease consists of a lease receivable and the unguaranteed residual asset. In a direct financing lease, the lessor should derecognize the leased asset underlying the lease and record a net investment in the lease at lease commencement. The net investment in the lease should be measured in the same manner as a sales-type lease adjusted for selling profit and initial direct costs. An operating lease is neither a sale nor financing of an asset. The lessor should keep the asset underlying the lease on its balance sheet and continue to depreciate the asset based on its useful life. Rental revenue should be recognized on a straight-line basis. The Organization currently has leasing transactions; therefore, they are monitoring evaluating the impart of adopting ASU 2016-02. The amendments in this update are effective for years beginning after June 30, 2019.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)* to improve presentation of financial statements for not-for-profit entities. The ASU affects all not-for-profit entities. The main provisions of this Update that will impact the Organization include:

- Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. The not-for-profits will report amounts for net assets with donor restrictions and net assets without donor restrictions. They will also be required to present on the face of the statement of activities the amount of the change in each of the two classes of net assets rather than that of the currently required three classes.

- All not-for-profits will now be required to disclose an analysis of expenses by both functional and natural classifications.

- All not-for-profits will have to add disclosures regarding how they manage liquidity and information that communicates the availability of financial assets to meet cash needs for general expenditures.

This new standard will be effective for years beginning after June 30, 2018. The standard requires retrospective application.

Subsequent Events

The Organization has evaluated subsequent events through December 19, 2018, the date that these financial statements were available to be issued.

Note 2 - 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 $48,948 for the year ended June 30, 2018.

Future minimum lease payments under these agreements are as follows:

Years Ending June 30,		Amount
2019	$	46,148
2020		29,007
2021		2,484
2022		876
2023		365
	$	78,880

Note 3 - 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 $3,717 to the Plan during the year ended June 30, 2018.

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 $39,401 to the defined benefit retirement plan during the year ended June 30, 2018. 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 4 - Concentrations

Two vendors represent 18% and 15% of expenses excluding scholarships, salaries, and payroll taxes expenses for the year ended June 30, 2018.

One corporation comprised 12% of corporate contributions for the year ended June 30, 2018.