



Financial Statements
June 30, 2020 and 2019

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, 2020 and 2019, 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.

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, 2020 and 2019, 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.

Correction of Error

As discussed in Note 7 to the financial statements, certain errors resulting in an understatement of amounts previously reported for scholarship awards payable and expenses as of June 30, 2019, were discovered by management of the Organization during the current year. Accordingly, amounts reported for scholarship awards payable and expenses have been restated in the 2019 financial statements now presented, and an adjustment has been made to net assets as of June 30, 2019, to correct the error. Our opinion is not modified with respect to that matter.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Phoenix, Arizona
November 18, 2020

Catholic Education Arizona
Statements of Financial Position
June 30, 2020 and 2019 (as restated)

	2020	2019 (as restated)
Assets		
Current Assets		
Cash and cash equivalents	\$ 18,693,309	\$ 23,672,901
Certificates of deposits	3,303,516	1,029,152
Contributions receivable	-	21,412
Scholarship refunds receivable	43,476	325,047
Prepaid expenses	11,163	25,087
	22,051,464	25,073,599
Property and Equipment		
Furniture and equipment	42,073	15,950
Computer equipment	55,010	19,731
Leasehold improvements	102,006	12,820
	199,089	48,501
Less accumulated depreciation	(34,167)	(33,304)
Total property and equipment	164,922	15,197
Total assets	\$ 22,216,386	\$ 25,088,796
Liabilities and Net Assets		
Liabilities		
Scholarship awards payable	\$ 20,359,532	\$ 21,809,583
Accounts payable and accrued expenses	47,448	61,552
Deferred rent	12,992	-
Lease incentive obligation, net	94,564	-
Total liabilities	20,514,536	21,871,135
Net Assets without Donor Restrictions	1,701,850	3,217,661
Total liabilities and net assets	\$ 22,216,386	\$ 25,088,796

Catholic Education Arizona
 Statements of Activities
 Years Ended June 30, 2020 and 2019 (as restated)

	2020	2019 (as restated)
Revenues and Other Support		
Contributions - individual	\$ 10,522,515	\$ 11,896,440
Contributions - corporate	5,835,700	8,651,722
In-kind contributions	21,600	-
Other contributions	256,640	215,383
Interest income	223,831	146,558
Total revenues and other support	16,860,286	20,910,103
Expenses		
Program services	17,019,728	21,459,294
Supporting services expenses		
Management and general	763,140	753,973
Fundraising	593,229	424,273
Total supporting services expenses	1,356,369	1,178,246
Total expenses	18,376,097	22,637,540
Change in Net Assets	(1,515,811)	(1,727,437)
Net Assets without Donor Restrictions, Beginning of Year	3,217,661	4,945,098
Net Assets without Donor Restrictions, End of Year	\$ 1,701,850	\$ 3,217,661

Catholic Education Arizona
Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services	Management and General	Fundraising	Total
Scholarship Awards				
Individual	\$ 5,893,804	\$ -	\$ -	\$ 5,893,804
Switcher	3,574,382	-	-	3,574,382
Corporate	5,252,130	-	-	5,252,130
Matching awards	91,520	-	-	91,520
Discretionary awards	1,679,000	-	-	1,679,000
	<u>16,490,836</u>	<u>-</u>	<u>-</u>	<u>16,490,836</u>
Total scholarship awards				
Other Expenses				
Salaries and benefits	289,984	303,346	290,555	883,885
Professional services	80,521	47,508	63,829	191,858
Advertising and promotion	87,484	100,055	106,438	293,977
Printing	18,043	12,364	73,802	104,209
Credit card fees	-	192,032	-	192,032
Postage and delivery	4,969	2,250	15,480	22,699
Other	47,891	105,585	43,125	196,601
	<u>528,892</u>	<u>763,140</u>	<u>593,229</u>	<u>1,885,261</u>
Total other expenses				
Total expenses	<u>\$ 17,019,728</u>	<u>\$ 763,140</u>	<u>\$ 593,229</u>	<u>\$ 18,376,097</u>

Catholic Education Arizona
Statement of Functional Expenses
Year Ended June 30, 2019 (as restated)

	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	86,580	-	-	86,580
Discretionary awards	2,563,875	-	-	2,563,875
	<u>21,240,560</u>	<u>-</u>	<u>-</u>	<u>21,240,560</u>
Total scholarship awards				
	21,240,560	-	-	21,240,560
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
	<u>218,734</u>	<u>753,973</u>	<u>424,273</u>	<u>1,396,980</u>
Total other expenses				
	218,734	753,973	424,273	1,396,980
Total expenses	<u>\$ 21,459,294</u>	<u>\$ 753,973</u>	<u>\$ 424,273</u>	<u>\$ 22,637,540</u>

Catholic Education Arizona
Statements of Cash Flows
Years Ended June 30, 2020 and 2019 (as restated)

	<u>2020</u>	<u>2019</u> (as restated)
Operating Activities		
Change in net assets	\$ (1,515,811)	\$ (1,727,437)
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation	16,309	8,963
Amortization of lease incentive obligation	(3,261)	-
Loss on disposal of property and equipment	-	2,867
In-kind contribution of property and equipment	(21,600)	-
Changes in assets and liabilities		
Contributions receivable	21,412	127,239
Scholarship refunds receivable	281,571	(67,447)
Prepaid expenses	13,924	(25,087)
Scholarship awards payable	(1,450,051)	3,150,158
Accounts payable and accrued expenses	(14,104)	24,822
Deferred rent	12,992	-
Net Cash from (used for) Operating Activities	<u>(2,658,619)</u>	<u>1,494,078</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(46,609)	(9,528)
Proceeds from sale of certificates of deposit	-	268,148
Purchase of certificates of deposit	<u>(2,274,364)</u>	<u>-</u>
Net Cash from (used for) Investing Activities	<u>(2,320,973)</u>	<u>258,620</u>
Net Change in Cash and Cash Equivalents	(4,979,592)	1,752,698
Cash and Cash Equivalents, Beginning of Year	<u>23,672,901</u>	<u>21,920,203</u>
Cash and Cash Equivalents, End of Year	<u>\$ 18,693,309</u>	<u>\$ 23,672,901</u>
Supplemental Disclosure of Non-cash Investing and Financing Activity		
Tenant lease incentive from lessor	<u>\$ 97,825</u>	<u>\$ -</u>

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 1.5% 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 both the years ended June 30, 2020 and 2019. 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 the carrying value exceeds the fair value of the asset. The Organization has determined that for the years ended June 30, 2020 and 2019, there were no indicators of asset impairment.

Deferred Rent

The office lease held by the Organization requires 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

The office lease held by the Organization includes provisions for lease incentives related to tenant improvement allowances. The funding for the purchase of leasehold improvements have been recorded as leasehold 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, 2020 and 2019.

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.

In-Kind Contributions

In-kind contributions are recorded at their fair market value on the date of the donation and are carried at the lower of the originally recorded value, or fair market value. For the year ended June 30, 2020, the Organization received in-kind contributions totaling \$21,600, consisting of donated furniture. For the year ended June 30, 2019, the Organization received in-kind contributions totaling \$0.

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 \$14,720,316 and \$18,590,105 for the years ended June 30, 2020 and 2019, respectively, which represents 90% of total scholarship contributions in each year. 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 \$1,679,000 and \$2,563,875 for the years ended June 30, 2020 and 2019, 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 \$43,476 and \$325,047 as of June 30, 2020 and 2019, 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 \$119,103 and \$101,023 for the years ended June 30, 2020 and 2019, 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 February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize leases on the statement of financial position 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 December 15, 2021. Early adoption of the amendment is permitted. The Organization is currently evaluating the impact of this amendment on its financial statements.

Change in Accounting Policy

The Organization has adopted the provisions of ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, applicable to contributions received. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. Management has adopted this standard because it assists the Organization in evaluating whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional. As of July 1, 2019, the Organization has implemented the provisions of ASU 2018-08 applicable to contributions received on a modified prospective basis to agreements that were not completed as of the date of adoption or were entered after the date of adoption. Management has determined that the adoption of this standard did not have a significant impact on the Organization's financial statements.

Subsequent Events

The Organization has evaluated subsequent events through November 18, 2020, 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, 2020 and 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:

	2020	2019
Cash and cash equivalents	\$ 18,693,309	\$ 23,672,901
Certificates of deposits	3,303,516	1,029,152
Scholarship refunds receivable	43,476	325,047
	\$ 22,040,301	\$ 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 - Scholarship Awards Payable

Scholarship awards payable as of June 30, 2020 and 2019 are as follows:

	2020	2019 (as restated)
Tax credit contribution awards payable	\$ 18,664,012	\$ 20,097,487
Discretionary awards payable	1,604,000	1,635,983
Matching contributions payable	91,520	76,113
Total scholarship awards payable	\$ 20,359,532	\$ 21,809,583

Note 4 - 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 2020 and 2024. Rent expense incurred under these operating lease agreements, including month-to-month obligations, was \$38,184 and \$51,138 for the years ended June 30, 2020 and 2019, respectively, and is included in other expense on the statements of functional expenses.

Future minimum lease payments under these agreements are as follows:

Years Ending June 30,	Amount
2021	\$ 75,960
2022	89,491
2023	91,076
2024	92,808
2025	90,949
Thereafter	14,790
	\$ 455,074

Note 5 - 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 \$3,607 and \$1,107 to the Plan during the years ended June 30, 2020 and 2019, 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 \$60,135 and \$40,386 to the defined benefit retirement plan during the years ended June 30, 2020 and 2019, 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 6 - Concentrations

Two vendors represent 12% and 11% of expenses excluding scholarships, salaries, and payroll tax expenses for the year ended June 30, 2020. Three vendors represent 14%, 13%, and 10% of expenses excluding scholarships, salaries, and payroll tax expenses for the year ended June 30, 2019.

One corporation comprised 11% and 17% of corporate contributions for the years ended June 30, 2020 and 2019, respectively.

Note 7 - Correction of an Error

Management identified certain financial statement misstatements for the year ended June 30, 2019 as a result of errors in recording certain transactions. These misstatements include an understatement of scholarship awards payable and an overstatement of net assets that resulted. The awards payable were approved by the board of directors prior to year end and communicated to recipients resulting in a promise to give as of June 30, 2019. The net effect of these misstatements has been corrected in the accompanying financial statements. A summary of the effects is presented below:

	As Previously Reported	Adjustment	As Restated
Statement of Financial Position			
Scholarship awards payable	\$ 20,751,535	\$ 1,058,048	\$ 21,809,583
Total liabilities	20,813,087	1,058,048	21,871,135
Net Assets without Donor Restrictions	4,275,709	(1,058,048)	3,217,661
Statement of Activities			
Program services expenses	\$ 20,401,246	\$ 1,058,048	\$ 21,459,294
Total expenses	21,579,492	1,058,048	22,637,540
Change in net assets	(669,389)	(1,058,048)	(1,727,437)
Net Assets without Donor Restrictions, End of Year	4,275,709	(1,058,048)	3,217,661
Statement of Functional Expenses			
Program Services			
Matching awards expense	\$ 174,325	\$ (87,745)	\$ 86,580
Discretionary awards expense	1,418,082	1,145,793	2,563,875
Program services expenses	20,401,246	1,058,048	21,459,294
Total expenses	21,579,492	1,058,048	22,637,540
Statement of Cash Flows			
Change in net assets	\$ (669,389)	\$ (1,058,048)	\$ (1,727,437)
Scholarship awards payable	2,092,110	1,058,048	3,150,158