



Financial Statements
June 30, 2021 and 2020

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, 2021 and 2020, 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, 2021 and 2020, 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.

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

Phoenix, Arizona
December 8, 2021

Catholic Education Arizona
Statements of Financial Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 22,256,413	\$ 18,693,309
Certificates of deposits	3,345,184	3,303,516
Scholarship refunds receivable	145,754	43,476
Prepaid expenses	<u>11,268</u>	<u>11,163</u>
	<u>25,758,619</u>	<u>22,051,464</u>
Property and Equipment		
Furniture and equipment	44,059	42,073
Computer equipment	56,329	55,010
Leasehold improvements	<u>107,156</u>	<u>102,006</u>
	207,544	199,089
Less accumulated depreciation	<u>(69,021)</u>	<u>(34,167)</u>
Total property and equipment	<u>138,523</u>	<u>164,922</u>
Total assets	<u><u>\$ 25,897,142</u></u>	<u><u>\$ 22,216,386</u></u>
Liabilities and Net Assets		
Current Liabilities		
Scholarship awards payable	\$ 23,665,739	\$ 20,359,532
Accounts payable and accrued expenses	<u>19,059</u>	<u>47,448</u>
	<u>23,684,798</u>	<u>20,406,980</u>
Deferred rent	18,510	12,992
Lease incentive obligation, net	<u>74,999</u>	<u>94,564</u>
Total liabilities	<u>23,778,307</u>	<u>20,514,536</u>
Net Assets without Donor Restrictions	<u>2,118,835</u>	<u>1,701,850</u>
Total liabilities and net assets	<u><u>\$ 25,897,142</u></u>	<u><u>\$ 22,216,386</u></u>

Catholic Education Arizona
Statements of Activities
Years Ended June 30, 2021 and 2020

	2021	2020
Revenues and Other Support		
Contributions - individual	\$ 10,952,847	\$ 10,522,515
Contributions - corporate	10,222,710	5,835,700
In-kind contributions	-	21,600
Other contributions	275,766	256,640
Interest income	71,858	223,831
	<u>21,523,181</u>	<u>16,860,286</u>
Expenses		
Program services	<u>20,058,749</u>	<u>17,211,760</u>
Supporting services expenses		
Management and general	515,349	571,108
Fundraising	<u>532,098</u>	<u>593,229</u>
Total supporting services expenses	<u>1,047,447</u>	<u>1,164,337</u>
Total expenses	<u>21,106,196</u>	<u>18,376,097</u>
Change in Net Assets	416,985	(1,515,811)
Net Assets without Donor Restrictions, Beginning of Year	<u>1,701,850</u>	<u>3,217,661</u>
Net Assets without Donor Restrictions, End of Year	<u>\$ 2,118,835</u>	<u>\$ 1,701,850</u>

Catholic Education Arizona
Statements of Functional Expenses
Year Ended June 30, 2021

	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
	<u>19,275,653</u>	<u>-</u>	<u>-</u>	<u>19,275,653</u>
Total scholarship awards				
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
Other expenses	19,674	36,089	22,210	77,973
	<u>783,096</u>	<u>515,349</u>	<u>532,098</u>	<u>1,830,543</u>
Total other expenses				
Total expenses	<u>\$ 20,058,749</u>	<u>\$ 515,349</u>	<u>\$ 532,098</u>	<u>\$ 21,106,196</u>

Catholic Education Arizona
Statements 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
Employer matching and donations	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				
Compensation, other salaries and wages and benefits	252,409	264,918	252,980	770,307
Pension plan contributions	21,035	21,672	21,035	63,742
Payroll taxes	14,570	15,011	14,570	44,151
Professional services	75,220	19,616	47,802	142,638
Legal	-	58	-	58
Accounting fees	7,117	7,117	7,117	21,351
Advertising and promotion	87,484	100,055	105,744	293,283
Office expenses	-	28,212	-	28,212
Information technology	4,149	4,390	5,788	14,327
Rent	11,970	11,970	11,970	35,910
Travel	978	3,514	3,360	7,852
Conventions and meetings	1,152	16,515	3,122	20,789
Depreciation and amortization	5,436	5,437	5,436	16,309
Insurance	2,923	2,699	2,923	8,545
Printing	18,043	12,364	73,802	104,209
Credit card fees	192,032	-	-	192,032
Moving expense	8,713	8,715	8,713	26,141
Continuing professional education	-	17,639	-	17,639
Postage and delivery	4,969	2,250	15,480	22,699
Other expenses	12,724	28,956	13,387	55,067
	<u>720,924</u>	<u>571,108</u>	<u>593,229</u>	<u>1,885,261</u>
Total other expenses				
Total expenses	<u>\$ 17,211,760</u>	<u>\$ 571,108</u>	<u>\$ 593,229</u>	<u>\$ 18,376,097</u>

Catholic Education Arizona
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Operating Activities		
Change in net assets	\$ 416,985	\$ (1,515,811)
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation and amortization	34,854	16,309
Amortization of lease incentive obligation	(19,565)	(3,261)
In-kind donation of property	-	(21,600)
Changes in assets and liabilities		
Contributions receivable	-	21,412
Scholarship refunds receivable	(102,278)	281,571
Prepaid expenses	(105)	13,924
Scholarship awards payable	3,306,207	(1,450,051)
Accounts payable and accrued expenses	(28,389)	(14,104)
Deferred rent	5,518	12,992
Net Cash from (used for) Operating Activities	3,613,227	(2,658,619)
Investing Activities		
Purchase of property and equipment	(8,455)	(46,609)
Purchase of certificates of deposit	(41,668)	(2,274,364)
Net Cash used for Investing Activities	(50,123)	(2,320,973)
Net Change in Cash and Cash Equivalents	3,563,104	(4,979,592)
Cash and Cash Equivalents, Beginning of Year	18,693,309	23,672,901
Cash and Cash Equivalents, End of Year	\$ 22,256,413	\$ 18,693,309
Supplemental Disclosure of Non-cash Investing and Financing Activity		
Tenant lease incentive from lessor	\$ -	\$ 97,825

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 0.35% per annum, and have maturities ranging from nine to ten 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 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, 2021 and 2020 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, 2021 and 2020.

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.

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 \$19,055,326 and \$14,720,316 for the years ended June 30, 2021 and 2020, 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 \$50,000 and \$1,679,000 for the years ended June 30, 2021 and 2020, 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 \$145,754 and \$43,476 as of June 30, 2021 and 2020, 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, printing, postage and delivery, and other 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 \$156,192 and \$293,283 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020, there were no significant estimates.

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 December 15, 2021. Early adoption of the amendment is permitted.

Change in Accounting Policy

FASB has issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the scope and accounting guidance for contributions received and contributions made. This standard assists the Organization in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. As of July 1, 2020, the Organization has implemented the provisions of ASU No. 2018-08 applicable to contributions made and has determined that this standard does not have an impact on the Organization.

Subsequent Events

The Organization has evaluated subsequent events through December 8, 2021, 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, 2021 and 2020 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:

	2021	2020
Cash and cash equivalents	\$ 22,256,413	\$ 18,693,309
Certificates of deposits	3,345,184	3,303,516
Scholarship refunds receivable	145,754	43,476
	\$ 25,747,351	\$ 22,040,301

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. 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 2022 and 2024. Rent expense incurred under these operating lease agreements, including month-to-month obligations, was \$76,520 and \$38,184 for the years ended June 30, 2021 and 2020, respectively.

Future minimum lease payments under these agreements are as follows:

Years Ending June 30,	Amount
2022	\$ 89,491
2023	91,076
2024	92,808
2025	90,949
2026	14,790
	\$ 379,114

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 \$5,235 and \$3,607 to the Plan during the years ended June 30, 2021 and 2020, 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 \$69,080 and \$60,135 to the defined benefit retirement plan during the years ended June 30, 2021 and 2020, 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

Two vendors represent 13% and 12% of expenses excluding scholarships, salaries, and payroll tax expenses for the year ended June 30, 2021 and 12% and 11% of expenses excluding scholarships, salaries, and payroll tax expenses for the year ended June 30, 2020.

One corporation comprised 26% and 11% of corporate contributions for the years ended June 30, 2021 and 2020, respectively.