

INDEPENDENT AUDITOR'S REPORT

The Audit Committee
Center for Arizona Policy, Inc. and Affiliate
Phoenix, Arizona

I have audited the accompanying consolidated financial statements of Center for Arizona Policy, Inc. (an Arizona nonprofit corporation) and Affiliate, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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

My responsibility is to express an opinion on these consolidated financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits 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 consolidated 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 entity's preparation and fair presentation of the consolidated 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 entity's internal control. Accordingly, I 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 consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Center for Arizona Policy, Inc. and Affiliate as of December 31, 2017 and 2016, 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.

Monica J. Stern, CPA, PLLC

November 7, 2018

Center for Arizona Policy, Inc. and Affiliate

Consolidated Statements of Financial Position

December 31, 2017 and 2016

	December 31,	
<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$704,519	\$518,856
Other receivables	-	5,843
Deferred rent incentive receivable	27,773	-
Rent concession receivable	30,436	-
Investments	20	17
Prepaid expenses	24,345	14,332
	-----	-----
Total current assets	787,093	539,048
Property and equipment, net	17,087	8,208
Deposits	8,100	8,100
	-----	-----
TOTAL ASSETS	\$812,280	\$555,356
	=====	=====
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	\$ 32,259	\$ 35,130
Accrued compensated absences	13,779	17,667
Deferred activity fees	32,200	-
Deferred rent - current portion	18,787	-
	-----	-----
Total current liabilities	97,025	52,797
Deferred rent, net of current portion	65,054	-
	-----	-----
TOTAL LIABILITIES	162,079	52,797
<u>Net Assets</u>		
Unrestricted	650,201	502,559
Temporarily restricted	-	-
	-----	-----
TOTAL NET ASSETS	650,201	502,559
	-----	-----
TOTAL LIABILITIES AND NET ASSETS	\$812,280	\$555,356
	=====	=====

See accompanying notes to the financial statements.

Center for Arizona Policy, Inc. and Affiliate

Consolidated Statements of Activities
For the years ended December 31, 2017 and 2016

	December 31, 2017			December 31, 2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Contributions	\$1,781,470	\$ -	\$1,781,470	\$1,925,124	\$ 30,000	\$1,955,124
Program fees	2,374	-	2,374	8,952	-	8,952
Special event fees	49,045	-	49,045	39,150	-	39,150
Interest and dividend income	330	-	330	594	-	594
	-----	-----	-----	-----	-----	-----
	1,833,219	-	1,833,219	1,973,820	30,000	2,003,820
Net assets released from restrictions:						
Satisfaction by payment	-	-	-	35,000	(35,000)	-
	-----	-----	-----	-----	-----	-----
Total support and revenue	1,833,219	-	1,833,219	2,008,820	(5,000)	2,003,820
	-----	-----	-----	-----	-----	-----
Expenses:						
Program services:						
Education and advocacy	1,143,390	-	1,143,390	1,640,329	-	1,640,329
	-----	-----	-----	-----	-----	-----
Total program services	1,143,390	-	1,143,390	1,640,329	-	1,640,329
	-----	-----	-----	-----	-----	-----
Supporting services:						
Administration	275,384	-	275,384	217,929	-	217,929
Fundraising	193,690	-	193,690	214,862	-	214,862
Direct benefits to donors	73,113	-	73,113	62,453	-	62,453
	-----	-----	-----	-----	-----	-----
Total supporting services	542,187	-	542,187	495,244	-	495,244
	-----	-----	-----	-----	-----	-----
Total expenses	1,685,577	-	1,685,577	2,135,573	-	2,135,573
	-----	-----	-----	-----	-----	-----
Increase (decrease) in net assets	\$ 147,642	\$ -	\$ 147,642	\$ (126,753)	\$ (5,000)	\$ (131,753)
Net assets, beginning of year	502,559	-	502,559	629,312	5,000	634,312
	-----	-----	-----	-----	-----	-----
Net assets, end of year	\$ 650,201	\$ -	\$ 650,201	\$ 502,559	\$ -	\$ 502,559
	=====	=====	=====	=====	=====	=====

See accompanying notes to the financial statements.

Center for Arizona Policy, Inc. and Affiliate

Consolidated Statements of Cash Flows
For the years ended December 31, 2017 and 2016

	December 31, 2017	2016
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 147,642	\$(131,753)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	7,176	8,676
(Increase) decrease in donated assets held for sale	-	2,000
(Increase) decrease in other receivables	5,843	(5,843)
Increase (decrease) in deferred lease incentive receivable	(27,773)	-
(Increase) decrease in rent concession receivable	(30,436)	-
(Increase) decrease in prepaid expenses	(10,013)	(3,118)
Increase (decrease) in accounts payable	(2,871)	27,206
Increase (decrease) in accrued compensated absences	(3,888)	(1,850)
Increase (decrease) in deferred activity fees	32,200	-
Increase (decrease) in deferred rent	83,841	(16,772)
	-----	-----
Net cash provided (used) by operating activities	201,721	(121,454)
	-----	-----
Cash flows from investing activities:		
Purchase of property and equipment	(16,055)	(2,684)
Purchase of investments	(3)	-
	-----	-----
Net cash used by investing activities	(16,058)	(2,684)
	-----	-----
Cash flows from financing activities:	-	-
	-----	-----
Net increase (decrease) in cash and cash equivalents	\$ 185,663	\$(124,138)
Cash and cash equivalents, beginning	518,856	642,994
	-----	-----
Cash and cash equivalents, ending	\$ 704,519	\$ 518,856
	=====	=====

See accompanying notes to the financial statements.

(1) **Summary of Significant Accounting Policies**

The financial statements of Center for Arizona Policy, Inc. and Affiliate have been prepared in accordance with accounting principles generally accepted in the United States of America. Other significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Nature of Activities

Center for Arizona Policy, Inc. was established on September 22, 1988. Center for Arizona Policy, Inc.'s primary exempt purpose is to promote and defend public policy that protects life, strengthens marriage and family, and affirms religious liberty. By standing for these foundational values, Center for Arizona Policy, Inc. hopes to make Arizona a better place to raise a family.

Center for Arizona Policy Action was established on September 11, 2000 primarily to promote the common good and general welfare of the people of Arizona and specifically for the purpose of educating the public and making recommendations to legislative bodies on various public policy issues pertaining to the sanctity of life, marriage, the family, and religious freedom. Center for Arizona Policy, Inc. and Center for Arizona Policy Action share a common board.

Basis of Presentation

Center for Arizona Policy, Inc. and Center for Arizona Policy Action (known collectively as "CAP") follow the provisions of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC 958-810-60-4, 810-10-50-1) which requires consolidated financial statements for certain related entities. The consolidated financial statements include Center for Arizona Policy, Inc. and its affiliate, Center for Arizona Policy Action.

All significant transactions and balances between the entities have been eliminated.

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and nature of any donor restrictions.

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those assets must be maintained, CAP reports expirations of donor restrictions when the assets are placed in service. CAP reclassifies temporarily restricted net assets to unrestricted net assets at that time.

(1) **Accounting Policies (continued)**

Other significant accounting policies are as follows:

(a) **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

(b) **Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, CAP considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

(c) **Plant Assets and Depreciation**

CAP capitalizes land, buildings and equipment with a cost, if purchased, or fair market value, if contributed, of over \$750. Maintenance and repairs are charged to expense as incurred.

Depreciation is recorded based on the estimated useful life of the asset using the straight-line method.

(d) **Contributions In-Kind**

Contributions of materials or equipment are recorded as support at the estimated fair value at the date of contribution. Such contributions are reported as unrestricted support unless the donor has restricted the asset to a specific purpose.

No amounts have been reflected in the financial statements for services donated by individuals who volunteer their time and perform a variety of tasks that assist CAP with specific programs and administrative assignments. No estimated value has been placed on these services by CAP.

(e) **Expense Allocation**

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 programs and supporting services benefitted. Administration includes those expenses that are not directly identifiable with any specific program but provide for the overall support and direction of CAP.

(f) **Repairs and Maintenance Expense**

In accordance with generally accepted accounting principles, CAP utilizes the direct expensing method for any planned major maintenance activities. Under this method, CAP expenses all costs associated with major planned maintenance activities as incurred.

(g) **Fair Value of Financial Instruments**

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value because of the short maturity of those instruments.

Center for Arizona Policy, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

(1) **Accounting Policies (continued)**

(h) **Promises to Give Receivable**

Unconditional promises to give receivable, if any, are recognized as revenues in the period the promise is received and as assets, decreases of liabilities or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

(i) **Fair Value Measurements**

Fair values have been measured using the following three levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that CAP has the ability to access at the measurement date.

Level 2: Observable inputs other than the quoted prices included in Level 1 for similar assets or liabilities in active or non-active markets.

Level 3: Unobservable inputs (not actively traded or not available) that reflect the CAP's own assumptions about the assumptions that market participants would use in pricing the asset, based on the best information available in the circumstances.

(j) **Advertising**

Advertising costs are expensed when incurred. Total advertising costs were \$17,241 for the year ended December 31, 2017 and \$13,942 for the year ended December 31, 2016.

(2) **Cash and Cash Equivalents**

Cash and cash equivalents consist of the following:

	December 31,	
	<u>2017</u>	<u>2016</u>
Cash in checking accounts	\$560,054	\$370,869
Cash in savings accounts	30	30
Cash in money market funds	105,011	129,689
Cash held in investment account	39,224	18,068
Petty cash	200	200
	-----	-----
	\$704,519	\$518,856
	=====	=====

Center for Arizona Policy maintains accounts at two credit unions and two banks. All balances were insured by either the NCUA or the FDIC as of December 31, 2017.

Center for Arizona Policy, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

(3) **Rent Concession Receivable**

As part of the office lease renewal in 2017, the landlord provided \$60,600 in tenant allowances (rent concession) and free rent for the months of January, February and March 2018. CAP used \$30,164 to pay rent and related expenses in 2017. The balance of rent concessions will be used to pay rent and related expenses for April, May and June 2018.

(4) **Investments**

Investments, which consists of donated marketable securities, are measured at fair value on a recurring basis using Level 1 inputs.

(5) **Property and Equipment**

Property and equipment, carried at cost, consists of the following:

	December 31,	
	2017	2016
Office furniture and equipment	\$ 104,672	\$ 106,899
Leasehold improvements	9,361	9,361
	-----	-----
	114,033	116,260
Less: accumulated depreciation	(96,946)	(108,052)
	-----	-----
	\$ 17,087	\$ 8,208
	=====	=====

Depreciation expense totaled \$7,176 for the year ended December 31, 2017 and \$8,676 for the year ended December 31, 2016.

(6) **Operating Leases**

CAP leases office space in Phoenix, Arizona under an operating lease expiring September 30, 2021. Total office rent expense for the year ended December 31, 2017 was \$116,764 and \$92,068 for the year ended December 31, 2016.

CAP also leases office equipment under two operating leases expiring through May 2020. Monthly payments under the leases total \$759. Total equipment rent expense for 2017 was \$12,154 and \$15,330 for 2016.

Minimum future lease payments to be made after December 31, 2017 under non-cancelable operating leases are as follows:

<u>Year ended December 31,</u>	
2018	\$102,070
2019	102,070
2020	96,759
2021	69,723

	\$370,622
	=====

Center for Arizona Policy, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

(7) **Pension Plan**

CAP has provided its employees with a 403(b) defined contribution pension plan, which allows the employees to contribute certain amounts from their wages, with no waiting period. CAP matches the employees' contribution up to 2% of wages after two years of employment and up to 5% of wages after attainment of five years of employment. CAP's expense was \$13,041 for 2017 and \$12,750 for 2016.

(8) **Joint Costs**

CAP incurred joint costs in connection with its website, certain events and email updates. The joint costs for the years ended December 31, 2017 and 2016 were allocated as follows:

	December 31,	
	2017	2016
Education and advocacy	\$116,958	\$147,828
Fundraising	24,568	22,924
	-----	-----
	\$141,526	\$170,752
	=====	=====

(9) **Federal Income Tax Status**

Center for Arizona Policy, Inc. has received exemption from the Internal Revenue Service under IRC Section 501(c)(3). Continuance of such exemption is dependent upon Center for Arizona Policy, Inc.'s operations being in compliance with the Internal Revenue Code. In addition, Center for Arizona Policy, Inc. has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a).

Center for Arizona Policy Action has received exemption from the Internal Revenue Service under IRC Section 501(c)(4). Continuance of such exemption is dependent upon Center for Arizona Policy Action's operations being in compliance with the Internal Revenue Code.

(10) **Uncertain Tax Positions**

CAP implemented accounting guidance related to uncertain tax positions. Using that guidance, tax provisions initially need to be recognized in the financial statements when it is more-likely-than-not that the position will not be sustained upon examination by the tax authorities.

As of December 31, 2017, CAP had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. CAP will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

(11) **Subsequent Events**

Subsequent events were evaluated by management through November 7, 2018, which is the date the financial statements were available to be issued.

SUPPLEMENTARY
INFORMATION

MONICA J. STERN, CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT
11225 NORTH 28TH DRIVE, SUITE A-100
PHOENIX, ARIZONA 85029

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Audit Committee
Center for Arizona Policy, Inc. and Affiliate

I have audited the consolidated financial statements of Center for Arizona Policy, Inc. and Affiliate as of and for the years ended December 31, 2017 and 2016, and have issued my report thereon dated November 7, 2018 and November 27, 2017, which contained an unmodified opinion on those financial statements. The audits were performed for the purpose of forming an opinion on the financial statements as a whole.

The Consolidating Statements of Financial Position and the Consolidating Statements of Activities are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Monica J. Stern, CPA, PLLC

November 7, 2018

Center for Arizona Policy, Inc. and Affiliate

 Consolidating Statement of Financial Position
 December 31, 2017

Assets	<u>Center for Arizona Policy, Inc.</u>	<u>Center for Arizona Policy Action</u>	<u>Elimination</u>	<u>Total</u>
Current assets:				
Cash and cash equivalents	\$703,407	\$1,112	\$ -	\$704,519
Other receivables	875	-	(875)	-
Deferred rent incentive receivable	27,773	-	-	27,773
Rent concession receivable	30,436	-	-	30,436
Investments	20	-	-	20
Prepaid expenses	24,345	-	-	24,345
	-----	-----	-----	-----
Total current assets	786,856	1,112	(875)	787,093
Property and equipment, net	17,087	-	-	17,087
Deposits	8,100	-	-	8,100
	-----	-----	-----	-----
TOTAL ASSETS	\$812,043	\$1,112	\$ (875)	\$812,280
	=====	=====	=====	=====
Liabilities				
Current liabilities:				
Accounts payable	\$ 32,259	\$ 875	\$ (875)	\$ 32,259
Accrued compensated absences	13,779	-	-	13,779
Deferred activity fees	32,200	-	-	32,200
Deferred rent - current portion	18,787	-	-	18,787
	-----	-----	-----	-----
Total current liabilities	97,025	875	(875)	97,025
Deferred rent, net of current portion	65,054	-	-	65,054
	-----	-----	-----	-----
TOTAL LIABILITIES	162,079	-	-	162,079
Net Assets				
Unrestricted	649,964	237	-	650,201
Temporarily restricted	-	-	-	-
	-----	-----	-----	-----
TOTAL NET ASSETS	649,964	237	-	650,201
	-----	-----	-----	-----
TOTAL LIABILITIES AND NET ASSETS	\$812,043	\$1,112	\$ (875)	\$812,280
	=====	=====	=====	=====

See independent accountant's audit report on supplementary information.

Center for Arizona Policy, Inc. and Affiliate

Consolidating Statement of Activities - Totals Only
For the year ended December 31, 2017

	Center for Arizona Policy, Inc.	Center for Arizona Policy Action	Elimination	Total
Support and Revenue:				
Contributions	\$1,781,070	\$ 400	\$ -	\$1,781,470
Program fees	2,374	-	-	2,374
Special event fees	49,045	-	-	49,045
Interest and dividend income	330	-	-	330
	-----	-----	-----	-----
Total support and revenue	\$1,832,819	\$ 400	\$ -	\$1,833,219
	-----	-----	-----	-----
Expenses:				
Program services:				
Education and advocacy	1,142,679	711	-	1,143,390
	-----	-----	-----	-----
Total program services	1,142,679	711	-	1,143,390
	-----	-----	-----	-----
Supporting services:				
Administration	274,488	896	-	275,384
Fundraising	193,690	-	-	193,690
Direct benefits to donors	73,113	-	-	73,113
	-----	-----	-----	-----
Total support services	541,291	896	-	542,187
	-----	-----	-----	-----
Total expenses	1,683,970	1,607	-	1,685,577
	-----	-----	-----	-----
Increase (decrease) in net assets	148,849	(1,207)	-	147,642
Net assets, beginning of year	501,115	1,444	\$ -	502,559
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Net assets, ending of year	\$ 649,964	\$ 237	\$ -	\$ 650,201
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See independent accountant's audit report on supplementary information.

Center for Arizona Policy, Inc. and Affiliate

Consolidating Statement of Financial Position

December 31, 2016

<u>Assets</u>	Center for Arizona Policy, Inc.	Center for Arizona Policy Action	Elimination	Total
Current assets:				
Cash and cash equivalents	\$516,622	\$2,234	\$ -	\$518,856
Other receivables	6,633	-	(790)	5,843
Investments	17	-	-	17
Prepaid expenses	14,332	-	-	14,332
	-----	-----	-----	-----
Total current assets	537,604	2,234	(790)	539,048
Property and equipment, net	8,208	-	-	8,208
Deposits	8,100	-	-	8,100
	-----	-----	-----	-----
TOTAL ASSETS	\$553,912	\$2,234	\$ (790)	\$555,356
	=====	=====	=====	=====
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	\$ 35,130	\$ 790	\$ (790)	\$ 35,130
Accrued compensated absences	17,667	-	-	17,667
	-----	-----	-----	-----
Total current liabilities	52,797	790	(790)	52,797
<u>Net Assets</u>				
Unrestricted	501,115	1,444	-	502,559
Temporarily restricted	-	-	-	-
	-----	-----	-----	-----
TOTAL NET ASSETS	501,115	1,444	-	502,559
	-----	-----	-----	-----
TOTAL LIABILITIES AND NET ASSETS	\$553,912	\$2,234	\$ (790)	\$555,356
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See independent accountant's audit report on supplementary information.

Center for Arizona Policy, Inc. and Affiliate

Consolidating Statement of Activities - Totals Only
For the year ended December 31, 2016

	Center for Arizona Policy, Inc.	Center for Arizona Policy Action	Elimination	Total
Support and Revenue:				
Contributions	\$1,846,109	\$176,425	\$(67,410)	\$1,955,124
Program fees	8,952	-	-	8,952
Special event fees	39,150	-	-	39,150
Interest and dividend income	594	-	-	594
	-----	-----	-----	-----
Total support and revenue	\$1,894,805	\$176,425	\$(67,410)	\$2,003,820
	-----	-----	-----	-----
Expenses:				
Program services:				
Education and advocacy	1,534,102	173,637	(67,410)	1,640,329
	-----	-----	-----	-----
Total program services	1,534,102	173,637	(67,410)	1,640,329
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Supporting services:				
Administration	216,636	1,293	-	217,929
Fundraising	214,777	85	-	214,862
Direct benefits to donors	62,453	-	-	62,453
	-----	-----	-----	-----
Total support services	493,866	1,378	-	495,244
	-----	-----	-----	-----
Total expenses	2,027,968	175,015	(67,410)	2,135,573
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Increase (decrease) in net assets	(133,163)	1,410	-	(131,753)
Net assets, beginning of year	634,278	34	\$ -	634,312
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Net assets, ending of year	\$ 501,115	\$ 1,444	\$ -	\$ 502,559
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See independent accountant's audit report on supplementary information.