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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Arizona Private Education Scholarship Fund, Inc. and affiliate  
Scottsdale, Arizona

I have audited the accompanying consolidated financial statements of Arizona Private Education Scholarship Fund, Inc. (a nonprofit organization) and affiliate, which comprise the Consolidated Statements of Assets, Liabilities and Net Assets - Modified Cash Basis as of June 30, 2016 and 2015 and the related Consolidated Statements of Revenues, Expenses, and Other Changes in Net Assets - Modified Cash Basis and Consolidated Statements of Cash Flows - Modified Cash Basis 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 consolidated financial statements in accordance with the modified cash basis of accounting as described in note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**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 of 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 entity'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 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 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 assets, liabilities, and net assets of Arizona Private Education Scholarship Fund, Inc. and affiliate as of June 30, 2016 and 2015, and its support, revenue, expenses and cash flows for the years then ended on the basis of accounting described in note 1.

**Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Monica J. Stern, CPA, PLLC*

Phoenix, Arizona  
October 31, 2016

Arizona Private Education Scholarship Fund, Inc. and Affiliate

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 Consolidated Statements of Assets, Liabilities and  
 Net Assets - Modified Cash Basis  
 For the years ended June 30, 2016 and 2015  
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	June 30,	
	<u>2016</u>	<u>2015</u>
<b><u>Assets</u></b>		
Cash and cash equivalents	\$2,423,117	\$1,667,774
Equipment, net	50,244	40,872
	-----	-----
Total Assets	\$2,473,361	\$1,708,646
	=====	=====
 <b><u>Liabilities and Net Assets</u></b>		
Total liabilities	-	-
	-----	-----
Net Assets:		
Unrestricted	2,473,361	1,708,646
Temporarily restricted	-	-
	-----	-----
Total net assets	2,473,361	1,708,646
	-----	-----
Total liabilities and net assets	\$2,473,361	\$1,708,646
	=====	=====

See accompanying notes to the consolidated financial statements.

Arizona Private Education Scholarship Fund, Inc. and Affiliate

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 Consolidated Statements of Revenues, Expenses, and Other Changes in Net Assets -  
 Modified Cash Basis  
 For the years ended June 30, 2016 and 2015  
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	Year ended June 30, 2016			Year ended June 30, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue:						
Contributions	\$6,047,769	\$ -	\$6,047,769	\$4,678,405	\$ -	\$4,678,405
Interest income	1,235	-	1,235	1,496	-	1,496
Loss on disposal of assets	-	-	-	(1,523)	-	(1,523)
	-----	-----	-----	-----	-----	-----
Total support and revenue	6,049,004	-	6,049,004	4,678,378	-	4,678,378
	-----	-----	-----	-----	-----	-----
Expenses:						
Scholarship program:						
Scholarship to students	4,758,072	-	4,758,072	3,938,651	-	3,938,651
Other program costs	129,115	-	129,115	97,439	-	97,439
	-----	-----	-----	-----	-----	-----
Total program services	4,887,187	-	4,887,187	4,036,090	-	4,036,090
	-----	-----	-----	-----	-----	-----
Support services:						
Administration	212,875	-	212,875	192,484	-	192,484
Fundraising	184,227	-	184,227	129,668	-	129,668
	-----	-----	-----	-----	-----	-----
Total support services	397,102	-	397,102	322,152	-	322,152
	-----	-----	-----	-----	-----	-----
Total expenses	5,284,289	-	5,284,289	4,358,242	-	4,358,242
	-----	-----	-----	-----	-----	-----
Increase in net assets	764,715	-	764,715	320,136	-	320,136
	-----	-----	-----	-----	-----	-----
Net assets, beginning	1,708,646	-	1,708,646	1,388,510	-	1,388,510
	-----	-----	-----	-----	-----	-----
Net assets, ending	\$2,473,361	\$ -	\$2,473,361	\$1,708,646	\$ -	\$1,708,646
	=====	=====	=====	=====	=====	=====

See accompanying notes to the consolidated financial statements.

Arizona Private Education Scholarship Fund, Inc. and Affiliate

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 Consolidated Statements of Cash Flows - Modified Cash Basis  
 For the years ended June 30, 2016 and 2015  
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	June 30,	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Increase in net assets	\$ 764,715	\$ 320,136
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	15,763	8,320
Loss on sale of asset	-	1,523
	-----	-----
Net cash provided by operating activities	780,478	329,979
	-----	-----
Cash flows from investing activities:		
Purchases of equipment	(25,135)	(32,151)
	-----	-----
Net cash used by investing activities	(25,135)	(32,151)
	-----	-----
Cash flows from financing activities:	-	-
	-----	-----
Net increase in cash and cash equivalents	755,343	297,828
	-----	-----
Cash and cash equivalents - beginning	1,667,774	1,369,946
	-----	-----
Cash and cash equivalents - ending	\$2,423,117	\$1,667,774
	=====	=====

See accompanying notes to the consolidated financial statements.

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

**BASIS OF ACTIVITIES AND PRESENTATION** - The consolidated financial statements include Arizona Private Education Scholarship Fund, Inc. and STO Management Group, LLC and are collectively referred to in these financial statements as "APESF".

This affiliated entities have common management and share the primary objective of providing scholarships to qualified students attending private schools in the state of Arizona. Arizona Private Education Scholarship Fund, Inc. is the sole member of STO Management Group, LLC.

The accompanying financial statements have been prepared on the modified cash basis of accounting; consequently, certain revenues are recognized when received rather than when earned and certain expenses are recognized when cash is disbursed, rather than when the obligation is incurred. Under the modified cash basis of accounting, APESF capitalizes and depreciates its donated and purchased plant assets and recognizes liabilities for credit card transactions and loans.

APESF 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.

**NATURE OF ACTIVITIES** - Arizona Private Education Scholarship Fund, Inc. is a School Tuition Organization developed under the guidelines provided in the Arizona Private School Tuition Tax Credit Law of 1997 as amended in 2010 and 2011. Founded in 1998 to provide scholarships to qualified students attending private schools in the State of Arizona, its mission is to provide qualified students seeking a choice in their educational careers with the necessary financial support to be successful students and productive citizens in the community.

**CASH AND CASH EQUIVALENTS** - For purposes of the statement of cash flows, APESF considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**USE OF ESTIMATES** - The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**PLANT ASSETS AND DEPRECIATION** - APESF capitalizes equipment with a cost of over \$1,000. 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.

**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 donor restrictions.

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

See independent accountant's audit report.

Arizona Private Education Scholarship Fund, Inc. and Affiliate

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Notes to Financial Statements  
For the years ended June 30, 2016 and 2015  
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(1) **Summary of Significant Accounting Policies (continued)**

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Revenues, Expenses, and Other Changes in Net Assets - Modified Cash Basis as net assets released from restrictions.

**NON-CASH CONTRIBUTIONS** - Contributions of plant assets are recorded as support at their 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. Assets contributed with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those contributed assets must be maintained, APESF reports expirations of donor restrictions when the assets are placed in service as instructed by the donor. APESF reclassifies temporarily restricted net assets to unrestricted net assets at that time.

**EXPENSE ALLOCATIONS** - The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Support, Revenues and Expenses - Modified Cash Basis. 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 APESF. Fundraising expenses include allocable overhead costs and direct expenses related to soliciting contributions.

**ADVERTISING COSTS** - Total advertising costs were \$2,480 for the year ended June 30, 2016 and \$2,005 for the year ended June 30, 2015.

(2) **Cash**

Cash consists of the following:

	June 30,	
	2016	2015
Cash in checking accounts	\$1,457,857	\$ 704,165
Cash in money market account	394,311	393,605
Cash in savings account	570,949	570,004
	-----	-----
	\$2,423,117	\$1,667,774
	=====	=====

APESF maintains bank accounts with two Arizona banks. As of June 30, 2016, bank balances of \$1,811,536 were held in the Arizona banks in excess of the Federal Deposit Insurance Corporation limits for insured accounts.

(3) **Equipment, net**

Equipment is recorded at cost and is stated net of accumulated depreciation in the amount of \$24,334 as of June 30, 2016 and \$11,071 as of June 30, 2015. Depreciation expense was \$15,763 for the year ended June 30, 2016 and \$8,320 for the year ended June 30, 2015.

See independent accountant's audit report.

Arizona Private Education Scholarship Fund, Inc. and Affiliate

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 Notes to Financial Statements  
 For the years ended June 30, 2016 and 2015  
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(4) **Deductible Gifts and Income Tax Exemption**

Arizona Private Education Scholarship Fund, Inc. is exempt from Federal and State income tax as a 501(c)(3) organization. Bequests, legacies, devises, transfers, and gifts to the Organization are deductible for Federal estate and gift tax purposes. The Organization is not classified as a private foundation by the Internal Revenue Service. STO Management Group, LLC is a disregarded entity for Federal and State tax purposes and receives its exemption from Arizona Private Education Scholarship Fund, Inc.

(5) **Uncertain Tax Positions**

APESF 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 June 30, 2016, APESF had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. APESF will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

(6) **Operating Lease/Subleases (Related Parties)**

APESF leases office space from an unrelated party under a lease expiring February 28, 2019 at a monthly cost of \$3,432. Total payments under operating leases were \$34,814 for the year ended June 30, 2016 and \$40,924 for the year ended June 30, 2015.

Future payments on the lease are as follows:

Year ending June 30,	
2017	\$ 41,634
2018	42,948
2019	29,217
	-----
	\$113,799
	=====

On January 1, 2016, APESF signed three subleases with related parties. Total rental income received under the subleases was \$16,733 for the year ended June 30, 2016 and \$22,644 for the year ended June 30, 2015. Two of the subleases are with companies owned by board members. The third sublease is with a family member of a board member. The subleases are due as follows:

Year ending June 30,	
2017	\$21,892
2018	21,892
2019	14,595
	-----
	\$58,379
	=====

See independent accountant's audit report.



Arizona Private Education Scholarship Fund, Inc. and Affiliate

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 Notes to Financial Statements  
 For the years ended June 30, 2016 and 2015  
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(7) **Related Party Transactions**

Office space is used by APESF and a board member's company. APESF reimbursed the board member's company for a proportionate share of postage, telephone, copier, internet and security for the space. APESF reimbursed \$1,517 for the year ended June 30, 2015. The Organization owed a total of \$1,517 to the Company at June 30, 2015 for expenses.

The board member's company also owed APESF \$2,896 as of June 30, 2016 and \$2,969 as of June 30, 2015 for reimbursable expenses.

APESF paid a management fee for the executive director's work through a company owned by the executive director. Amounts paid for the year ended June 30, 2015 totaled \$48,849.

APESF paid the executive director's company \$1,125 for storage for the year ended June 30, 2015.

The executive director's company owed APESF \$656 for various expenses as of June 30, 2016 and \$2,250 for rent and \$289 for a proportionate share of copier costs as of June 30, 2015.

(8) **Contributions**

For the years ended June 30, 2016 and June 30, 2015, APESF received contributions under the following programs:

	June 30,	
	<u>2016</u>	<u>2015</u>
Total individual income tax credit contributions	\$3,079,481	\$2,619,712
Total switcher individual income tax credit contributions	1,959,545	1,439,667
Total low-income corporate income tax credit contributions	485,500	430,000
Total disabled/displaced corporate income tax credit contributions	450,000	158,600
	-----	-----
	\$5,974,526	\$4,647,979
Other contributions	73,243	30,426
	-----	-----
Total	\$6,047,769	\$4,678,405
	=====	=====

See independent accountant's audit report.

Arizona Private Education Scholarship Fund, Inc. and Affiliate

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Notes to Financial Statements  
For the years ended June 30, 2016 and 2015

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(9) **Commitments and Concentrations**

Under Arizona State Law for Student Tuition Organizations, Arizona Private Education Scholarship Fund, Inc. is required to expend or allocate at least 90% of each program's tax credit contributions within two years for educational scholarships or tuition grants to children to allow them to attend any qualified school of their choice. As of June 30, 2016, the Organization had spent over 90% of its cumulative revenues as required under state law. A total of \$2,323,976 must be expended or allocated by June 30, 2018.

A law change reducing the donors' State tax credit or changing other aspects of the law related to contributions to Student Tuition Organizations could have a significant effect on the ability of APESF to raise funds.

(10) **Subsequent Events**

Subsequent events were evaluated by management through October 31, 2016 which is the date the financial statements were available to be issued.

See independent accountant's audit report.

SUPPLEMENTARY  
INFORMATION

**MONICA J. STERN, CPA, PLLC**  
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PHONE: (602) 674-8226 FAX (602) 674-8248

**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION**

Board of Directors  
Arizona Private Education Scholarship Fund, Inc.

I have audited the consolidated financial statements of Arizona Private Education Scholarship Fund, Inc. as of and for the years ended June 30, 2016 and June 30, 2015, and have issued my report thereon dated October 31, 2016, 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 Assets, Liabilities and Net Assets - Modified Cash Basis and the Consolidating Statements of Revenues, Expenses, and Other Changes in Net Assets - Modified Cash Basis is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related 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 audit 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*

Phoenix, Arizona  
October 31, 2016

Arizona Private Education Scholarship Fund, Inc. and Affiliate

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 Consolidating Statement of Assets, Liabilities and  
 Net Assets - Modified Cash Basis  
 June 30, 2016  
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<u>Assets</u>	Arizona Private Education Fund	STO Management Group, LLC	Eliminations	Total
Cash and cash equivalents	\$2,170,193	\$ 252,924	\$ -	\$2,423,117
Due from STO Management Group, LLC	470,016	-	(470,016)	-
Equipment, net	-	50,244	-	50,244
	-----	-----	-----	-----
Total assets	\$2,640,209	\$ 303,168	\$(470,016)	\$2,473,361
	=====	=====	=====	=====
<u>Liabilities and Net Assets</u>				
Due to Arizona Private Education Scholarship Fund, Inc.	\$ -	\$ 470,016	\$(470,016)	\$ -
	-----	-----	-----	-----
Total liabilities	-	470,016	(470,016)	-
	-----	-----	-----	-----
Net Assets:				
Unrestricted	2,640,209	(166,848)	-	2,473,361
Temporarily restricted	-	-	-	-
	-----	-----	-----	-----
Total net assets (deficit)	2,640,209	(166,848)	-	2,473,361
	-----	-----	-----	-----
Total liabilities and net assets	\$2,640,209	\$ 303,168	\$(470,016)	\$2,473,361
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See independent accountant's audit report on supplementary information.

Arizona Private Education Scholarship Fund, Inc. and Affiliate

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 Consolidating Statement of Assets, Liabilities and  
 Net Assets - Modified Cash Basis  
 June 30, 2015  
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	Arizona Private Education Fund	STO Management Group, LLC	Eliminations	Total
<b><u>Assets</u></b>				
Cash and cash equivalents	\$1,666,266	\$ 1,508	\$ -	\$1,667,774
Due from STO Management Group, LLC	208,016	-	(208,016)	-
Equipment, net	-	40,872	-	40,872
	-----	-----	-----	-----
Total assets	\$1,874,282	\$ 42,380	\$(208,016)	\$1,708,646
	=====	=====	=====	=====
<b><u>Liabilities and Net Assets</u></b>				
Due to Arizona Private Education Scholarship Fund, Inc.	\$ -	\$ 208,016	\$(208,016)	\$ -
	-----	-----	-----	-----
Total liabilities	-	208,016	(208,016)	-
	-----	-----	-----	-----
Net Assets:				
Unrestricted	1,874,282	(165,636)	-	1,708,646
Temporarily restricted	-	-	-	-
	-----	-----	-----	-----
Total net assets (deficit)	1,874,282	(165,636)	-	1,708,646
	-----	-----	-----	-----
Total liabilities and net assets	\$1,874,282	\$ 42,380	\$(208,016)	\$1,708,646
	=====	=====	=====	=====

See independent accountant's audit report on supplementary information.

Arizona Private Education Scholarship Fund, Inc. and Affiliate

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 Consolidating Statement of Revenues, Expenses, and Other Changes in Net Assets -  
 Modified Cash Basis  
 For the year ended June 30, 2016

	Arizona Private Education Fund	STO Management Group, LLC	Elimination	Total
Support and Revenue:				
Contributions	\$6,047,769	\$ -	\$ -	\$6,047,769
Management service fee	-	444,000	(444,000)	-
Interest income	1,193	42	-	1,235
	-----	-----	-----	-----
Total support and revenue	\$6,048,962	\$ 444,042	\$(444,000)	\$6,049,004
	-----	-----	-----	-----
Expenses:				
Scholarship program:				
Scholarships to students	4,758,072	-	-	4,758,072
Other program costs	972	128,143	-	129,115
	-----	-----	-----	-----
Total programs	4,759,044	128,143	-	4,887,187
	-----	-----	-----	-----
Support services:				
Administration	523,991	132,884	(444,000)	212,875
Fundraising	-	184,227	-	184,227
	-----	-----	-----	-----
Total support services	523,991	317,111	(444,000)	397,102
	-----	-----	-----	-----
Total expenses	5,283,035	445,254	(444,000)	5,284,289
	-----	-----	-----	-----
Increase (decrease) in net assets	765,927	(1,212)	-	764,715
Net assets, beginning	1,874,282	(165,636)	\$ -	1,708,646
	-----	-----	-----	-----
Net assets, ending	\$2,640,209	\$(166,848)	\$ -	\$2,473,361
	=====	=====	=====	=====

See independent accountant's audit report on supplementary information.

Arizona Private Education Scholarship Fund, Inc. and Affiliate

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 Consolidating Statement of Revenues, Expenses, and Other Changes in Net Assets -  
 Modified Cash Basis  
 For the year ended June 30, 2015  
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	Arizona Private Education Fund	STO Management Group, LLC	Elimination	Total
Support and Revenue:				
Contributions	\$4,678,405	\$ -	\$ -	\$4,678,405
Management service fee	-	336,000	(336,000)	-
Interest income	1,496	-	-	1,496
Loss on disposal of assets	-	(1,523)	-	(1,523)
	-----	-----	-----	-----
Total support and revenue	\$4,679,901	\$ 334,477	\$(336,000)	\$4,678,378
	-----	-----	-----	-----
Expenses:				
Scholarship program:				
Scholarships to students	3,938,651	-	-	3,938,651
Other program costs	-	97,439	-	97,439
	-----	-----	-----	-----
Total programs	3,938,651	97,439	-	4,036,090
	-----	-----	-----	-----
Support services:				
Administration	401,204	127,280	(336,000)	192,484
Fundraising	-	129,668	-	129,668
	-----	-----	-----	-----
Total support services	401,204	256,948	(336,000)	322,152
	-----	-----	-----	-----
Total expenses	4,339,855	354,387	(336,000)	4,358,242
	-----	-----	-----	-----
Increase (decrease) in net assets	340,046	(19,910)	-	320,136
Net assets, beginning	1,534,236	(145,726)	\$ -	1,388,510
	-----	-----	-----	-----
Net assets, ending	\$1,874,282	\$(165,636)	\$ -	\$1,708,646
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See independent accountant's audit report on supplementary information.