

MONICA J. STERN, CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT
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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying consolidated financial statements of Arizona Private Education Scholarship Fund, Inc. (a nonprofit organization) and Affiliates, which comprise the Consolidated Statements of Assets, Liabilities and Net Assets - Modified Cash Basis as of June 30, 2017 and 2016 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 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 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 Affiliates as of June 30, 2017 and 2016, and its support, revenue, expenses and cash flows for the years then ended on the modified cash basis of accounting as described in note 1.

Basis of Accounting

I 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. My opinion is not modified with respect to this matter.

Monica J. Stern, CPA, PLLC

October 23, 2017

Arizona Private Education Scholarship Fund, Inc. and Affiliates
Consolidated Statements of Assets, Liabilities and
Net Assets - Modified Cash Basis
June 30, 2017 and 2016

	June 30,	
	2017	2016
<u>Assets</u>		
Cash and cash equivalents	\$2,943,749	\$2,423,117
Equipment, net	34,825	50,244
	-----	-----
Total Assets	\$2,978,574	\$2,473,361
	=====	=====
 <u>Liabilities and Net Assets</u>		
Total liabilities	-	-
	-----	-----
Net Assets:		
Unrestricted	2,978,574	2,473,361
Temporarily restricted	-	-
	-----	-----
Total net assets	2,978,574	2,473,361
	-----	-----
Total liabilities and net assets	\$2,978,574	\$2,473,361
	=====	=====

See accompanying notes to the consolidated financial statements.

Arizona Private Education Scholarship Fund, Inc. and Affiliates
Consolidated Statements of Revenues, Expenses, and Other Changes in Net Assets -
Modified Cash Basis
For the years ended June 30, 2017 and 2016

	Year ended June 30, 2017			Year ended June 30, 2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue:						
Contributions	\$6,854,102	\$ -	\$6,854,102	\$6,047,769	\$ -	\$6,047,769
Golf tournament income	22,617	-	22,617	-	-	-
Interest income	2,230	-	2,230	1,235	-	1,235
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Total support and revenue	6,878,949	-	6,878,949	6,049,004	-	6,049,004
	-----	-----	-----	-----	-----	-----
Expenses:						
Scholarship program:						
Scholarship to students	5,622,964	-	5,622,964	4,758,072	-	4,758,072
Other program costs	183,107	-	183,107	115,215	-	115,215
Charitable contributions	80,064	-	80,064	13,900	-	13,900
	-----	-----	-----	-----	-----	-----
Total program services	5,886,135	-	5,886,135	4,887,187	-	4,887,187
	-----	-----	-----	-----	-----	-----
Support services:						
Administration	236,890	-	236,890	212,875	-	212,875
Fundraising	221,702	-	221,702	184,227	-	184,227
Direct benefit to donors	29,009	-	29,009	-	-	-
	-----	-----	-----	-----	-----	-----
Total support services	487,601	-	487,601	397,102	-	397,102
	-----	-----	-----	-----	-----	-----
Total expenses	6,373,736	-	6,373,736	5,284,289	-	5,284,289
	-----	-----	-----	-----	-----	-----
Increase in net assets	505,213	-	505,213	764,715	-	764,715
	-----	-----	-----	-----	-----	-----
Net assets, beginning	2,473,361	-	2,473,361	1,708,646	-	1,708,646
	-----	-----	-----	-----	-----	-----
Net assets, ending	\$2,978,574	\$ -	\$2,978,574	\$2,473,361	\$ -	\$2,473,361
	=====	=====	=====	=====	=====	=====

See accompanying notes to the consolidated financial statements.

Arizona Private Education Scholarship Fund, Inc. and Affiliates
Consolidated Statements of Cash Flows - Modified Cash Basis
For the years ended June 30, 2017 and 2016

	2017	June 30, 2016
Cash flows from operating activities:		
Increase in net assets	\$ 505,213	\$ 764,715
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	19,571	15,763
Net cash provided by operating activities	524,784	780,478
Cash flows from investing activities:		
Purchases of equipment	(4,152)	(25,135)
Net cash used by investing activities	(4,152)	(25,135)
Cash flows from financing activities:	-	-
Net increase in cash and cash equivalents	520,632	755,343
Cash and cash equivalents - beginning	2,423,117	1,667,774
Cash and cash equivalents - ending	\$2,943,749	\$2,423,117

See accompanying notes to the consolidated financial statements.

Arizona Private Education Scholarship Fund, Inc. and Affiliates
Notes to Financial Statements
For the years ended June 30, 2017 and 2016

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

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

The 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. STO Management Group, LLC is the sole member of Friends Fore Free, 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.

See independent accountant's audit report.

Arizona Private Education Scholarship Fund, Inc. and Affiliates
Notes to Financial Statements
For the years ended June 30, 2017 and 2016

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

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. However, if a restriction is fulfilled in the same time period in which the contribution is received, APESF reports that support as unrestricted.

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 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 \$6,981 for the year ended June 30, 2017 and \$2,480 for the year ended June 30, 2016.

(2) **Cash**

Cash consists of the following:

	June 30,	
	<u>2017</u>	<u>2016</u>
Cash in checking accounts	\$2,128,352	\$1,457,857
Cash in money market account	614,802	394,311
Cash in savings account	200,595	570,949
	-----	-----
	\$2,943,749	\$2,423,117
	=====	=====

See independent accountant's audit report.

Arizona Private Education Scholarship Fund, Inc. and Affiliates
Notes to Financial Statements
For the years ended June 30, 2017 and 2016

(2) **Cash (continued)**

APESF maintains bank accounts with two Arizona banks. As of June 30, 2017, bank balances of \$2,017,940 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 \$43,905 as of June 30, 2017 and \$24,334 as of June 30, 2016. Depreciation expense was \$19,571 for the year ended June 30, 2017 and \$15,763 for the year ended June 30, 2016.

(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 and Friends Fore Free, LLC are disregarded entities for Federal and State tax purposes and receive 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, 2017, 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 \$3,543. Total payments under operating leases were \$42,841 for the year ended June 30, 2017 and \$34,814 for the year ended June 30, 2016.

Future payments on the lease are as follows:

Year ending <u>June 30,</u>	
2018	\$42,948
2019	29,217

	\$72,165
	=====

See independent accountant's audit report.

Arizona Private Education Scholarship Fund, Inc. and Affiliates
Notes to Financial Statements
For the years ended June 30, 2017 and 2016

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

On January 1, 2016, APESF signed three subleases with related parties. Total rental income received under the subleases was \$21,892 for the year ended June 30, 2017 and \$16,733 for the year ended June 30, 2016. 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,	
2018	\$21,892
2019	14,595

	\$36,487
	=====

(7) **Related Party Transactions**

Office space is used by APESF and a board member's company. The board member's company pays for a proportionate share of telephone expenses for the space. The board member's company owed APESF \$497 as of June 30, 2017 and \$2,896 as of June 30, 2016 for reimbursable expenses.

The executive director's company owed APESF \$281 for various expenses as of June 30, 2017 and \$656 for various expenses as of June 30, 2016.

(8) **Contributions**

For the years ended June 30, 2017 and June 30, 2016, APESF received contributions under the following programs:

	June 30,	
	2017	2016
Total individual income tax credit contributions	\$3,350,573	\$3,079,481
Total switcher individual income tax credit contributions	2,336,656	1,959,545
Total low-income corporate income tax credit contributions	512,500	485,500
Total disabled/displaced corporate income tax credit contributions	533,600	450,000
	-----	-----
	\$6,733,329	\$5,974,526
Other contributions	120,773	73,243
	-----	-----
Total	\$6,854,102	\$6,047,769
	=====	=====

See independent accountant's audit report.

Arizona Private Education Scholarship Fund, Inc. and Affiliates
Notes to Financial Statements
For the years ended June 30, 2017 and 2016

(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 \$2,750,642 must be expended or allocated by June 30, 2019.

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**

STO Management Group, LLC is no longer the member of Friends Fore Free, LLC as of August 7, 2017.

Subsequent events were evaluated by management through October 23, 2017 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
CERTIFIED PUBLIC ACCOUNTANT
11225 NORTH 28TH DRIVE, SUITE A-100
PHOENIX, ARIZONA 85029

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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

I have audited the consolidated financial statements of Arizona Private Education Scholarship Fund, Inc. and Affiliates as of and for the years ended June 30, 2017 and June 30, 2016, and have issued my report thereon dated October XX, 2017, which contained an unmodified opinion on those financial statements. My 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 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

October 23, 2017

Arizona Private Education Scholarship Fund, Inc. and Affiliates
Consolidating Statement of Assets, Liabilities and
Net Assets - Modified Cash Basis
June 30, 2017

Assets	Arizona Private Education Scholarship Fund	STO Management Group, LLC	Friends Fore Free, LLC	Eliminations	Total
Cash and cash equivalents	\$2,480,025	\$ 463,724	\$ -	\$ -	\$2,943,749
Due from STO Management Group, LLC	685,671	-	-	(685,671)	-
Equipment, net	-	34,825	-	-	34,825
	-----	-----	-----	-----	-----
Total assets	\$3,165,696	\$ 498,549	\$ -	\$(685,671)	\$2,978,574
	=====	=====	=====	=====	=====

Liabilities and Net Assets

Due to Arizona Private Education Scholarship Fund, Inc.	\$ -	\$ 685,671	\$ -	\$(685,671)	\$ -
	-----	-----	-----	-----	-----
Total liabilities	-	685,671	-	(685,671)	-
	-----	-----	-----	-----	-----
Net Assets:					
Unrestricted	3,165,696	(187,122)	-	-	2,978,574
Temporarily restricted	-	-	-	-	-
	-----	-----	-----	-----	-----
Total net assets (deficit)	3,165,696	(187,122)	-	-	2,978,574
	-----	-----	-----	-----	-----
Total liabilities and net assets	\$3,165,696	\$ 498,549	\$ -	\$(685,671)	\$2,978,574
	=====	=====	=====	=====	=====

See independent accountant's audit report on supplementary information.

Arizona Private Education Scholarship Fund, Inc. and Affiliates
 Consolidating Statement of Assets, Liabilities and
 Net Assets - Modified Cash Basis
 June 30, 2016

Assets	Arizona Private Education Scholarship 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
	=====	=====	=====	=====
 Liabilities and Net Assets				
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 Affiliates
 Consolidating Statement of Revenues, Expenses, and Other Changes in Net Assets -
 Modified Cash Basis - Totals Only
 For the year ended June 30, 2017

	Arizona Private Education Scholarship Fund	STO Management Group, LLC	Friends Fore Free, LLC	Elimination	Total
Support and Revenue:					
Contributions	\$6,854,102	\$ -	\$19,327	\$ (19,327)	\$6,854,102
Management service fee	-	564,000	-	(564,000)	-
Golf tournament income	-	-	22,617	-	22,617
Interest income	1,645	585	-	-	2,230
	-----	-----	-----	-----	-----
Total support and revenue	\$6,855,747	\$ 564,585	\$41,944	\$(583,327)	\$6,878,949
	-----	-----	-----	-----	-----
Expenses:					
Scholarship program:					
Scholarships to students	5,622,964	-	-	-	5,622,964
Other program costs	-	183,107	-	-	183,107
Charitable contributions	52,898	17,149	10,017	-	80,064
	-----	-----	-----	-----	-----
Total programs	5,675,862	200,256	10,017	-	5,886,135
	-----	-----	-----	-----	-----
Support services:					
Administration	654,398	164,032	1,787	(583,327)	236,890
Fundraising	-	220,571	1,131	-	221,702
Direct benefit to donors	-	-	29,009	-	29,009
	-----	-----	-----	-----	-----
Total support services	654,398	384,603	31,927	(583,327)	487,601
	-----	-----	-----	-----	-----
Total expenses	6,330,260	584,859	41,944	(583,327)	6,373,736
	-----	-----	-----	-----	-----
Increase (decrease) in net assets	525,487	(20,274)	-	-	505,213
Net assets, beginning	2,640,209	(166,848)	-	-	2,473,361
	-----	-----	-----	-----	-----
Net assets, ending	\$3,165,696	\$(187,122)	\$ -	\$ -	\$2,978,574
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See independent accountant's audit report on supplementary information.

Arizona Private Education Scholarship Fund, Inc. and Affiliates
Consolidating Statement of Revenues, Expenses, and Other Changes in Net Assets -
Modified Cash Basis - Totals Only
For the year ended June 30, 2016

	Arizona Private Education Scholarship 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
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See independent accountant's audit report on supplementary information.