

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 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 Statement of Assets, Liabilities and Net Assets - Modified Cash Basis as of June 30, 2019 and the related Consolidated Statement of Revenues, Expenses, and Other Changes in Net Assets - Modified Cash Basis, Consolidated Statement of Functional Expenses - Modified Cash Basis and Consolidated Statement of Cash Flows - Modified Cash Basis for the year 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 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 audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 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, 2019, and its support, revenue, expenses and cash flows for the year then ended in accordance with 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 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. Stem, CPA, PLLC

November 15, 2019

Arizona Private Education Scholarship Fund, Inc. and Affiliate
 Consolidated Statement of Assets, Liabilities and
 Net Assets - Modified Cash Basis
 June 30, 2019

Assets

Cash and cash equivalents	\$2,807,232
Investments	1,003,706
Equipment, net	17,617

Total Assets	\$3,828,555
	=====

Liabilities and Net Assets

Credit card liability	3,914

Total liabilities	3,914

Net Assets:	
Without donor restrictions	3,733,491
With donor restrictions	91,150

Total net assets	3,824,641

Total liabilities and net assets	\$3,828,555
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See accompanying notes to the consolidated financial statements.

Arizona Private Education Scholarship Fund, Inc. and Affiliate
Consolidated Statement of Revenues, Expenses, and Other Changes in Net Assets -
Modified Cash Basis
For the year ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue:			
Contributions	\$9,225,984	\$ 5,356	\$9,231,340
Interest income	8,629	-	8,629
Gain on sale of assets	103		103
	-----	-----	-----
Total support and revenue	9,234,716	5,356	9,240,072
Net assets released from restrictions:			
Satisfaction by expenditure	5,356	(5,356)	-
	-----	-----	-----
	9,240,072	-	9,240,072
	-----	-----	-----
Expenses:			
Program services:			
Tax credit scholarships to students	7,634,389	-	7,634,389
Non-tax credit awards to students	59,900	-	59,900
Other program costs	200,596	-	200,596
Charitable contributions	11,685	-	11,685
	-----	-----	-----
Total program services	7,906,570	-	7,906,570
	-----	-----	-----
Support services:			
Administration	299,078	-	299,078
Fundraising	208,866	-	208,866
	-----	-----	-----
Total support services	507,944	-	507,944
	-----	-----	-----
Total expenses	8,414,514	-	8,414,514
	-----	-----	-----
Increase in net assets	825,558	-	825,558
Net assets, beginning	2,907,933	91,150	2,999,083
	-----	-----	-----
Net assets, ending	\$3,733,491	\$ 91,150	\$3,824,641
	=====	=====	=====

See accompanying notes to the consolidated financial statements.

Arizona Private Education Scholarship Fund, Inc. and Affiliate

 Consolidated Statement of Functional Expenses - Modified Cash Basis
 For the year ended June 30, 2019

	Program Services				Support Services				
	Tax Credit Scholarships to Students	Non-Tax Credit Awards	Other Program Costs	Charitable Contrib- utions	Total	Admin- istration	Fund- raising	Total	Total
Salaries and wages	\$ -	\$ -	\$107,638	\$ -	\$ 107,638	\$100,374	\$112,551	\$212,925	\$ 320,563
Other employee benefits	-	-	17,436	-	17,436	17,738	18,130	35,868	53,304
Payroll taxes	-	-	8,675	-	8,675	8,089	9,071	17,160	25,835
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TOTAL EMPLOYEE RELATED EXPENSES	-	-	133,749	-	133,749	126,201	139,752	265,953	399,702
Scholarships/grants to students	7,634,389	59,900	-	-	7,694,289	-	-	-	7,694,289
Grants to organizations	-	-	-	11,685	11,685	-	-	-	11,685
Accounting	-	-	-	-	-	33,781	-	33,781	33,781
Legal	-	-	-	-	-	1,968	-	1,968	1,968
Advertising and promotion	-	-	29,728	-	29,728	920	32,563	33,483	63,211
Bank fees	-	-	-	-	-	94,420	-	94,420	94,420
Office expense	-	-	6,240	-	6,240	5,061	5,300	10,361	16,601
Professional services	-	-	-	-	-	4,000	-	4,000	4,000
Information technology	-	-	12,238	-	12,238	11,411	12,796	24,207	36,445
Travel and Transportation	-	-	1,995	-	1,995	201	1,469	1,670	3,665
Insurance	-	-	195	-	195	5,625	203	5,828	6,023
Conferences and meetings	-	-	400	-	400	-	-	-	400
Occupancy	-	-	12,653	-	12,653	12,323	13,230	25,553	38,206
Depreciation	-	-	3,398	-	3,398	3,167	3,553	6,720	10,118
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TOTAL EXPENSES	\$7,634,389	\$59,900	\$200,596	\$11,685	\$7,906,570	\$299,078	\$208,866	\$507,944	\$8,414,514
	=====	=====	=====	=====	=====	=====	=====	=====	=====

See independent accountant's review report and accompanying notes.

Arizona Private Education Scholarship Fund, Inc. and Affiliate
Consolidated Statement of Cash Flows - Modified Cash Basis
For the year ended June 30, 2019

Cash flows from operating activities:	
Increase in net assets	\$ 825,558
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Interest added to investments	(3,706)
Depreciation	10,118
Gain on sale of assets	(103)
Increase in credit card liabilities	3,914

Net cash provided by operating activities	835,781

Cash flows from investing activities:	
Purchases of equipment	(8,172)
Proceeds from sale of equipment	3,070
Purchases of investments - certificates of deposit	(1,000,000)

Net cash used in investing activities	(1,005,102)

Cash flows from financing activities:	
	-

Net decrease in cash and cash equivalents	(169,321)
Cash and cash equivalents - beginning	2,976,553

Cash and cash equivalents - ending	\$ 2,807,232
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See accompanying notes to the consolidated financial statements.

Arizona Private Education Scholarship Fund, Inc. and Affiliate
Notes to Financial Statements
For the year ended June 30, 2019

(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".

The affiliated entity has common management and shares 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 loans and credit cards.

APESF is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

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. 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.

CHANGE IN ACCOUNTING PRINCIPLE - APESF has adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, which is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. APESF has adjusted the presentation of its financial statements accordingly. The new standard changed the following aspects of APESF's financial statements:

- The temporarily restricted net asset class has been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 2).

See independent accountant's audit report.

Arizona Private Education Scholarship Fund, Inc. and Affiliate
Notes to Financial Statements
For the year ended June 30, 2019

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

The changes have the following effect on net assets at June 30, 2018:

<u>Net Asset Class</u>	<u>As Originally Presented</u>	<u>After adoption As ASU 2016-14</u>
Unrestricted net assets	\$2,907,933	\$ -
Temporarily restricted net assets	91,150	-
Net assets without donor restrictions	-	2,907,933
Net assets with donor restrictions	-	91,150
	-----	-----
Total net assets	\$2,999,083	\$2,999,083
	=====	=====

CASH AND CASH EQUIVALENTS - For purposes of the statement of cash flows, APESF considers all highly liquid investments without donor restrictions 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 support without donor restrictions or with donor restrictions, depending on the existence and nature of donor restrictions.

Donor-restricted support is reported as an increase in net assets with donor restrictions.

When a 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 Statement of Revenues, Expenses, and Other Changes in Net Assets - Modified Cash Basis as net assets released from restrictions.

See independent accountant's audit report.

Arizona Private Education Scholarship Fund, Inc. and Affiliate
Notes to Financial Statements
For the year ended June 30, 2019

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

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 support without donor restrictions 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 support with donor restrictions. 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 net assets with donor restrictions to net assets without donor restrictions 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 and the Statement of Functional 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. Certain shared costs, as well as salaries and benefits, are allocated on the basis of estimates of time and effort.

ADVERTISING COSTS - Total advertising costs were \$63,211 for the year ended June 30, 2019.

(2) **Liquidity and Availability of Financial Assets**

The Organization has the following financial assets available within one year of the balance sheet date to meet cash needs for general expenditures:

Cash and cash equivalents	\$2,807,232
Investments due within one year	1,003,706
Less: amount to be expended or allocated by June 30, 2021 (Note 13)	(3,111,106)

Financial assets available to meet cash needs for general expenditures within one year	\$ 699,832
	=====

Arizona State Law requires the Organization to expend at least 90% of its cumulative tax credit program contributions for grants or scholarships to children to allow them to attend any qualified school of their choice. The remaining 10% is available for general expenditures.

The Organization manages its liquid resources by employing a variety of measures. The Organization focuses on generating adequate contributions to cover the costs of its activities and monitors costs closely.

See independent accountant's audit report.

Arizona Private Education Scholarship Fund, Inc. and Affiliate
Notes to Financial Statements
For the year ended June 30, 2019

(3) **Cash and Cash Equivalents**

Cash and cash equivalents consists of the following:

Cash in checking accounts	\$ 170,436
Cash in money market account	1,200,239
Cash in savings account	1,436,557

	\$2,807,232
	=====

(4) **Investments**

Investments consist of certificates of deposits, carried at cost plus reinvested interest, as follows as of June 30, 2019:

<u>Rate</u>	<u>Maturity Date</u>	<u>Carrying Value</u>
2.50%	May 25, 2020	\$ 501,853
2.50%	May 25, 2020	\$ 501,853

		\$1,003,706
		=====

(5) **Federal Deposit Insurance Corporation (FDIC)**

The Organization maintains accounts at four banks. Cash and certificates of deposit of \$2,663,816 was held in excess of Federal Deposit Insurance Corporation (FDIC) limits at June 30, 2019.

(6) **Equipment, net**

Equipment is recorded at cost and is stated net of accumulated depreciation in the amount of \$61,139 as of June 30, 2019. Depreciation expense was \$10,118 for the year ended June 30, 2019.

(7) **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 exemption from Arizona Private Education Scholarship Fund, Inc.

(8) **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.

See independent accountant's audit report.

Arizona Private Education Scholarship Fund, Inc. and Affiliate
Notes to Financial Statements
For the year ended June 30, 2019

(8) **Uncertain Tax Positions (continued)**

As of June 30, 2019, 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.

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

APESF leases office space from an unrelated party under a lease expiring February 28, 2020 at a monthly cost of \$3,798. Total payments under operating leases were \$45,697 for the year ended June 30, 2019.

Future payments on the lease are as follows:

Year ending <u>June 30,</u> 2020	\$30,385 =====
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On January 1, 2016, APESF signed two subleases with related parties. Total rental income received under the subleases was \$18,805 for the year ended June 30, 2019. Both of the subleases are with companies owned by board members. The subleases are due as follows:

Year ending <u>June 30,</u> 2020	\$12,537 =====
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(10) **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 \$2,113 as of June 30, 2019 for reimbursable expenses.

The executive director's company owed APESF \$438 for various expenses as of June 30, 2019. APESF owed the executive director's company \$1,555 for various expenses as of June 30, 2019.

(11) **Net Assets with Donor Restrictions**

Net assets with donor restrictions are restricted to further the educational efforts of a specific school in Arizona outside of the credit program.

See independent accountant's audit report.

Arizona Private Education Scholarship Fund, Inc. and Affiliate
Notes to Financial Statements
For the year ended June 30, 2019

(12) **Contributions**

For the year ended June 30, 2019, APESF received contributions under the following programs:

Total individual income tax credit contributions	\$3,155,704
Total switcher individual income tax credit contributions	2,344,498
Total low-income corporate income tax credit contributions	3,037,400
Total disabled/displaced corporate income tax credit contributions	604,000

	\$9,141,602
Other contributions	89,738

Total	\$9,231,340
	=====

(13) **Commitments and Contingencies**

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, 2019, the Organization had spent over 90% of its cumulative revenues as required under state law. A total of \$3,111,106 must be expended or allocated by June 30, 2021.

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.

(14) **Subsequent Events**

Subsequent events were evaluated by management through November 15, 2019 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 Affiliate

I have audited the consolidated financial statements of Arizona Private Education Scholarship Fund, Inc. and Affiliate as of the year ended June 30, 2019, and have issued my report thereon dated November 15, 2019, which contained an unmodified opinion on those financial statements. My audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The Consolidating Statement of Assets, Liabilities and Net Assets - Modified Cash Basis and the Consolidating Statement of Revenues, Expenses, and Other Changes in Net Assets - Modified Cash Basis 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 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 modified cash basis of accounting. 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 15, 2019

Arizona Private Education Scholarship Fund, Inc. and Affiliate
Consolidating Statement of Assets, Liabilities and
Net Assets - Modified Cash Basis
June 30, 2019

Assets	Arizona Private Education Scholarship Fund	STO Management Group, LLC	Eliminations	Total
Cash and cash equivalents	\$2,312,772	\$ 494,460	\$ -	\$2,807,232
Due from STO Management Group, LLC	1,269,521	-	(1,269,521)	-
Investments	501,853	501,853	-	1,003,706
Equipment, net	-	17,617	-	17,617
	-----	-----	-----	-----
Total assets	\$4,084,146	\$1,013,930	\$(1,269,521)	\$3,828,555
	=====	=====	=====	=====
Liabilities and Net Assets				
Due to Arizona Private Education Scholarship Fund, Inc.	\$ -	\$1,269,521	\$(1,269,521)	\$ -
Credit card liability	-	3,914	-	3,914
	-----	-----	-----	-----
Total liabilities	-	1,273,435	(1,269,521)	3,914
	-----	-----	-----	-----
Net Assets:				
Without donor restrictions	4,084,146	(350,655)	-	3,733,491
With donor restrictions	-	91,150	-	91,150
	-----	-----	-----	-----
Total net assets (deficit)	4,084,146	(259,505)	-	3,824,641
	-----	-----	-----	-----
Total liabilities and net assets	\$4,084,146	\$1,013,930	\$(1,269,521)	\$3,828,555
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See independent accountant's audit report on supplementary information.

Arizona Private Education Scholarship Fund, Inc. and Affiliate
Consolidating Statement of Revenues, Expenses, and Other Changes in Net Assets -
Modified Cash Basis - Totals Only
For the year ended June 30, 2019

	Arizona Private Education Scholarship Fund	STO Management Group, LLC	Elimination	Total
Support and Revenue:				
Contributions	\$9,231,340	\$ -	\$ -	\$9,231,340
Management service fee	-	636,000	(636,000)	-
Interest income	5,534	3,095	-	8,629
Gain on sale of assets	-	103	-	103
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Total support and revenue	\$9,236,874	\$ 639,198	\$(636,000)	\$9,240,072
	-----	-----	-----	-----
Expenses:				
Program services:				
Tax credit scholarships to students	7,634,389	-	-	7,634,389
Non-tax credit awards to students	59,900	-	-	59,900
Other program costs	-	200,596	-	200,596
Charitable contributions	2,000	9,685	-	11,685
	-----	-----	-----	-----
Total programs	7,696,289	210,281	-	7,906,570
	-----	-----	-----	-----
Support services:				
Administration	730,055	205,023	(636,000)	299,078
Fundraising	-	208,866	-	208,866
	-----	-----	-----	-----
Total support services	730,055	413,889	(636,000)	507,944
	-----	-----	-----	-----
Total expenses	8,426,344	624,170	(636,000)	8,414,514
	-----	-----	-----	-----
Increase in net assets	810,530	15,028	-	825,558
	-----	-----	-----	-----
Net assets, beginning	3,273,616	(274,533)	-	2,999,083
	-----	-----	-----	-----
Net assets, ending	\$4,084,146	\$(259,505)	\$ -	\$3,824,641
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See independent accountant's audit report on supplementary information.