MANUAL FOR SCHOOL TUITION ORGANIZATIONS

The original individual income tax credit for donations to private school tuition organizations (STOs) became law in January 1998. The low-income corporate income tax credit for donations to STOs became law in September 2006. The disabled/displaced corporate income tax credit became law in August 2009. The switcher individual income tax credit for donations to STOs became law in January 2012. These credits have been changed by bills passed in later legislative sessions. While the information contained in this document is intended to assist STOs in understanding their requirements for operation[1], please refer to the applicable Arizona statutes available on the Arizona State Legislature website (www.azleg.gov/arstitle). The summary information is presented in a Frequently Asked Question format. Those questions that have been added or changed since the **September 2019** release of this document have been shaded.

STO CREDITS AT A GLANCE ..... Page 1

STO CERTIFICATION AND OPERATIONAL REQUIREMENTS ..... Page 3

STO SCHOLARSHIP REQUIREMENTS – ALL PROGRAMS ..... Page 7

STO GUIDELINES FOR BOTH INDIVIDUAL INCOME TAX CREDIT PROGRAMS ..... Page 12

ORIGINAL INDIVIDUAL INCOME TAX CREDIT PROGRAM ..... Page 15

SWITCHER INDIVIDUAL INCOME TAX CREDIT PROGRAM ..... Page 16

STO GUIDELINES FOR BOTH CORPORATE INCOME TAX CREDIT PROGRAMS ..... Page 19

STO CORPORATE DONATION PROCESS ..... Page 19

LOW-INCOME CORPORATE TAX CREDIT PROGRAM ..... Page 23

DISABLED/DISPLACED CORPORATE INCOME TAX CREDIT PROGRAM ..... Page 27

STO REPORTING REQUIREMENTS - ALL PROGRAMS ..... Page 29

STO AUDITS/REVIEWS - ALL PROGRAMS ..... Page 33

STOs AND THE EMPOWERMENT SCHOLARSHIP ACCOUNT (ESA) PROGRAM ..... Page 35

STO SELF-DECERTIFICATION ..... Page 36

STO VIOLATIONS OF LAW; NOTIFICATION PROCESS ..... Page 38

ADOR CONTACT INFORMATION ..... Page 41

ARIZONA REVISED STATUTES - STO PROGRAM REFERENCES ..... Page 41

[1] Please note that this information is subject to change. The most recent version can be determined by the date on the information posted to the Arizona Department of Revenue website, www.azdor.gov.

ATTACHMENTS

1. Example of STO Application for Certification to Receive Individual Donations.....Page 43
2. Example of STO Application for Certification to Receive Corporate Donations.....Page 46
3. Arizona Public School Enrollment Verification Form .....Page 49
4. Displaced Student Applicant Verification Form .....Page 50
5. Example of STO Annual Activity Report Workbook.....Page 51
6. Instructions for Completing STO Annual Activity Report Workbook .....Page 58
7. STO Fiscal Compliance Questionnaire for the Agreed-Upon-Procedures .....Page 64
8. Sample Accountant's Report on Applying Agreed-Upon-Procedures .....Page 75

STO CREDITS AT A GLANCE

Original Individual Income Tax Credit

Credit Amount	Scholarship Guidelines	Scholarship Prerequisites
Tax Year 2020 Cap • $593 single filers • $1,186 married filing joint filers Tax Year 2021 Cap • $611 single filers • $1,221 married filing joint filers • Taxpayer may donate through April 15th * and count donation as tax credit in the preceding tax year.	• K-12 students • Preschool students with disabilities • STO cannot award scholarship solely based on donor recommendations • STO shall consider financial need when awarding scholarships • No scholarship cap	• A preschool student with disabilities must have an MET or IEP from an Arizona public school (a 504 plan does not meet the requirement).

Switcher Individual Income Tax Credit

Credit Amount	Scholarship Guidelines	Scholarship Prerequisites
• Taxpayer MUST FIRST donate the maximum credit amount for the original individual income tax credit before the switcher credit can be claimed. Tax Year 2020 Cap • $590 single filers • $1,179 married filing joint filers Tax Year 2021 Cap • $608 single filers • $1,214 married filing joint filers • Taxpayer may donate through April 15th * and count donation as tax credit in the preceding tax year.	• K-12 students • Preschool students with disabilities • Priority given to students and siblings of students on the STO's waitlist • STO shall consider financial need when awarding scholarships • No scholarship cap	Student must meet ONE of the following prerequisites: • Student attended an Arizona public school as a full-time student for at least 90 days of the prior fiscal year and then transferred from the public school to a private school; ***OR*** • Is enrolling or currently enrolled in a private school kindergarten; ***OR*** • Is enrolling or currently enrolled in a private preschool program for students with disabilities (preschool students must have an MET or IEP from an Arizona public school; a 504 does not meet the requirement); ***OR*** • Is a dependent of a member of the armed forces of the United States who is stationed in Arizona pursuant to military orders (preschool students must also have an MET or IEP from an Arizona public school; a 504 plan does not meet the requirement); ***OR*** • **Received** a switcher individual scholarship under one of the above criteria in a prior year and the child continued to attend a private school in subsequent years; ***OR*** • **Received** a low-income corporate scholarship or a disabled/displaced corporate scholarship in a prior year and the child continued to attend a private school in subsequent years.

*Pursuant to A.R.S. §43-241 the Department of Revenue has the authority to extend the deadline for filing the tax return and in turn the donation due date. Please refer to the appropriate tax year return instructions to verify the donation due date.

Low-Income Corporate Income Tax Credit

Credit Amount	Scholarship Guidelines	Scholarship Prerequisites
• Donation pre-approval required. • No limit on how much a single corporation can donate – except total credit limit. • S-corps must make a minimum aggregate contribution of $5,000 during their taxable year (sum of both corporate programs). <u>Credit Limit</u> <u>Fiscal Year 2020/2021</u> • Total credits allowed limited to $123,042,188 <u>Fiscal Year 2021/2022</u> • Total credits allowed limited to $135,346,407	• K-12 students • Preschool students with disabilities • Student's family income cannot exceed 185% of the income required to qualify a child for reduced price lunches. <u>Academic Year 2020/2021</u> Scholarship cap: • $5,600 for grades K-8 and preschool students with disabilities • $6,900 for grades 9-12 <u>Academic Year 2021/2022</u> Scholarship cap: • $5,700 for grades K-8 and preschool students with disabilities • $7,000 for grades 9-12	Student's family income <u>cannot</u> exceed 185% of the income required to qualify a child for reduced price lunches ***AND*** student must meet ONE of the following: • Student attended an Arizona public school as a full-time student for at least 90 days of the prior fiscal year or one full semester and then transferred from the public school to a private school. Those students who transfer to a qualified school after the first full semester are eligible to receive a scholarship that same academic year; ***OR*** • Is enrolling or currently enrolled in a private school kindergarten; ***OR*** • Is enrolling or currently enrolled in a private preschool program for students with disabilities (preschool students must have an MET or IEP from an Arizona public school; a 504 plan does not meet the requirement); ***OR*** • Is a dependent of a member of the armed forces of the United States who is stationed in Arizona pursuant to military orders (preschool students must also have an MET or IEP from an Arizona public school; a 504 plan does not meet the requirement); ***OR*** • **Received** a low-income corporate scholarship under one of the above criteria in a prior year and the child continued to attend a private school in subsequent years; ***OR*** • **Received** an <u>original individual</u> scholarship or a <u>switcher individual</u> scholarship in a prior year and the child continued to attend a private school in subsequent years.

Disabled/Displaced Corporate Income Tax Credit

Credit Amount	Scholarship Guidelines	Scholarship Prerequisites
• Donation pre-approval required. • No limit on how much a single corporation can donate – except total credit limit. • S-corps must make a minimum aggregate contribution of $5,000 during their taxable year (sum of both corporate programs). <u>Fiscal Year Credit Limit</u> • Total credits allowed limited to $5,000,000	• K-12 students • Preschool students with disabilities • The sum of a student's DD scholarships is limited to 90% of state aid or cost of tuition, whichever is less.	Student must meet ONE of the following prerequisites: • Student has a MET or IEP from an Arizona public school (for preschool and grades K-12); ***OR*** • Has a 504 plan from an Arizona public school (for grades K-12 only); ***OR*** • Was placed at one time in the Arizona foster care system (for grades K-12 only and will be verified with the Arizona Department of Economic Security).

STO CERTIFICATION AND OPERATIONAL REQUIREMENTS

Any STO that wishes to receive donations from individuals or corporations for the purpose of taking an income tax credit must be certified by the Arizona Department of Revenue (ADOR). No donations can be accepted until the STO appears on the appropriate list as a certified STO. Examples of both Applications for Certification can be found at the end of this document as **Attachment 1** and **Attachment 2**. Fillable certification forms are available on the ADOR website at https://azdor.gov/tax-credits.

1. What must an STO do to be eligible for and retain certification for receiving donations?

The STO:

1. must allocate at least 90% of its annual contributions to scholarships;
2. shall not limit the availability of scholarships to students of one school;
3. must allow ADOR to verify that the scholarships issued are awarded to students attending a qualified school (Corporate income tax credit program);
4. must not knowingly collude with any other STO to circumvent the limits of the low-income corporate scholarship (Corporate income tax credit program);
5. may allow donors to recommend student beneficiaries but shall not award, designate or reserve scholarships solely on the basis of donor recommendations (Individual income tax credit programs);
6. shall not allow donors to designate student beneficiaries as a condition of any contribution to the organization (Individual income tax credit programs);
7. shall not facilitate, encourage or knowingly permit the exchange of student beneficiary designations (i.e. swapping) (Individual income tax credit programs);
8. shall include on the organization's website, if one exists, the percentage and total dollar amount of educational scholarships and tuition grants awarded during the previous fiscal year to (a) students whose family income is up to 185% of poverty level and (b) students whose family income is greater than 185% of poverty level but not more than 342.25% of poverty level;
9. must not award scholarships to students who are simultaneously enrolled in a district school or charter school and a qualified school; and
10. shall follow all other statutory requirements in A.R.S. §§ 43-1089, 43-1089.03, 43-1089.04 or Title 43, Chapter 16; and
11. shall follow all other statutory requirements in A.R.S. §§ 43-1183, 43-1184 or Title 43, Chapter 15.

2. Must the STO have a stand-alone 501(c)(3) designation?

No.

3. Do I need to file Articles of Incorporation with the Arizona Corporation Commission for my nonprofit corporation?

Yes. It is also strongly recommended that you consult with an attorney and/or accountant before forming your entity.

4. Is there a period that applications for STO certification will NOT be processed?

Yes. Applications for certification will not be processed between June 15 and June 30 of each year. If you submit an application for certification between June 15 and June 30, it will be held and processed after July 1.

5. How does my organization become a certified STO?

An STO can appear on the list of certified STOs, posted on the ADOR website, by completing the School Tuition Organization Application for Certification to Receive Corporate Donations and/or the School Tuition Organization Application for Certification to Receive Individual Donations.

6. Why are there two applications?

The law directs ADOR to maintain a list of certified STOs for purposes of corporate donations and a list of certified STOs for purposes of individual donations. Therefore, two separate applications are required and two lists will be maintained on the ADOR website.

7. Why are there so many places for initials on the certification application?

The certification form must be signed by the Executive Director or President of the STO and initialed in several places on the form to show acknowledgement of each statutory requirement. The information at the bottom of the 2nd page of the certification application is the source of information that will appear on the certified list of STOs.

8. Why am I being asked to describe how my STO conducts business in Arizona?

The law allows nonprofit organizations "in this state" to apply for certification as a school tuition organization. In order to define your STO's presence in Arizona you must provide a description of how you conduct business in the state (i.e. does your organization have a physical office site, how many employees/volunteers work for the STO in Arizona, what type of work is being performed in the state). Obtaining a statutory agent in Arizona or a mail box alone is not sufficient to show that some part of the STO's business is being conducted "in this state". If you cite a physical Arizona address to meet the "in the state" requirement you must include the physical location address in the description.

9. What information will be provided on the certified list of STOs?

The STO name, mailing address, phone number and website (if applicable) provided on page three of the application will be included on the certified list of STOs.

10. Why are there several spots for two email addresses?

More than one email is important so that more than one person affiliated with the STO receives ADOR communications. The email addresses will not be included on the public list of certified STOs available on the ADOR website.

11. What if the Executive Director/President or other information changes?

If the Executive Director/President changes, please fill out and send in an updated certification form. This will not affect the date of your original certification. If there is a change in the mailing address, physical address, STO contact person, emails or website please email the changed information to DOROERA@azdor.gov. You will also be providing this information each year when you complete and submit your annual report.

12. What do I need to send in with my application for certification?

An STO must submit a copy of its federal 501(c)(3) designation letter with the application for certification. If you are waiting for your exemption letter from the IRS, please indicate on the certification application the date that you applied and forward a copy of federal 501(c)(3) designation letter when received.

13. How long does it take for my STO to appear on the list of certified STOs?

Allow three days after ADOR receives the certification application for the certified STO list to be updated.

14. Do I have to re-certify every year?

Annual recertification is not required. Once your STO appears on the list, it will only be removed at either your request or if ADOR determines your STO has violated a requirement of the law.

15. Will I receive anything in writing from ADOR regarding certification?

ADOR will send a letter to the STO acknowledging receipt of the certification application and indicating if the STO will appear on the certification list with the specific start date or if something more is needed from the STO.

16. What does "allocating at least 90% of its annual contributions to scholarships" mean?

Effective July 1, 2012 the law requires that 90% of tax credit contributions be paid out in scholarships. (The exception to this is that the cost of the STO's annual review or audit is paid out of total contributions, prior to calculation of the 90%/10% shares.)

In order to verify that an STO is following the 90% requirement, ADOR has determined that all tax credit contributions received by an STO in one fiscal year must be paid out in scholarships within the following two fiscal years or reserved for future scholarships for specific students awarded next-year or multi-year scholarships.

17. If my STO received $100,000 in contributions in fiscal year 2013, when must 90% of this be paid out in scholarships?

If your STO has $100,000 in contributions received in fiscal year 2013, 90% of this revenue must be paid out in scholarships by the end of fiscal year 2015, except for any contributions set aside to pay for future year scholarships awarded to a specific student. An example of a future year scholarship might be when an STO decides to fund a specific student for four years of high school. The money to pay for this award can be set aside and does not have to be paid out within two years.

18. What does it mean that an STO cannot limit availability of scholarships to one school?

An STO cannot serve only one school. An STO must accept applications for scholarships to at least two schools. It may be that an STO only happens to receive applications for one school. In this case, the STO would be advised to contact another STO for students that may be seeking scholarships to other schools. Annual reports filed with ADOR that list scholarships paid to only one school will result in the requirement that the STO prove to ADOR scholarships were not limited to that school alone.

19. Can the STO work with the school in awarding scholarships?

Awarding scholarships is the responsibility of the STO alone. Statutory requirements governing the granting of scholarships apply to STOs, not schools. Therefore, by allowing schools to award scholarships, STOs are bypassing statutory requirements. This does not mean that a school cannot recommend students to the STO for scholarships. However, the criteria for awarding the scholarship and the actual selection of scholarship recipients should be determined by the STO.

20. The law says that an STO must award scholarships to a qualified school. What is a qualified school?

Qualified school means a preschool that offers services to students with disabilities, nongovernmental primary or secondary school that is located in Arizona and that does not discriminate based on race, color,

disability, familial status or national origin. All teaching staff and personnel that have unsupervised contact with students are required to be fingerprinted. Qualified school does not include a charter school or any program operated by a charter school. This means that a private school program which operates in the same facilities as the charter school operates and a private school program that is administered by the same staff as employed by a charter school is not eligible for private school tuition organization scholarships. It is the STO's responsibility to determine if a private school meets these statutory qualifications.

21. Are online private schools considered qualified schools?

Statute requires the private school to be located in Arizona therefore the online school must be located in AZ. The student must be enrolled full-time in the private online school which provides the instruction, classes, grades, credits, and promotion to the next grade etc., and not through a third party correspondence program. The students enrolled in the online private school must reside in Arizona in order to be eligible for an STO scholarship.

With regards to full-time enrollment, the online private school should satisfy the requirements prescribed by law for private schools. A.R.S. § 15-802(G)(3) requires a private school to provide academic instruction "for at least the same number of days and hours each year as a public school." A.R.S. § 15-901 requires kindergarten through twelfth grade to meet for 180 days or the instructional hours prescribed in the section. If the private school is providing online instruction it is possible that the school may qualify if the online instruction adds up to the required instructional hours.

22. Are hybrid (teacher-parent integrated instructional approach) private schools considered qualified schools?

A student must be enrolled full-time in a private school which provides the instruction, classes, grades, credits, and promotion to the next grade etc. With regards to full-time enrollment, the hybrid model should satisfy the requirements prescribed by law for private schools. A.R.S. § 15-802(G)(3) requires a private school to provide academic instruction "for at least the same number of days and hours each year as a public school." A.R.S. § 15-901 requires kindergarten through twelfth grade to meet for 180 days or the instructional hours prescribed in the section. If the hybrid school instructional hours provided by the private school teachers (and not the parents) add up to the required instructional hours, it is possible that the school may qualify.

23. If a private school has a student that attends the private school because his/her public school cannot accommodate the student, is it still considered a qualified school for STO scholarships?

If an individual student's tuition to the private school is paid in part or full by a public school, then the student would not be eligible for STO scholarships, but the school would still be considered a qualified private school for other attending students. However, if all students that attend the private school are public school supported (as in no student attending the school pays tuition out of pocket) or if the school actually receives funds from the state then the private school would not be considered qualified under the STO guidelines.

24. What if, after reading the definition of a qualified school, I'm still unsure if the school is qualified?

An STO can request a determination as to whether or not a private school is a qualified school by emailing DOROERA@azdor.gov. Please be prepared to provide all information available about the school in question as the determination will be based on the information you provide.

25. What does it mean that an STO must not knowingly collude with any other STO?

The low-income corporate tax credit program statute prevents any STO from working together with any other STO to give a particular student scholarships with the intent of getting around the low-income corporate scholarship limit. More detail on this requirement is included under the low-income corporate program guideline section.

26. May an STO transfer donated funds to another STO?

No. Transferring your donations to another STO does not qualify as spending the money on scholarships. If you find that you have an insufficient number of applicants on which to award your scholarships, contact private schools or other STOs and have them refer students. These students can come to your STO and apply for a scholarship.

However, an STO that is shutting down may transfer any remaining 90% donations to another STO. The closing STO shall obtain a letter of agreement with an accepting STO designating the donation amounts by scholarship program to be transferred by a specified date along with an acknowledgement of donor recommendations (if any). A copy of the agreement will be provided to ADOR. Further instructions are listed in the STO self-decertification section.

STO SCHOLARSHIP REQUIREMENTS – ALL PROGRAMS

27. Must a student live in Arizona to be eligible for an STO scholarship?

A child that does not live in Arizona does not qualify for an STO scholarship. If the child lives in Arizona and is eligible to attend an Arizona public school, the student can receive an STO scholarship to attend a private school in Arizona. For Arizona public schools, the residency of a student is determined by the residency of the parent or guardian with whom the student lives.

28. Are homeschool students eligible for a scholarship? What if the homeschool student is taking some classes at a private school?

Homeschool students are not eligible for STO scholarships. Students must be enrolled in private school full-time to receive an STO scholarship. Homeschool students by definition would not be enrolled in private school full-time.

29. Are there age requirements for kindergarten students?

For public kindergarten, Arizona requires that children must be 5 years old as of September 1, though a school district governing board may allow admitting children into kindergarten who will reach the age of 5 by January 1. This means that an STO may only provide scholarships for kindergarten to children that meet the public school age requirement.

30. What if a private school offers both half-day kindergarten and all-day kindergarten? Can an STO scholarship either kindergarten programs?

If a private school offers morning kindergarten only, the program is eligible for scholarships. If a private school offers all-day kindergarten only, the program is eligible for scholarships. If a private school offers morning kindergarten and afternoon kindergarten then either program is eligible for scholarships as long as a parent can enroll the child in either program and satisfy kindergarten requirements. However, if a parent enrolls a child in both the morning and afternoon kindergarten, they can't get a scholarship for both.

31. Can a kindergarten student or a preschool student with disabilities attend a half-day program at a private school and half-day program at a public school?

No. If a student is enrolled a public school, even for a half-day kindergarten or preschool program, they are not eligible for a scholarship to attend a private school.

32. My STO wants to give a scholarship to a disabled student for preschool. What kind of documentation do we need to verify that the child is eligible for a scholarship?

All four of the scholarship programs allow a scholarship to go to children enrolling in a private preschool program for students with disabilities. This means a "student with a disability" is eligible for a scholarship to a preschool from any of the programs, providing any other requirements are met. A student with a disability is defined in A.R.S. § 43-1601 as a student who has a hearing impairment, a visual impairment, a development delay, a preschool severe delay or a speech/language impairment. Although this definition is not contained in Chapter 15 of Title 43, it is reasonable to assume that the same definition for preschool students with disabilities applies to all four scholarship programs.

The STO should ask the parent for documentation from the public school on the child's disabilities; the documentation must indicate a disability that is mentioned in A.R.S. § 43-1601. (The document should specifically name the applicable disability(ies).) This documentation would be in the form of an IEP (Individual Education Plan), MET (Multidisciplinary Evaluation Team), or ISP (Individual Service Plan) issued by the Arizona public school district.

33. Are there age requirements for preschool students with disabilities?

For public preschool programs for students with disabilities, Arizona requires that children must be at least 3 years old (as of the date of the child's 3rd birthday) though a school district governing board may admit eligible children into preschool who are within 90 days of their 3rd birthday. This means that an STO may only provide scholarships for preschool students with disabilities to children that meet the public school age requirement *in addition* to having an IEP or MET issued by the public school district.

34. What qualified school costs can the scholarship or grant cover?

The scholarship or grant can cover tuition only. If the school's tuition includes fees that apply to and are required of ALL students (such as application fees, registration fees, facility fees) these amounts can be covered by the scholarship. If you need additional clarification, please email DOROERA@azdor.gov.

35. A school has adjusted a student's tuition based on the special need services identified in the student's IEP or MET. Can the STO still scholarship the student's revised tuition?

Yes, as long as the scholarship does not exceed the scholarship limit amount.

36. Can a student receive a scholarship to cover tuition for a summer school class?

Yes, if the summer school class is offered at a private school and the class is taken for credit towards graduation. Summer school at the elementary level is not eligible for a scholarship.

37. What if a student wants to take a summer school class offered at a public school? Will this change the student's eligibility for an STO scholarship? Can an STO scholarship be used to pay for the class?

Eligibility will not be impacted as long as the student is registered for the public school summer course only and is not enrolled in the public school. In addition, the student must be paying a fee or tuition for the summer course out of pocket. An STO scholarship *MAY NOT* be used to pay for the summer course at the public school.

38. Can a student receive a scholarship to study abroad?

No. A "study abroad" program is not eligible for a scholarship since the child will not be attending a qualified school which is by definition an Arizona school.

39. What if a private school has included an educational offsite class or trip in the cost of tuition? Can the student's scholarship cover those amounts included in tuition?

If all students in the grade are required to participate in the offsite class or trip, the cost of the class can be part of tuition and be covered by the scholarship. The scholarship can only cover the cost of the class and must exclude transportation, food and lodging. If the trip is an optional activity it would normally be covered by a fee that is not part of tuition and therefore is not eligible to be covered by a scholarship.

40. Can a student's scholarship be applied to a dual enrollment high school/college course?

If the dual enrollment course is taught by the high school, the STO scholarship may apply only to the high school portion of the tuition. Any portion of the tuition that is for the cost of the college credit may not be covered by scholarship monies. If the course is instead taught by the college and not the high school, scholarship money may not apply to the course tuition since the class is not taught by a qualified school as defined in statute.

41. What are the guidelines as to when tuition should be paid by the STO?

1. Do not pay for prior year tuition. If the current academic year is 2012/2013, don't pay for academic year 2011/2012 or earlier. This isn't a scholarship; it's reimbursement to the parents.
2. STOs have many different times they award scholarships. Often scholarships are awarded in the current academic year for the next academic year. If you award a scholarship in early 2013 for academic year 2013/2014 and that private school wants payment in April 2013 (or March 2013 or June 2013 or whenever), pay it. Pay the scholarship when the school says it is due.
3. Don't pay for future academic years unless it falls under #2 above. Hold the money and pay for the academic year when the payment is due. That's why the annual report has a line that says "Total amount of allocated scholarship money being held for identified students' scholarships in future years."
4. Pay for summer school (eligible ONLY if the classes being taken are for credit, which rules out summer school in primary grades) when the payment is due.
5. If you make an award to a school for a student, specify the academic year for which you are paying. It is not up to the school to decide. That is the STO's role.

42. Can an STO award a scholarship for tuition for the full academic year even if part of the tuition for the year has already been paid?

Yes. However, in this case one of two things must occur. The school must refund the tuition already paid back to the individual who made the tuition payment OR the school must return the amount of the scholarship that exceeds the tuition balance to the STO. The school cannot roll over the excess tuition paid to the following school year. If the school carried forward the excess tuition paid to the following school year, it would be the school granting the scholarship for that academic year. This is not allowed.

43. Can an STO award a scholarship for tuition for a prior academic year?

No.

44. Can an STO award a scholarship for tuition that the school considers past-due?

Scholarships paid can only apply to current year tuition. As long as the school year is not over, the STO may award a scholarship for the unpaid tuition.

45. Can an STO award a scholarship to a student that is repeating a grade?

Yes, as long as they meet all of the scholarship requirements for that year.

46. What if multiple STOs provide a scholarship to the same student, resulting in total scholarships equaling more than the tuition for the academic year?

If the parent has already paid part of the tuition for the academic year, the school may refund that partial tuition paid to the parent. If the parent has not paid part of the tuition or if there is still excess scholarship money for the academic year after a refund to the parent, the school must return that excess money to one or all of the STOs paying scholarships and may not be rolled-over to the next academic year. The amount of scholarships paid from all STOs for one student cannot exceed the amount of tuition for that academic year.

47. My STO provided a scholarship to a student to attend a particular school. Now that family wants the student to attend a different school. Is this okay?

According to the law, an STO must require that students use their scholarships on a full-time basis. If a child leaves the school before completing an entire school year, the school shall refund the unused portion of the scholarship.

48. If a student leaves a private school can the school keep the unused tuition and apply it to another student or roll-over the amount to the next year?

No. Any unused scholarship amounts must be returned to the STO. The STO would then determine how the remaining money is to be awarded. The private school does not have a part in deciding award amounts to students.

49. How do I determine the family income for the scholarship recipients?

For all scholarship programs, each student to whom you award a scholarship the family will have to provide information on household income as defined by the United States Department of Agriculture (USDA). The USDA has a definition of income which is used to determine if a child is eligible for free or reduced price lunches. For UDSA purposes, annual income equals:

Earnings from work:
- Wages, salaries, tips, commissions
- Net income from self-owned businesses and farms
- Strike benefits, unemployment compensation and worker's compensation

Welfare/child support/alimony:
- Public assistance payments/welfare benefits (TANF, General Assistance, General Relief, etc.)
- Alimony and child support payments
- NOTE: Food stamps and FDPIR benefits are not included in income.

Pensions/retirement/social security:
- Pensions, retirement income, veteran's benefits
- Social security
- Supplemental security income
- Disability benefits

All other income:

Net rental income, annuities, net royalties

Interest, dividend income

Cash withdrawn from savings; income from estates, trust and/or investments

Regular contributions from persons not living in the household

Any other money that may be available to pay for the child(ren)'s meals

The family will also need to let you know the number of household members.

The USDA form (located at http://www.fns.usda.gov/sites/default/files/english.pdf) can be used or an STO may create its own form. The USDA form is often completed for a period of less than a year; if the STO uses the USDA form, the information provided must be annualized.

50. Why is a USDA form to be used for determining income?

The law states that the scholarships paid must be reported based on income levels related to qualifying for free or reduced price lunches. The USDA includes specific types of income in determining eligibility for free or reduced priced lunches. Therefore, STOs will have to make the same type of income determination to satisfy statutory reporting requirements.

51. Is the USDA form all that is needed to determine income?

It might be prudent for the STO to ask for additional income documentation to verify what is reported on the USDA form. For example, the STO could ask for a copy of the prior year's tax return or the last two paycheck stubs or perhaps a couple bank statements.

52. Once I determine the household income for the scholarship recipient, how do I find the federal income levels?

Income levels for free or reduced price lunches by academic year can be found at https://www.fns.usda.gov/school-meals/income-eligibility-guidelines. Reduced price lunch annual income eligibility guidelines by household size for academic year 2020/2021 are shown in the table below, along with the next income threshold comparison identified in statute.

Academic Year 2020/2021		
Household Size	Reduced price lunch income threshold (185% of poverty level)	342.25% of poverty level (185% of 185% of poverty level)
1	$23,606	$43,671
2	$31,894	$59,004
3	$40,182	$74,337
4	$48,470	$89,670
5	$56,758	$105,002
6	$65,046	$120,335
7	$73,334	$135,668
8	$81,622	$151,001
Each additional member	$8,288	$15,333

Therefore, for annual report purposes, the STO would report the amount of scholarships paid out to students with household incomes of reduced price lunch income thresholds or less and the amount of scholarships paid

out to students with household incomes from the reduced price lunch income thresholds up to 342.25% of poverty level.

53. Are foster children accounted for differently?

Yes. The income for the family with whom the foster child is living should not be considered. For a foster child, the only income considered is the amount of the foster child's "personal use" income. The foster child's income can be from a part-time job held by the child, or from any funds provided to the child for the child's personal use. The income from the family with whom the foster child is living should not be considered.

If a household where a foster child resides applies for a scholarship for a non-foster child, the foster child may be included as a household member and any personal income received by the foster child is reportable.

54. Must we require that students submit a scholarship application each year?

Your STO must determine each year that a student is still eligible to receive an STO scholarship. In addition, your STO is statutorily required to collect income information every year from all scholarship recipients so that you may report the amount of scholarships awarded by income level. This information may be gathered by requiring scholarship applicants to re-apply every year or to submit a modified renewal form. Either way, your STO must be able to show proof that a scholarship recipient was eligible to receive the scholarship. Note that annual submittal of METs/IEPs/504 plans/displaced verifications are not required after an STO's initial student eligibility determination.

STO GUIDELINES FOR BOTH INDIVIDUAL INCOME TAX CREDIT PROGRAMS

To receive donations from individual taxpayers which can be claimed as an original or switcher individual income tax credit, an STO must be a 501(c)(3). The STO must submit a certification application to ADOR for participation in the individual donation program. The STO cannot receive donations from taxpayers intending to take an individual income tax credit for the donation unless the STO appears on ADOR's list of certified STOs.

An STO must include the following notice on any printed materials soliciting donations, in applications for scholarships and on its website:

> **A school tuition organization cannot award, restrict or reserve scholarships solely on the basis of donor recommendation.**
> **A taxpayer may not claim a tax credit if the taxpayer agrees to swap donations with another taxpayer to benefit either taxpayer's own dependent.**

55. What font size must the required "notice" be in the STO publications and on the website? Does the notice have to be highlighted? Bolded? Where should the notice be located on the website?

The required "notice" must be present in an STO's printed materials, applications and website, using exactly the words shown above. There are no font size or appearance requirements; however, the notice should be in large enough font that the average person can easily read the notice. The notice must be displayed in a prominent place on the website; the home page is the preferable location for the notice.

56. What if my STO does not have a website but utilizes a section on various school websites for soliciting donations and for allowing taxpayers to make donations to our STO?

The required "notice" should be present wherever an STO is soliciting individual donations.

57. Can a taxpayer direct his or her donation to the benefit of their dependent?

No. A taxpayer's donation for the individual income tax credit cannot be directed to the benefit of the taxpayer's dependent. A dependent is either a "qualifying child" or "qualifying relative" as defined under Section 152 of the Internal Revenue Code.

58. What about divorced parents who alternate claiming the child as a dependent on the tax return? Can the parent who is not claiming the child as a dependent on the tax return make a tax credit donation for the benefit of their child?

No. What matters is whether the student is a qualifying child or qualifying relative of the donor, not whether the child is claimed as a dependent on the tax return. If the child meets the definition of a qualifying child or qualifying relative as defined in Section 152 of the Internal Revenue Code, the parent may not direct a tax credit donation to the benefit of their child.

59. Can a donation have a student recommendation?

Yes. However, the donation cannot be made on the condition that a particular student gets a scholarship, nor can the STO give a scholarship solely on the basis of a donor recommendation.

60. Can an STO set up student accounts into which donors may directly deposit their donations?

If the child is not yet in school, an STO cannot set up a student account for this child into which donors could directly deposit contributions. This is an illegal practice.

If the child is in school and has been awarded a scholarship, setting up a student account for this child into which donors can directly deposit their contributions has not been deemed illegal according to Arizona law. However, this practice creates a gray area as to whether or not the STO is allowing scholarships based solely on donor recommendations and is discouraged.

61. Can my STO share information on donors and recommendations with the scholarship recipients?

We have always maintained that donor names should not be shared with scholarship recipients. A.R.S. § 43-1089(F) states that the tax credit is not allowed if:

- The contribution is for the direct benefit of the taxpayers dependent;
- The taxpayer designates a student beneficiary as a condition of the taxpayer's contribution to the STO; or
- The taxpayer agrees with one or more other taxpayers to designate each taxpayer's contribution to the STO for the direct benefit of the other taxpayer's dependent.

By providing the names of donors to the scholarship recipients the STO could be facilitating or encouraging donors to engage in prohibited agreements specified in the third bullet point listed above which would be in violation of A.R.S. § 43-1603(B)(4) which states that an STO:

> "Shall not allow donors to designate student beneficiaries as a condition of any contribution to the organization, or **facilitate, encourage or knowingly permit the exchange of beneficiary student designations in violation of section 43-1089, subsection F."** (emphasis added)

In addition, by providing the names of donors that recommended a child for a scholarship the STO may be giving the impression to donors that the money donated to an STO will always be used for the student beneficiary that is recommended by the donor. A.R.S. § 43-1603 (B)(3) prohibits an STO from awarding, designating or reserving scholarships based solely on a donor's recommendation.

Finally, disclosing donor information could potentially jeopardize the STO's tax exempt status as it indicates that recipients should expect to receive every donation.

62. Can the STO accept donations through United Way or a similar "umbrella" organization?

These donations are not eligible for the tax credit. While the STO can certainly accept such donations, the donors are not entitled to take the private school tuition organization credit. The law states that the donor must make the contribution to a school tuition organization. According to the law, the only instance in which the donation can be made on the donor's behalf is through the donor's employer by way of a withholding payroll deduction.

63. Can an individual taxpayer make a donation to an STO through a deduction from withholding, where the employer takes part of that individual's withholding and sends it to the designated STO?

Yes, an individual can direct his or her employer to take part of his or her withholding and send it to an STO for both the individual income tax credits.

64. Can an STO accept a donation check written by a sole proprietorship when the credit will be claimed by the individual taxpayer?

Yes. The STO should make sure to issue a receipt to the donor that lists the name of the individual taxpayer.

65. Can a taxpayer donate stock to my STO and receive a tax credit?

No. The taxpayer may donate stock to the STO but the donation is not eligible for the tax credit since it is not considered a cash donation.

66. My STO accepts donations made by credit card. How should we account for the credit card processing fee?

If the STO is charged a credit card processing fee, that amount must come out of the STO's 10% administration costs. For example, if a taxpayer donates $500 by credit card and the STO has to pay a $5 fee, that $5 must come out of the STO administrative side so that the full 90% of the $500 donation goes to scholarships ($450).

67. A.R.S. § 43-1089 G states that a contribution that is made on or before the 15th day of the 4th month following the close of the taxable year may be applied to either the current or preceding taxable year. How does this affect my STO?

This law allows a taxpayer to make a donation to an STO for tax credit purposes from January 1 through April 15 (assuming a tax year of January 1 through December 31) and count that donation as a tax credit in the preceding taxable year. For example, the taxpayer makes a donation to your STO on April 15, 2011 but can use that donation as a tax credit on his or her 2010 tax return or 2011 tax return. An STO will still issue a receipt to the taxpayer that is dated as of the date of the donation.

Due to the switcher individual income tax credit effective January 1, 2012, all STOs must now ask the individual donors which taxable year the credit will be claimed. In order to determine if the taxpayer meets the requirements to claim the switcher individual income tax credit, all STOs must also ask the total amount of original individual income tax already donated during the taxable year to all STOs as well as the filing status that the taxpayer will claim on the tax return.

68. What if the Department of Revenue extends the April 15 deadline for filing the individual income tax return? Does the due date for donations to STOs also change?

Pursuant to A.R.S. §43-241 the Department of Revenue has the authority to extend the deadline for filing the tax return and in turn the donation due date. Please refer to the appropriate tax year return instructions to verify the donation due date.

ORIGINAL INDIVIDUAL INCOME TAX CREDIT PROGRAM

69. What is the maximum amount of the original individual income tax credit?

The amount of the original individual income tax credit is indexed annually, based on the growth in the Metropolitan Phoenix CPI and therefore can change every tax year. If the CPI decreases, the credit amount is not to be indexed downward.

- Tax year 2020: $593 (single, unmarried head of household, and married filing separate) and $1,186 (married filing joint).
- Tax year 2021: $611 (single, unmarried head of household, and married filing separate) and $1,221 (married filing joint).

70. Now that there is the switcher individual income tax credit available to individuals that have already donated the maximum credit amount for the original individual income tax credit, how can the STO determine if the taxpayer will be claiming the original individual income tax credit or the switcher individual income tax credit?

STOs must ask each individual donor several questions regarding their total individual donations made to all STOs during the calendar year:

- Which taxable year the credit will be claimed;
- The total amount of original individual income tax already donated during the taxable year to ALL STOs;
- The filing status that the taxpayer will claim on the tax return.

Because scholarships paid from the switcher individual donations must be paid to students meeting one of several requirements, the original individual credit donations must be tracked separately from donations received from the switcher individual credit donations.

71. What if the information provided by the donor when making the donation to my STO changes during the year (like the filing status) or is not complete?

Individuals may not provide you with the correct information at the time of donation to accurately assign the donations to the appropriate credit. Your only option is to assume that the information provided is true and accurate and assign donations to the appropriate credit based on that assumption.

72. On what basis can an STO award an original individual scholarship?

An STO can award scholarships out of original individual donations on whatever basis it desires, as long as the award is not solely based on donor recommendation. Each STO must prepare a detailed written explanation of the parameters it has chosen to award scholarships. ADOR will be requesting a copy of this write-up every year with the annual report.

The law does say that the STO must consider financial need. For reporting purposes, an STO must gather household income information for all its scholarships recipients.

73. Can a student receive scholarships under this program from multiple STOs?

Yes.

74. Can a student receive a scholarship from the original individual income credit program and from the other scholarship programs?

Yes. As long as the student meets each of the specific scholarship program requirements, that student could receive a scholarship from the original individual credit program, the low-income corporate credit program and from the switcher individual credit program. That student could also receive a scholarship from the disabled/displaced scholarship program if qualified. A student could also receive a scholarship from more than one STO for more than one donation program.

SWITCHER INDIVIDUAL INCOME TAX CREDIT PROGRAM

The switcher individual income tax credit is ONLY available to individuals that first donated the maximum amount allowed for a credit under A.R.S. § 43-1089, the original individual income tax credit.

75. What is the maximum amount of the switcher individual income tax credit?

The amount of the switcher individual income tax credit is indexed annually, based on the growth in the Metropolitan Phoenix CPI and therefore can change every tax year. If the CPI decreases, the credit amount is not to be indexed downward.

- Tax year 2020: $590 (single, unmarried head of household, and married filing separate) and $1,179 (married filing joint).
- Tax year 2021: $608 (single, unmarried head of household, and married filing separate) and $1,214 (married filing joint).

76. Can a donor direct their donation to go only to the switcher individual income tax credit which has more restrictive scholarship guidelines?

A donor cannot take the switcher individual income tax credit for donations to private schools (on Form 348) without first donating the maximum amount allowed under the original individual income tax credit (taken on Form 323). While the donor may tell the STO how they want the donation used, the STO may not legally use the donation for the more restrictive scholarships unless the donor has already donated the maximum amount allowed for the original individual income tax credit.

77. The switcher individual income tax credit is available only to individuals that have already donated the maximum credit amount for the original individual income tax credit. How can the STO determine if the taxpayer will be claiming an original individual income tax credit or the switcher individual income tax credit?

STOs must ask each individual donor several questions regarding their total individual donations made to all STOs during the calendar year:

- Which taxable year the credit will be claimed;
- The total amount of original individual income tax contributions already donated during the taxable year to ALL STOs;
- The filing status that the taxpayer will claim on the tax return.

Because scholarships paid from the switcher individual donations must be paid to students meeting one of several requirements, the switcher donations must be tracked separately from donations received from the original individual credit donations.

78. What if the information provided by the donor when making the donation to my STO changes during the year (like the filing status) or is not complete?

Information provided to you by donors may be inaccurate. Your only option is to assume that the information provided is true and accurate and assign donations to the appropriate credit based on that assumption.

79. On what basis can an STO award scholarships from the switcher tax credit donations?

To qualify for a scholarship under the switcher individual income tax credit, the student must meet one of the following requirements:

- Attended a public school as a full-time student for at least 90 days of the prior fiscal year and then transferred from the public school to a private school; OR
- Is enrolling in a private school kindergarten; OR
- Is enrolling in a private preschool program for students with disabilities; OR
- Is a dependent of a member of the armed forces of the United States who is stationed in Arizona pursuant to military orders; OR
- Received for <u>any prior year</u> a scholarship under one of the above criteria OR from the low-income corporate donation program or the disabled/displaced corporate donation program if the child continued to attend a private school in subsequent years.

Priority is to be given to students and siblings of students on the STO's waiting list. Financial need is also to be considered when awarding scholarships. An STO can award scholarships out of switcher individual donations on factors in addition to those listed above. Each STO must prepare a detailed written explanation of what parameters it chooses to award scholarships. ADOR will be requesting a copy of this write-up every year with the annual report. For reporting purposes, an STO must also gather household income information for all its scholarship recipients. This is covered in greater detail later in this document.

80. Does a child that has been homeschooled in the previous year meet the prerequisites for a switcher individual scholarship?

No. If the student is not entering a preschool for children with disabilities, entering kindergarten, or a dependent of an armed forces member stationed in Arizona, then the child must have attended public school for at least 90 days of the prior year.

81. Must the public school attended in the prior year be an Arizona public school?

Yes. A.R.S. § 43-1603 E.1. states that the child must have attended a primary or secondary school as a full-time student as defined in A.R.S. § 15-901. Only Arizona schools must follow the definitions in A.R.S. § 15-901, so the intent is that the child attended an Arizona public school.

82. Do I need to verify if a student attended public school for 90 days of the prior school year?

Yes. If the student is not entering a preschool for children with disabilities, entering kindergarten, a dependent of an armed forces member stationed in Arizona, or continuing an STO-funded private school education from the prior year the STO must verify that the student applying for a scholarship had prior public school enrollment.

The STO should have the parent provide verification that the student attended public school for 90 days of the prior school year. The public school enrollment verification form is an example of what may be submitted by the parent to provide the enrollment information for a public school. A copy of the public school enrollment verification is included in this document as **Attachment 3**.

83. What type of verification is needed for students to qualify as a dependent of a member of the United States armed forces who is stationed in Arizona pursuant to military orders?

The parent will need to provide a copy of his/her military orders showing the Arizona station.

84. What about the National Guard or Reservists? Are they included as a member of the United States armed forces?

Most likely members of the National Guard or Reservists that are fulfilling their weekend service and yearly training would not be stationed in Arizona pursuant to military orders. However, if the parent can provide a copy of his/her military orders showing the Arizona station, then their dependent would meet that requirement.

85. There is a student who was eligible for the switcher individual scholarship last year and received money from another STO. This year that STO doesn't have the money to fund this student's scholarship and the student is asking my STO to do funding. Is this student eligible for our switcher individual money even though we didn't take them through the initial qualifying process for switcher individual funding?

Yes. If the student started in the switcher individual scholarship program, another STO can take over their scholarship funding without making the student start over.

86. A student is claiming eligibility for the switcher individual income scholarship in the current year due to receiving a switcher original individual scholarship, a low-income corporate scholarship, or a disabled/displaced corporate scholarship from another STO in a prior year. Do I need to verify with the other STO that the student received the scholarship?

It is the STO's responsibility to verify that the student meets the requirement of having received the scholarship in a prior year and that the student continued to attend private school in subsequent years. An STO can do this through other STOs or through the school which the student attended.

87. If a student receives a low-income corporate or disabled/displaced corporate scholarship during the academic year, does that mean he meets the prerequisites for a switcher scholarship in the same academic year (based on the corporate scholarship prerequisite)?

No. If the prerequisite for the switcher scholarship is the receipt of a low-income or disabled/displaced corporate scholarship, the student must receive the low-income or disabled/displaced corporate scholarship in a prior year. If the low-income or disabled/displaced corporate scholarship was not received in the immediate prior year the student must have continued to attend private school in subsequent years.

88. Can a student receive scholarships under this program from multiple STOs?

Yes.

89. Can a student receive a scholarship from the switcher individual income credit program and from the other scholarship programs?

Yes. As long as the student meets each of the specific scholarship program requirements, that student could receive a scholarship from the original individual credit program, the low-income corporate credit program and from the switcher individual credit program. That student could also receive a scholarship from

the disabled/displaced scholarship program if qualified. A student could also receive a scholarship from more than one STO for more than one donation program.

90. Must a student receive a switcher individual scholarship each year in order to continue in the program?

No. Regardless of the time between the first year that the student was determined to be eligible and received a switcher individual scholarship, the student can be eligible to receive a switcher individual scholarship in a later year as long as he continues to attend private school.

STO GUIDELINES FOR BOTH CORPORATE INCOME TAX CREDIT PROGRAMS

To receive donations from corporations which can be claimed as a corporate income tax credit or an insurance premium tax credit, an STO must be a 501(c)(3). The STO must submit a certification application to ADOR for participation in the corporate donation program. The STO cannot receive donations from corporations intending to take a corporate income tax credit or an insurance premium tax credit for the donation unless the STO appears on ADOR's list of certified STOs.

STO CORPORATE DONATION PROCESS

91. Who can make a donation to an STO and be eligible to claim an STO corporate tax credit?

The corporate STO credits are available only to corporate taxpayers, exempt organizations with unrelated business income, corporate partners of a partnership (if passed through by a partnership), or an S corporation (may be passed through to their individual shareholders).

92. Is there any limit to the amount of money corporations can donate in total in a fiscal year?

Yes. The low-income corporate tax credit donation limitation is increased each fiscal year by a percentage set in statute (A.R.S. §43-1183 C1). The disabled/displaced tax credit limitation remains constant from year to year.

- Low-income donation limitation for fiscal year 2020/21 will be $123,042,188
- Low-income donation limitation for fiscal year 2021/22 will be $135,346,407
- Disabled/displaced donation limitation is $5 million each fiscal year.

93. Is there any limit to the amount of money a single corporation can donate for a tax credit?

Yes and no. There is a limit to how much corporations can donate in total each fiscal year for a tax credit. However, one corporation could donate the entire tax credit amount available.

94. Can a taxpayer donate stock to my STO and receive a tax credit?

No. The taxpayer may donate stock to the STO but the donation is not eligible for the tax credit since it is not considered a cash donation.

95. My STO accepts donations made by credit card. How should we account for the credit card processing fee?

If the STO is charged a credit card processing fee, that amount must come out of the STO's 10% administration costs. For example, if a taxpayer donates $500 by credit card and the STO has to pay a $5 fee,

that $5 must come out of the STO administrative side so that the full 90% of the $500 donation goes to scholarships ($450).

96. Can an S corporation (S-corp) participate in this tax credit?

Yes. The S-corp (as defined in section 1361 of the Internal Revenue Code) can either claim the credit against income taxes at the corporate level (income tax reported on an Arizona 120S corporate income tax return) or it may make an irrevocable election to pass the credit through to its individual shareholders. **The S-corp must make a minimum aggregate contribution of $5,000 within their taxable year in order to pass the credit through to its shareholders.** Any pro-rata shares that would be distributed to non-eligible partners (individual partners in a partnership) or estates or trusts (shareholders in an S-corp) are lost. An S-corp owned by a grantor trust is eligible to pass through the credit.

The donations must be made by the S-corp, not a shareholder, in order to be eligible for the corporate tax credit. Each individual shareholder may claim only a pro rata share of the credit based on the individual's ownership interest in the S-corp. The total of the credits allowed may not exceed the amount that would have been allowed to a sole owner of the business. If the S corporation elects to claim the STO credit at the corporate level, it may not pass through any remaining credit to its shareholders.

97. Does the $5,000 aggregate minimum include donations to both the low-income and disabled/displaced programs?

Yes. The aggregate $5,000 minimum contribution represents the sum of all low-income and disabled/displaced credit donations made to all STOs during the S-corp's taxable year.

98. Does an S-corp need to have taxable income or tax liability to be eligible for the tax credit and to pass the credit through to its shareholders?

No. Regardless of whether or not the S-corp has taxable income or tax liability, the S-corp can make the irrevocable election to pass the credit through to its shareholders. The shareholders will apply their pro-rata share of the tax credit against their Arizona individual income tax liability (regardless of source).

99. When does the S-corp pass the credit onto their shareholders?

The S-corp will pass the credit onto the shareholders at the end of the S-corp's fiscal year/tax year. The percentage of ownership in the S-corp at the end of the tax year in which the credit was earned by the S-corp will determine the ownership share of the tax credit. The individual taxpayer will claim the credit on their individual income tax return for the year in which the S-corps fiscal year ends.

EXAMPLE: The S-corp with a taxable year beginning 1/1/16 can make a donation for approval on 7/1/16 and then pass the credit onto their shareholders at the close of their fiscal year/tax year. The end of the S-corp's fiscal year would be 12/31/16 which falls into the individual's 2016 tax year. The individual taxpayer would claim their share of the credit on their 2016 tax return.

100. What if an individual shareholder also donated for the original and switcher tax credits?

There is no impact to the individual taxpayer's ability to claim the individual income tax credits. An individual taxpayer may claim up to the maximum original and switcher individual credits and also claim their share of the S-corp corporate credit.

101. Is there a limit on the amount of low-income or disabled/displaced credit that can be claimed by the shareholder on their individual income tax return?

No. If an individual taxpayer's share of the S-corp credit is $3,000 then their credit will be $3,000. In addition, the taxpayer's share of the low-income or disabled/displaced credit will not impact the individual taxpayer's ability to claim the original or switcher individual credits or the credit caps for either credit.

EXAMPLE: An individual taxpayer filing married filing joint in tax year 2016 could claim the maximum original and switcher credits of $2,173 plus their $3,000 share of the S-corp corporate credits.

102. Can an LLC participate in this tax credit?

LLCs that are taxed as S-corps for federal and state purposes are eligible to make a donation for a tax credit and pass the credit through to the individual shareholder. An LLC that is treated as a partnership can only pass the credit through to corporate partners not individual partners.

103. Can an insurer adjust their insurance premium installment payments by the tax credit amount?

No. An insurer is only able to claim the credit against premium tax liability when the insurer files its annual tax report. Arizona law does not allow an insurer to reduce installment payments that an insurer is required to make in advance of its annual tax filing. A.R.S. § 20-224(F) requires each installment payment to be 15% of the premium tax liability as calculated on the insurer's prior-year annual tax report. All questions regarding the insurance premium tax should be directed to the Arizona Department of Insurance.

104. How does the corporate donation process work?

The corporate tax credit caps reset at the beginning of each fiscal year. Corporate donation pre-approval requests are processed on a first come, first served basis. A detailed process and forms will be provided to the STOs in the months prior to the corporate donation pre-approval start date. The following is a summary of the corporate donation pre-approval process:

1. A corporation contacts the STO to which they wish to donate or the STO contacts corporations to solicit donations and indicates the amount of donation they wish to make.
2. STOs will prepare a Declaration of Donors list summarizing all pre-approval donation requests. The Declaration of Donors spreadsheet will be submitted to ADOR the day prior to the opening of the Application Queue.
3. When the Application Queue is officially opened (STOs will be notified of the date, usually the second business day of the fiscal year), STOs will submit one or more claim emails per pre-approval applicant listed in the Declaration of Donors spreadsheet to DOROERA@azdor.gov.
4. ADOR will award Queue position numbers in order of claim email received time. If duplicate claim email numbers are received, the one with the earliest received time shall be processed and all remaining duplicates shall be ignored. All claim requests shall be logged in by the date and time noted by receipt of email in the DOROERA@azdor.gov inbox.
5. Each Queue position number an STO is awarded can be assigned exactly one Pre-Approval request to be processed for approval in the Queue. This means that regardless of what order Queue claim emails populate the DOROERA@azdor.gov inbox, STOs will be able to assign pre-approval requests to the Queue numbers awarded in an order of the STO's preference.
6. STOs shall have until close of business on the next business day following notification of Queue position numbers awarded to submit the pre-approval applications and to identify the Queue position assigned to each pre-approval application.

7. ADOR will respond to the pre-approval donation request within 20 days of receipt. The request shall be approved if there is credit available under the maximum allocation allowed for the fiscal year.
8. ADOR will email the approval to the STO. The STO will provide a copy of the approval form to the donating corporation.
9. In the event a request is received for an amount that is greater than the remaining amount under the cap, ADOR shall approve only that amount that is remaining. For example, if $500,000 is left under the cap and a pre-approval request is received for $750,000, ADOR shall approve only $500,000 and the pre-approval request will be closed with the remaining $250,000 request lost.
   - A new pre-approval request must be submitted if the company wants the $250,000 to be considered.
10. If the donation is approved, the STO has 20 days to receive the donation from the corporation. ***This is twenty calendar days. It doesn't matter if the due date falls on a weekend or holiday, the donation must be received by this date.*** *ALL* transactions (checks, credit cards, wire transfer, cash receipt deposit slip) MUST be dated on or after the approval date and before the end of the 20 day period.
11. The STO must provide ADOR dated verification of the donation payment that identifies the donating company (copy of the check, credit card transaction, wire transfer transaction, or cash deposit slip with company name). Notice MUST also be provided to ADOR if the STO does not receive a donation from the approved corporation.
12. The STOs will be notified by email when the cap has been met and that the remaining outstanding pre-approval requests have been placed on the waitlist for the appropriate tax credit in the order received in the DOROERA inbox.
13. If the cap has not been met after all pre-approval requests in the Queue have been processed, ADOR shall set a date on which STOs can begin to submit individual pre-approval applications. Specific procedural instructions will be provided when ADOR notifies STOs of this date.
14. At the end of the first 20 day donation period, in the event money has become available under the cap, ADOR shall process those requests on the waitlist, in the order received, until the cap is again reached. If there are no requests on the waitlist, ADOR shall set a date on which STOs can begin to submit individual pre-approval applications. Specific procedural instructions will be provided when ADOR notifies STOs of this date.

105. When does the corporation claim the tax credit?

The credit is claimed in the tax year in which the donation is made.

106. Can my STO hold onto a donation payment from a corporation until we hear that the pre-approval donation request has been approved?

No. The donation payment (check, credit card, wire transfer, cash deposit slip) must be dated no earlier than the approval date and no later than the 20th day deadline. No exceptions. The STO must provide ADOR dated verification of the donation payment that identifies the donating company (copy of the check, credit card transaction, wire transfer transaction, or cash deposit slip with company name).

107. If the corporation initiates a wire transfer for the donation by the 20th day has the 20 day deadline been met?

Yes.

108. What if a company applies for and makes a donation then later determines they are not eligible for the tax credit?

If the STO chooses to refund the donation, the refund must come from the STO's administrative costs. Once the STO accepts the donation and it is deducted from the corporate credit cap, the STO is obligated to pay out 90% of that amount in scholarships.

109. Can a corporation direct its donation to the benefit of a particular student?

No.

110. Can an S-corp or shareholder direct its donation for the benefit of a particular student?

No. In addition, a tax credit is not allowed if the S-corp or a shareholder, with the intent to benefit a shareholder's dependent, agrees with one or more other taxpayers to designate reciprocal contributions to an STO for the direct benefit of the other taxpayer's dependent.

111. Can a corporation direct its donation to the benefit of a particular school?

If the STO chooses to allow this, it is not forbidden by statute.

112. Can a corporation donate after the end of its fiscal year and still claim the credit on its prior fiscal year tax return, like individuals are able to do when they donate by April 15?

No. Only individuals can donate after the end of the tax year (on or before April 15) and still claim the credit in the prior tax year. Corporations can only claim their donation in the tax year in which the donation is made (plus five years afterwards for carry forward purposes). If ADOR finds that the corporation claimed their donation earlier than the tax year in which the donation was made, the return will be forwarded to the Audit Division and will be denied. STOs should be sure that corporations understand this when donating.

LOW-INCOME CORPORATE INCOME TAX CREDIT PROGRAM

113. On what basis can an STO award scholarships from the low-income corporate tax credit donations?

The student's family income cannot exceed 185% of the income required to qualify a child for reduced price lunches. For the reduced price lunch program the family income threshold is 185% of the poverty level. The STO statute allows low-income scholarships to families with income up to 185% of the reduced price lunch threshold therefore the max income level for the low-income scholarship is 342.25% of the poverty level (185% of the 185% reduced price lunch threshold). To qualify for low-income scholarship the family income cannot exceed 342.25% of the poverty level AND to whom any of the following apply:

- Attended a public school as a full-time student for at least 90 days of the prior fiscal year or one full semester and then transferred from the public school to a private school. Those students who transfer to a qualified school after the first full semester are eligible to receive a scholarship that same academic year; OR
- Is enrolling in a private school kindergarten; OR
- Is enrolling in a private preschool program for students with disabilities; OR
- Is a dependent of a member of the armed forces of the United States who is stationed in Arizona pursuant to military orders; OR

- Received for <u>any prior year</u> a scholarship under one of the above criteria OR from the original individual donation program or the switcher individual donation program if the child continued to attend a private school in subsequent years.

An STO can award scholarships out of low-income corporate donations on factors in addition to family income. Each STO must prepare a detailed written explanation of what parameters it chooses to award scholarships. ADOR will be requesting a copy of this write-up every year with the annual report.

114. Is there a limit to the scholarship amounts funded through low-income corporate donations?

Yes. The original law set scholarship limitations that were to be increased by $100 every year thereafter.

- Academic year 2020/21: $5,600 for grades K through 8 (and preschool disabled) and $6,900 for grades 9 through 12
- Academic year 2021/22: $5,700 for grades K through 8 (and preschool disabled) and $7,000 for grades 9 through 12
- Academic year 2022/23: $5,800 for grades K through 8 (and preschool disabled) and $7,100 for grades 9 through 12

115. Can a student's family receive scholarships under this program from multiple STOs?

Yes. In this case the scholarship limit applies to the scholarship received from each STO; it does not apply to the total scholarships received from all STOs in aggregate.

116. Does a child that has been homeschooled in the previous year meet the prerequisites for a low-income corporate scholarship?

No. If the student is not entering a preschool for children with disabilities, entering kindergarten, or a dependent of an armed forces member stationed in Arizona, then the child must have attended public school for the at least 90 days of the prior year or one full semester. Those students who transfer to a qualified school after the first full semester are eligible to receive a scholarship that same academic year.

117. Must the public school attended in the prior year be an Arizona public school?

Yes. A.R.S. § 43-1504 A.1. states that the child must have attended a primary or secondary school as a full-time student as defined in A.R.S. § 15-901. Only Arizona schools must follow the definitions in A.R.S. § 15-901, so the intent is that the child attended an Arizona public school.

118. Do I need to verify if a student attended public school for 90 days of the prior school year or one full semester?

Yes. If the student is not entering a preschool for children with disabilities, entering kindergarten, a dependent of an armed forces member stationed in Arizona, or continuing an STO-funded private school education from the prior year, the STO must verify that the student applying for a scholarship had prior public school enrollment.

The STO should have the parent provide verification that the student attended public school for 90 days of the prior school year or one full semester. The public school enrollment verification form is an example of what may be submitted by the parent to provide the enrollment information for a public school. A copy of the public school enrollment verification form can be found at the end of this document as **Attachment 3**.

119. What type of verification is needed for students to qualify as a dependent of a member of the United States armed forces who is stationed in Arizona pursuant to military orders?

The parent will need to provide a copy of his/her military orders showing the Arizona station.

120. What about the National Guard or Reservists? Are they included as a member of the United States armed forces?

Most likely members of the National Guard or Reservists that are fulfilling their weekend service and yearly training would not be stationed in Arizona pursuant to military orders. However, if the parent can provide a copy of his/her military orders showing the Arizona station, then their dependent would meet that requirement.

121. A student is claiming eligibility for the low-income corporate scholarship in the current year due to receiving a low-income corporate scholarship, original individual income scholarship or the switcher individual income scholarship from another STO in a prior year. Do I need to verify with the other STO that the student received the scholarship?

It is the STO's responsibility to verify that the student meets the requirement of having received the scholarship in a prior year and that the student continued to attend private school in subsequent years. An STO can do this through other STOs or through the school which the student attended.

122. If a student receives an original or switcher individual scholarship during the academic year, does that mean he meets the prerequisites for a low-income corporate scholarship in the same academic year (based on the individual scholarship prerequisite)?

No. If the prerequisite for the low-income scholarship is the receipt of an original or switcher individual scholarship, the student must receive the original or switcher individual scholarship in a prior year. If the original or switcher individual scholarship was not received in the immediate prior year the student must have continued to attend private school in subsequent years.

123. There is a student who was eligible for the low-corporate scholarship last year and received money from another STO. This year that STO doesn't have the corporate money to fund this student's scholarship and the student is asking my STO to do corporate funding. Is this student eligible for our low-income corporate money even though we didn't take them through the initial qualifying process for corporate funding?

Yes. If the student started in the low-income corporate scholarship program, another STO can take over their scholarship funding without making the student start over.

124. Can a student receive a scholarship from the low-income corporate credit program and from the other scholarship programs?

Yes. As long as the student meets each of the specific scholarship program requirements, that student could receive a scholarship from the original individual credit program, the low-income corporate credit program and from the switcher individual credit program. That student could also receive a scholarship from the disabled/displaced scholarship program if qualified. A student could also receive a scholarship from more than one STO for more than one donation program.

125. Must a student receive a low-income corporate scholarship each year in order to continue in the program?

No. Regardless of the time between the first year that the student was determined to be eligible and received a low-income corporate scholarship, the student can be eligible to receive a low-income corporate scholarship in a later year as long as he continues to attend private school and meets the income limitations for the application year.

126. My STO has received low-income corporate donations but we don't have many students that can qualify for the scholarships due to the income restrictions. Can we donate our low-income corporate donations to another STO that has more eligible low-income students?

No. Donating your low-income corporate donations to another STO does not qualify as spending the money on scholarships. If you find that you have an insufficient number of applicants on which to award your scholarships from low-income corporate donations, contact other STOs and have them refer some of their eligible low-income students for which they don't have sufficient scholarship money. These students can come to your STO and apply for a scholarship.

127. What does it mean that an STO must not knowingly collude with any other STO?

The corporate tax credit program statute prevents any STO from working together with any other STO to give a particular student scholarships with the intent of getting around the low-income corporate scholarship limit.

128. Can multiple STOs work closely together to provide low-income corporate scholarships to a student greater than the scholarship limit?

No. The law prevents any STO from knowingly colluding with any other STO to circumvent the low-income corporate scholarship limits. Because of this, STOs should not work together to review or approve applications. An award by multiple STOs to the same student will not be evidence of collusion if the following are true:

- Each STO required a separate application be submitted by the student;
- The decision makers at one STO making the decision on the scholarship award to the student are not the same individuals as the decision makers for any other STO(s) awarding a scholarship to the same student;
- The STOs have policies in place prohibiting consultation with any other STO concerning the amount of an award to a specific student.

129. Can STOs work together in ways that are unrelated to the amount of scholarship awards and scholarship limits?

Yes. The prohibition against colluding applies only to efforts by STOs to make awards that circumvent the low-income corporate credit scholarship limit. STOs may share administrative and management functions, and fundraising efforts. Schools may also participate in management, administration and fundraising for STOs.

If an STO gives scholarships only to students who attend schools whose students also receive awards from another STO serving only those same schools, the STO would be advised to seek to award scholarships to students attending other schools to avoid the appearance of collusion between the STOs.

130. My STO asks scholarship applicants if they are receiving scholarships from any other STOs because we prefer to give scholarships to students that are not receiving any awards elsewhere. Is this prohibited now?

No. Your intent is not to circumvent the scholarship limits set out for donations to the low-income corporate credit.

DISABLED/DISPLACED CORPORATE TAX CREDIT PROGRAM

131. On what basis can an STO award scholarships from the disabled/displaced corporate tax credit donations?

To qualify for a scholarship under the disabled/displaced corporate tax credit, the student must meet one of the following prerequisites:

- Student has a current or expired Multidisciplinary Evaluation Team (MET) report, Individual Education Plan (IEP), or Individual Service Plan (ISP) from an Arizona public school (for preschool and K-12); *OR*
- Student has a current or expired 504 plan from an Arizona public school (for K-12 only); *OR*
- Student was placed at one time in the Arizona foster care system (for K-12 only and must be verified by the Arizona Department of Child Safety).

An STO can award scholarships out of disabled/displaced corporate donations on factors in addition to the ones listed above. For example, an STO could also require the student's family be low-income. Each STO must prepare a detailed written explanation of what parameters it chooses to award scholarships. ADOR will be requesting a copy of this write-up every year with the annual report.

132. Who qualifies as a displaced student?

Children placed in the Arizona foster care system pursuant to A.R.S. Title 8, Chapter 5 at any time before the student graduates from high school or obtains a general equivalency diploma are considered displaced students. STOs must verify with the Arizona Department of Child Safety regarding the student's placement in the Arizona foster care system. The displaced student verification form showing the information required by the Arizona Department of Child Safety is provided in **Attachment 4**. Note that displaced verifications are not required after an STO's initial student eligibility determination.

133. How can I determine if a student meets the disabled requirements?

For disabled students, the STO should ask the parent for documentation from the public school on the child's disabilities which must indicate a disability that is mentioned in A.R.S. § 43-1601 (the document should specifically name the applicable disability(ies). This documentation would be in the form of an IEP or MET issued by an Arizona public school district. An IEP/MET will indicate the student's special education category code (SPED code) which is used to determine the maximum scholarship amount. If the student is not currently enrolled in the district, the district may instead prepare an ISP for the student. ISPs prepared by a private school are NOT to be used to determine eligibility.

The student may also provide a 504 plan prepared by an Arizona public school (K-12 students only). The 504 must be completed by the Arizona public school – NOT by the parent. In some cases the student may have an MET from an Arizona public school that indicates a child is not eligible for a SPED category but would be eligible for a 504 plan if the student were attending the public school. The eligibility requirements would be met if the student provided document from an Arizona public school that states the student would be considered a candidate/would be considered eligible for a 504 plan if attending the public school.

Note that annual submittal of METs/IEPs/504 plans are not required after an STO's initial student eligibility determination, unless any of these reports are updated by an Arizona public district or school.

134. Does the IEP/MET or 504 plan need to be current?

No. As long as the child had an IEP/MET/504 at any point in time from an Arizona public school it can be used to determine eligibility.

135. Can a student meet the disabled eligibility requirements with an Individual Service Plan (ISP) from a private school?

No. ISPs prepared by a private school, doctor's notes or outside evaluations are not to be considered when determining eligibility. An ISP prepared by an Arizona public district or school may however be used to determine eligibility.

136. How can I determine if a student meets the displaced requirements?

For displaced students, STOs must submit a form to the Arizona Department of Child Safety to verify the student's placement in the Arizona foster care system. The displaced student verification form showing the information required by the Arizona Department of Child Safety is provided in **Attachment 4**. Note that displaced verifications are not required after an STO's initial student eligibility determination.

137. Do out of state, international or private adoptions qualify as displaced?

No. Students must have been placed in the Arizona foster care system at one point in time.

138. My STO has a new disabled/displaced scholarship applicant that says the student was already determined to be a qualified disabled/displaced student by another STO. Do I still need to verify that the student is a qualified disabled/displaced student?

Yes. Either you need to obtain from the parent all the information required for your STO to determine that the student is a qualified disabled/displaced student or you can request information from the other STO providing proof that they determined the student is a qualified disabled/displaced student. It is highly recommended that your STO require parents to submit at least the minimum information needed to make your own determination of eligibility.

139. What about students that applied for eligibility with ADOR prior to June 1, 2014? Can the STO receive information on established qualified students?

Prior to June 1, 2014 all disabled/displaced students were verified for eligibility by ADOR. If an STO needs information on students that applied for disabled/displaced eligibility prior to June 2014, they may submit an information release form to ADOR. The STO must have the parents complete the "information release form" and forward onto ADOR. Please make sure that the STO contact information is listed and that the parent or guardian provides their contact information as well as signature. ADOR cannot provide any information to the STO without the information release form. The information release form can be obtained by emailing DOROERA@azdor.gov.

140. Is there a limit to the scholarship amounts funded through disabled/displaced corporate donations?

Yes. The sum of a student's DD scholarships from *ALL* STOs is limited to 90% of state aid or cost of tuition, whichever is less. The 90% of state aid is based on special education category codes (SPED) and grade level and may change each academic year. STOs must use the state aid amounts applicable to the specific academic year.

141. How will the STO know the 90% of state aid to compare to the cost of tuition and determine the maximum amount that can be awarded to the disabled/displaced student?

Before the start of each academic year the Arizona Department of Education determines the state aid funding amount by special education category and grade. As soon as the data is available from the Arizona Department of Education (usually May/June for the upcoming academic year), ADOR will provide STOs with the 90% of state aid matrix to be used to determine the maximum scholarship amount for each student. The

state aid funding amount varies by SPED code and grade. The matrix also includes the "regular education category" which is used for displaced students or students with a 504 plan. The maximum scholarship amount is based on the lesser of 90% of the state aid funding amount and the cost of tuition. Due to the disabled/displaced scholarship cap, STOs cannot make a payment to a private school prior to the release of the 90% of state aid matrix for the academic year.

142. We have a preschool student with a preschool SPED category that received a disabled/displaced scholarship. When the child moves onto kindergarten does the preschool SPED category still apply?

There are two SPED categories specific to preschool funding: "preschooler" and "PS D". Since these categories do not carry over to kindergarten or later grades, the child would then fall under the "regular education" category on the 90% state aid matrix which is used for displaced or students with a 504 plan. The parent may choose to get an updated MET after preschool if they feel a new SPED category is warranted in kindergarten or later.

143. My STO has set aside revenue for a multi-year scholarship for a qualified disabled/displaced student. Do we need to verify the student's maximum scholarship limit each academic year?

Yes. The maximum scholarship amount will change based on yearly adjustments in state aid as well as by grade level and therefore the limit needs to be calculated every academic year.

144. Can a student's family receive scholarships under this program from multiple STOs?

Yes. A student can receive multiple disabled/displaced scholarships as long as the sum total does not exceed the maximum scholarship limit for the student (90% of state aid or cost of tuition, whichever is less).

145. Can a student receive a scholarship from the disabled/displaced corporate credit program and from the other scholarship programs?

Yes. As long as the student meets each of the specific scholarship program requirements, that student could receive a scholarship from the original individual credit program, the low-income corporate credit program, from the switcher individual credit program in addition to the disabled/displaced scholarship program. That student could also receive a scholarship from more than one STO for more than one donation program.

146. My STO has received disabled/displaced corporate donations but we don't have many students that can qualify for the scholarships. Can we donate our disabled/displaced corporate donations to another STO that has eligible students?

No. Donating your disabled/displaced corporate donations to another STO does not qualify as spending the money on scholarships. If you find that you have an insufficient number of applicants on which to award your scholarships from disabled/displaced corporate donations, contact other STOs and have them refer some of their eligible students for which they don't have sufficient scholarship money. These students can come to your STO and apply for a scholarship.

STO REPORTING REQUIREMENTS - ALL PROGRAMS

147. How do I submit my statutorily required annual report?

Your fiscal year annual report data for all four tax credit programs (original individual, switcher individual, low-income corporate and disabled/displaced corporate) is summarized in one excel workbook. ADOR will

email the annual report workbook to all STOs in May/June of each year. The completed annual report is to be emailed to ADOR by September 30 of each year.

148. What information will the annual reports require?

The annual reports are on a fiscal year basis. Fiscal year means the period July 1 through June 30. The following information is required from STOs:

1. STO Contact information (President/Executive Director, primary contact, physical and mailing address, email addresses);
2. CPA name and total cost of audit or financial review (for all scholarship programs) paid during the fiscal year;
3. Indicate if the STO accepts student recommendations;
4. Names, job titles and annual salaries of the 3 employees who receive the highest annual salaries from the STO;
5. The link to the STO website with poverty data information;
6. By scholarship program:
    a. Total # of donors during the fiscal year, broken down by 6-month increments (July 1 through December 31 and January 1 through June 30). This break-out is required because ADOR reports all income tax credits in terms of tax year rather than fiscal year;
    b. Total $ amount of cash contributions received for the tax credit during the fiscal year, broken down by 6-month increments (July 1 through December 31 and January 1 through June 30). This break-out is required because ADOR reports all income tax credits in terms of tax year rather than fiscal year;
    c. Net # of students receiving scholarships during the fiscal year;
    d. Net $ amount of scholarships paid in the fiscal year;
    e. Total $ amount of scholarships paid during the fiscal year to students whose family income is up to 185% of poverty level and its corresponding % of total scholarships paid;
    f. Total $ amount of scholarships paid during the fiscal year to students whose family income is greater than 185% of poverty level but not more than 342.25% of poverty level and its corresponding % of total scholarships paid
    g. Name and address of each school to which the scholarships were paid during the fiscal year;
    h. The net # and net $ amount of scholarships going to each school in the fiscal year;
    i. Name and address of each school for which allocated scholarships are being held for identified students' scholarships in future years;
    j. The # and $ amount of allocated scholarships by school;
    k. Name and address of each school from which refunds were received in the current fiscal year from scholarships paid in the prior fiscal year;
    l. The net # and $ amount of refunds received in the current fiscal year from scholarships paid in the prior fiscal year by school

An example of the report (which is an excel workbook) can be found in **Attachment 5**. Instructions for the annual activity report are shown in **Attachment 6**.

Annual reports are to be submitted to ADOR by September 30. The annual reports are to be emailed to DOROERA@azdor.gov.

149. Will ADOR ask for anything else to be submitted?

Yes. The following documents are to be submitted each year by September 30:

- Explanation of the basis for awarding scholarships - no need to send a basis explanation for each scholarship program unless it differs by program.
- Scholarship application and solicitation brochures – no need to send a copy of the application or brochure for each program unless they differ by program.
- Copy of the CPA audit OR review/agreed-upon-procedure engagement letter

These additional documents are to be emailed to DOROERA@azdor.gov.

150. What should be included in the explanation of our basis for awarding scholarships?

Describe in detail what criteria your STO uses to determine that a student is eligible to receive a scholarship. For example: financial need, letters of recommendation from teachers, grades, etc. Your STO may have criteria that are in addition to those already required by law. If your STO accepts donor recommendations you should provide information that demonstrates the scholarship awards are not based solely on donor recommendations.

151. Does my STO need to change its fiscal year to July 1 through June 30?

It is not necessary for the STO to change its fiscal year to July 1 through June 30. However, it may be more convenient because of the required audit/review periods.

152. What about other revenue received by my STO? Is that information to be included on the annual report?

No. The annual report only includes those cash contributions received from taxpayers for the purpose of the tax credit. Other revenue includes interest earned on corporate donations, out-of-state donations, etc. which would be included in the financial statements prepared by your CPA during the audit or review process.

153. My STO has received donations from taxpayers that also have employer matching gifts. How are employer matching gifts reported on the annual report?

The employer matching gifts/corporate matching funds are not considered donations for the tax credit and therefore are NOT included in the annual report. The annual report only includes those cash contributions received from taxpayers for the purpose of the tax credit.

154. What about reporting allocated future scholarships? My STO already knows that a full 90% of its donations will go to eligible students for scholarships over the next few years. Doesn't this mean that all my scholarship money is set aside and would be reported in the allocated future scholarships section in the annual report?

No. The only money reported in the future allocated scholarships section is money that you have already committed to specific students for payment of future years of private school. If asked, you would be able to provide ADOR with a list of student names and specific amounts set aside for future years. An example would be Jane Austen has been promised (as long as Jane meets the scholarship requirements each academic year) $5,000 a year for the next 5 years of private school, or $25,000. A future allocation for a student does not need to cover multiple years; the allocation may just cover the following academic year.

Setting aside a portion of money for a specific school for future years does not count. Setting aside a portion of money for a general group of qualified students does not count. The purpose of this extra piece of accounting is to be able to show that even though your STO may have a percentage of less than 90% in

scholarships to administrative cost, when you add the allocated funds reserved for specific students to the amount of scholarships paid, your percentage may be pushed up to 90%.

155. What should I do if I receive a refund from a private school for scholarship paid but not used after I have filed my annual report including this money as scholarship money paid out?

Do not revise the prior year annual report. You will report any refunded scholarships in the year the refund was received from the private school. See the annual report instructions on how to account for refunds that cross over fiscal years.

156. In the listing of information items requested on the annual report, emphasis is placed on the words "received" and "paid." Why?

STO reporting has always been on a cash basis. How much in donations was actually received during the reporting period? Checks that are postmarked in the reporting period but not received in the mail for a few days after the reporting period ends would be included in the reporting period. How much in scholarships was paid out in the reporting period? This wouldn't include scholarships that were reserved or awarded but not actually paid. (If the scholarship was an allocated scholarship, reserved for future years to a specific student and money is set aside, then it is reported on the line relating to identified students' scholarships being held for future years.)

157. Is the information reported on the annual report considered confidential?

No.

158. If my STO gives a scholarship to a disabled student from the original individual, switcher individual or low-income corporate donation program, do I report it on the disabled/displaced corporate donation report?

No. Any scholarship given out of the original individual, switcher individual or low-income corporate donation programs are reported only on the corresponding donation report. Only scholarships funded from disabled/displaced corporate donations are reported on the disabled/displaced corporate donation report.

159. How is the scholarship data by family income to be presented on our website?

There are no specific requirements on how the data is to be presented; however it should be easy to find and reported separately by scholarship program. For each scholarship program you will provide the following information on scholarships paid during the previous fiscal year:

EXAMPLE: Original Individual Scholarships

- The total dollar amount scholarships paid to students with family income up to 185% of poverty level.
- The percent of scholarships paid to students with family income up to 185% of poverty level.
- The total dollar amount of scholarships paid to students with family income that is greater than 185% of poverty level but not more than 342.25% of poverty level.
- The percent of total scholarships paid to students with family income that is greater than 185% of poverty level but not more than 342.25% of poverty level.

This information is to be updated on your website after the end of each fiscal year with the previous fiscal year data. The family income data will also be included on your annual report so you can update your website when you are preparing your annual report. The deadline to update the STO website with the most recent completed fiscal year data will be September 30. For example, as of September 30, 2017 an STO website

is to provide FY2016/17 scholarship data by family income. After September 30, ADOR will verify that the STO websites have been updated and STOs not in compliance will receive a violation notice.

160. My STO has agreed to accept a transfer of remaining 90% funds from an STO that is closing. How is that transfer reported on our annual report?

The transfer amount will be included in your total donation amount for the corresponding program in annual report. There is also a separate section in the annual report to identify the program, the transfer amount and the transferring STO. This transfer is considered new money to your STO and subject to the 90% allocation requirement.

STO AUDITS/REVIEWS – ALL PROGRAMS

161. Must my STO have a financial review or audit?

Yes. The law requires either financial audits or reviews for all STOs accepting individual and/or corporate donations.

162. What do the financial reviews or audits involve?

STOs receiving $1 million or more in individual donations (original plus switcher) OR corporate donations (low-income plus disabled/displaced) in the previous fiscal year (July 1 through June 30) must provide for a financial audit of the organization. The audit must be conducted according to generally accepted auditing standards. The audit must evaluate the STO's compliance with allocating at least 90% of contributions to scholarships. The audit must be conducted by an independent certified public accountant who is licensed in Arizona or who has a limited reciprocity privilege pursuant to A.R.S. §34-725. The CPA and the firm with which the CPA is affiliated must be independent with respect to the STO, its officers and directors.

STOs receiving less than $1 million in individual donations (original plus switcher) OR corporate donations (low-income plus disabled/displaced) in the previous fiscal year (July 1 through June 30) must provide for a financial review of the organization. The review must be conducted in accordance with standards for accounting and review services and must evaluate the STO's compliance with the fiscal requirements of Title 43, Chapter 15, Article 1. The review must be conducted by an independent certified public accountant who is licensed in Arizona or who has a limited reciprocity privilege pursuant to A.R.S. §34-725. The CPA and the firm with which the CPA is affiliated must be independent with respect to the STO, its officers and directors.

If differences exist between totals presented in the audit or review and total revenues and scholarships as reported on the Arizona School Tuition Organization Annual Activity Report, there must be a footnote included reconciling the differences.

163. What is included in "donations" for purposes of determining if the STO needs an audit or review?

Donations means donations given for purposes of getting a tax credit and any other donations made to the STO, like matching fund donations, money donated in excess of the tax credit limitations or the credit amount approved. Donations would not include interest earned or grant money received.

164. If the STO received $500,000 in total individual donations and $600,000 in total corporate donations, does it need to have an audit or review?

The threshold for the audit or review is $1 million in total individual donations or $1 million in total corporate donations. If the STO received $500,000 from individuals and $600,000 from corporation donations, only a review is required.

165. My STO participates in the original individual donation program and the switcher individual donation program. Must I have an audit or review for each program?

No. One audit or review would cover both programs.

166. My STO received $950,000 in low-income corporate donations and $100,000 in disabled/displaced corporate donations. Do we have to have an audit or review?

Your STO must have an audit. The total corporate donations from both programs exceed $1 million.

167. Must a separate audit or review be done for individual donations and corporate donations?

No. One audit or review can cover all types of donations. The agreed-upon-procedures cover both individual and corporate requirements. However the cost of an audit or review that covers individual donations and corporate donations must be allocated between the original individual program, the switcher individual program, the low-income corporate program and the disabled/displaced corporate program for purposes of calculating the 90%/10% shares of each program. In other words, if an STO spends $5,000 on an audit that covers their individual program and their corporate program, that $5,000 must be split between the four programs so that an amount can be subtracted from total contributions for each separate program before calculating the 90%/10% shares.

When preparing the STO's 90%/10% worksheet, ADOR will determine the audit/review cost split based upon the proportional share of donations between the four programs. For example, if the STO collected $25,000 in original individual donations, $2,000 in switcher individual donations, $5,000 in low-income corporate donations and $1,000 in disabled/displaced corporate donations, the audit/review cost would be allocated 76% to the original individual program ($25,000 divided by the $33,000 donation total), 6% to the switcher individual program, 15% to the low-income corporate program and 3% to the disabled/displaced corporate program. Therefore, 76% of the audit/review cost would be subtracted from the original individual donations before calculating the 90%/10% shares.

168. The cost of the STO's annual review or audit is taken out of total contributions before the 90%/10% shares are calculated. Does the cost of the audit or review include fees to prepare the 990 tax form?

No. The cost of the audit or review does not include fees paid to a CPA to prepare the 990 tax form.

169. What does "agreed-upon-procedures" mean?

Agreed-upon-procedures take the form of the School Tuition Organization Fiscal Compliance Questionnaire, **Attachment 7** at the end of this manual. This form was developed with a small group of CPAs for the purpose of satisfying the requirement in the statutes (A.R.S. §§ 43-1507 and 43-1605) that the audit or review must evaluate the STO's compliance with the fiscal requirements of Chapter 15 and/or chapter 16. This form MUST be completed by the CPA in conjunction with the annual review. ADOR will email the fiscal compliance questionnaire to all STOs in May/June of each year. A copy of the completed form should be submitted to ADOR with the copy of the annual review. Agreed-upon-procedures are only required for those STOs that must have an annual review prepared. Additionally, our CPA group came up with a sample

accountant's report after the agreed-upon-procedures and review have been completed, shown in **Attachment 8**.

170. Our STO is required to have an audit for our individual donations and a review for our corporate donations; however we decided to have an audit for both programs. Do the "agreed-upon-procedures" still need to be submitted for the corporate program since a review is required?

No. A financial audit will address the same compliance questions included in the agreed-upon-procedures.

171. When must the financial audit or review be complete?

The STO must have obtained an engagement letter with a CPA for the audit by September 30 of each year. If a review is required, the STO must also obtain an engagement letter for both the review and the agreed-upon-procedures by September 30. A copy of the letter should be mailed to the PO Box address along with the copies of the scholarship applications, scholarship basis and brochures. The audit/review and agreed-upon-procedures which includes the fiscal compliance questionnaire (if required) should be complete and submitted by December 31.

172. My STO has only been operational for a couple months of the fiscal year. Do we still have to have an audit or review?

Even if an STO has been operational for only one month of a fiscal year, an audit or review is still required. The only exception to this would be if the STO received no donations and paid no scholarships for that partial period. However, the STO must still file an annual report with ADOR.

173. I understand that the CPA mobility laws in effect in Arizona allow CPAs who are licensed in another state to perform audits in Arizona. Does this apply to the STO audit or review?

Yes. An STO's audit or review must be conducted by an independent certified public accountant who is licensed in Arizona or who has a limited reciprocity privilege pursuant to A.R.S. §34-725.

174. Do I need to send a copy of the audit or review to ADOR?

A signed copy of the audit or review must be received by ADOR ***within 5 days of its receipt by the STO***. Do not assume that your CPA will send a copy to the department. The STO must send the signed copy of the audit or review by email to DOROERA@azdor.gov.

175. Is the audit or review that I send to ADOR considered confidential information or public record?

ADOR considers the audit or review to be sensitive information connected to a tax credit and, therefore, confidential.

STOs AND THE EMPOWERMENT SCHOLARSHIP ACCOUNT (ESA) PROGRAM

176. Can a student who is receiving Empowerment Scholarship Account (ESA) money from the Arizona Department of Education also receive funds from an STO?

The ESA statute (A.R.S. §15-2402(B)(3)) requires that when a parent has a signed contract with the ESA program, a student cannot accept ESA and STO money for the same period. Funding for the ESA program is on a quarterly basis and starts in the quarter in which the contract is signed. A student may utilize STO money up until the quarter before an ESA contract is signed. Once there is a signed contract, the prorated remaining STO money MUST be returned by the private school to the STO.

177. What if my STO remits a scholarship payment to a school and then determines that the parent has signed an ESA contract for the same academic year?

A student may utilize an STO scholarship up until the start of ESA funding. Funding for the ESA program is on a quarterly basis and starts in the quarter in which the contract is signed. Regardless of when ESA funding is disbursed for that quarter, once there is a signed ESA contract all remaining prorated STO scholarship money up to the start of the contract must be refunded by the private school to the STO. There may be a gap of time between the required refunding of STO money and when the ESA funding will be disbursed.

EXAMPLE: A parent applies and is approved for an STO scholarship in spring 2019 for the upcoming 2019/20 academic year and the STO remits a full tuition scholarship to the private school in the spring. In November (Quarter 2) of the school year the parent decides to apply for ESA funding and signs a contract with the ESA program. ESA funding starts in the quarter in which the contract is signed and the student will receive ESA funds starting with Quarter 2 (October – December). The STO scholarship may only cover the period of the school year up to the start of the ESA contract, in this case through September. Regardless of when ESA funding for Quarter 2 is disbursed, the prorated outstanding STO scholarship money for the remainder of the school year (October through the end of the school year) must be refunded by the private school to the STO.

178. How can I determine that a student is now receiving ESA money?

Your tuition verification and scholarship payment processes should be updated to verify with the private schools that your scholarship students have not received any ESA money during the academic year and if so, a refund of any outstanding scholarship money from the private school to your STO is required to be made during that same academic year. Your STO should consider requesting verification from the private schools multiple times throughout the academic year as a student's ESA status can change at any point during the year.

179. What if a parent ends the ESA contract during the school year? Can the student then receive an STO scholarship?

If the parent ends the ESA contract during the school year there will be no conflict if the student receives an STO scholarship for the remainder of the academic year. Parents can request a letter from the ESA program stating that their ESA account is closed as of a certain date which then can be provided to the STO who may choose to award a scholarship to the student for the remainder of the academic year.

STO SELF-DECERTIFICATION

180. If an STO is interested in self-decertifying, what is the process that should be followed?

Any STO considering decertification should contact ADOR to discuss the process and requirements for meeting the STO's statutory obligations. The following list provides a suggested timeline for self-decertification:

1. The STO will send a self-decertification notice to ADOR in writing (the "self-decertification letter") which will include the specific end date that STO will no longer accept donations for the tax credits (the "donation acceptance end date"). ADOR will list the STO as not certified to accept donations for the tax credit after this date. The STO will also no longer accept new student scholarship applications as of this date. The STO may continue to accept scholarship applications from existing scholarship recipients in order to award scholarships to meet the 90% final payout if needed.
2. Within 15 days of the date of the self-decertification letter, the STO will provide to ADOR the amount of donations received and scholarships paid from beginning of current fiscal year to either the date

of the self-decertification letter or the donation acceptance end date; whichever date falls within the 15 day deadline. For example:

- The self-decertification letter is dated March 1 and the donation acceptance end date is March 10. By March 15, the STO shall notify ADOR of the donations received and scholarships paid from July 1 through March 10.
- The self-decertification letter is dated March 1 and the donation acceptance end date is April 30. By March 15, the STO shall notify ADOR of the donations received and scholarships paid from July 1 through March 1. In this example, the required information may be included in the self-decertification letter rather than reported separately.

ADOR will use this information to update the STO's 90/10 worksheets and provide the final 90% donation payout amounts to the STO.

3. Within 30 days of the date of the self-decertification letter, the STO will submit a final payout plan and determine the final payout date for the remaining 90% donations (if any) from one of the following options:
   A. Transfer remaining 90% donations to another STO within 60 days of STO donation acceptance end date. If Option A is chosen, the STO shall obtain a letter of agreement with the accepting STO designating the donation amounts by scholarship program to be transferred by the specified date and acknowledgement of donor recommendations (if any). A copy of the agreement will be provided to ADOR; OR
   B. Payout remaining 90% donations in scholarships within 90 days of donation acceptance end date. Scholarships paid should be for existing scholarship students. No new student applications should be accepted after donation acceptance end date. If the STO does not have any outstanding violations, additional time may be allotted; OR
   C. Combination of Options A and B: Payout a portion of 90% donations in scholarships and transfer remaining 90% donations to another STO within 90 days of donation acceptance end date. Scholarships paid should be for existing scholarship students. No new student applications should be accepted after donation acceptance end date. If the STO does not have any outstanding violations, additional time may be allotted. If Option C is chosen, the STO shall obtain a letter of agreement with the accepting STO designating the donation amounts by scholarship program to be transferred by the specified date and acknowledgement of donor recommendations (if any). A copy of the agreement will be provided to ADOR.
4. If the STO fails to submit a payout plan within 30 days after donation acceptance end date, the STO will transfer the remaining 90% donations to another STO *immediately* and close all accounts. The STO shall obtain a letter of agreement with the accepting STO designating the donation amounts by scholarship program to be transferred by the specified date and acknowledgement of donor recommendations (if any). A copy of the agreement will be provided to ADOR.
5. Final annual reports are to be submitted to ADOR 30 days after the final payout date.
6. If there are any refunds of scholarships after the final payout date, the refunds are to be forwarded to another designated STO. Refund amounts and number of scholarships by school are to be reported to ADOR.
7. A final audit/review is to be submitted 6 months after the final payout date.

181. My STO has been contacted by another STO that is closing its doors and they want to transfer their remaining 90% donations to us. What do we need to do?

The closing STO is to obtain a letter of agreement with the accepting STO designating the donation amounts by scholarship program to be transferred by a specified date along with an acknowledgement of donor recommendations (if any). A copy of the agreement will be provided to ADOR. Prior to initiating the transfer of funds, please contact ADOR to verify the final transfer amounts.

STO VIOLATIONS OF LAW; NOTIFICATION PROCESS

ADOR shall send written notice by certified mail if it determines that an STO has:

- Failed or refused to allocate at least 90% of annual contributions for scholarships;
- Failed or refused to file the required annual reports by September 30;
- Limited availability of scholarships to students of one school;
- Encouraged, facilitated or knowingly permitted taxpayers to engage in actions prohibited by Article 15 or Article 16;
- Awarded, restricted or reserved scholarships for use by a particular student based solely on the recommendation of a donor (individual donations only);
- Allowed donors to designate student beneficiaries as a condition of any contribution to the organization;
- Facilitated, encouraged or knowingly permitted the exchange of beneficiary student designations (i.e. swapping).
- Knowingly colluded with any other STO to circumvent the low-income corporate scholarship limits;
- Failed to allow ADOR to verify that the scholarships that are issued are awarded to students who attend a qualified school;
- Awarded scholarships to students who were simultaneously enrolled in a district school or charter school and a qualified private school;
- Failed to update website (if one exists) with the percentage and total dollar amount of scholarships awarded during the previous fiscal year;
- Failed or refused to include the notice required in A.R.S. 43-1603 C.
- Failed or refused to comply with the CPA audit or financial review requirements.

182. If ADOR notifies an STO of a violation, how long does the STO have to correct it?

The STO has 90 days to correct a violation. The violation notice will include the end date of the 90 day period (certification revocation date) as well as information that must be provided to ADOR by that date to show the violation has been corrected.

183. What happens if the STO does not correct the violation within the 90 day period?

If after 90 days the STO fails to correct the violation, ADOR will send a certified letter to the STO indicating that the STO's certification has been revoked as of the specified date and that the STO has been removed from the certification list. At that time, the STO can no longer accept donations from taxpayers for purposes of the tax credit. The STO must notify any taxpayer who attempts to make a contribution that the contribution is not eligible for the tax credit and offer to refund all donations received after the revocation date.

184. What if the STO disagrees with ADOR's decision that the STO has violated the law?

The STO may request an administrative hearing on the revocation of its certification. The request for hearing must be submitted to ADOR within 30 days of receiving the revocation letter. The appeal must contain the STO's name, mailing address, and a concise statement for appealing the revocation. Should the STO fail to submit a written notice of appeal and request a hearing within the 30 day period, the revocation will be final.

185. What happens if the STO chooses not to request an administrative hearing and agrees to close before the end of the 30 day period?

1. The STO must notify ADOR in writing that an administrative hearing will not be requested, The ADOR notice of revocation to the STO will include the certification revocation date (end date) that the STO can no longer accept donations for tax credit and can no longer accept new student scholarship applications.
2. The STO will have 15 days after date of notice of certification revocation to provide to ADOR the amount of donations received from beginning of current fiscal year to end date as well as scholarships paid during that period. ADOR will update the STO's 90/10 worksheets to provide the final 90% donation payout amounts to the STO.
3. The STO must transfer the remaining 90% donations to another STO within 30 days of the STO end date. The STO shall obtain a letter of agreement with the accepting STO designating the donation amounts by scholarship program to be transferred by the specified date and acknowledgement of donor recommendations (if any). A copy of the agreement will be provided to ADOR.
4. Final annual reports are to be submitted to ADOR 30 days after the final payout date.
5. If there are any refunds of scholarships after the final payout date, the refunds are to be forwarded to the transfer accepting STO. Refund amounts and number of scholarships by school are to be reported to ADOR.
6. A final audit/review is to be submitted 6 months after the final payout date.

186. What happens if no action is taken by the STO after a notice of certification revocation?

If after 30 days a hearing has not been requested, the STO will transfer the remaining 90% donations to another STO *immediately* and close all accounts. The STO must provide to ADOR the amount of donations received from beginning of current fiscal year to end date as well as scholarships paid during that period. ADOR will update the STO's 90/10 worksheets to provide the final 90% donation payout amounts to the STO. The STO shall obtain a letter of agreement with the accepting STO designating the donation amounts by scholarship program to be transferred by the specified date and acknowledgement of donor recommendations (if any). A copy of the agreement will be provided to ADOR. Final annual reports are to be submitted to ADOR 15 days after the final payout date. A final audit/review is to be submitted 6 months after the final payout date.

If the required information is not provided, ADOR will transfer the matter to the Arizona Attorney General's office for further review and possible legal action.

187. How will ADOR monitor the 90% rule?

ADOR will be asking each STO to report its total tax credit donations for the fiscal year on each annual report. This amount less the cost of the audit or review (cost prorated by program) multiplied by 90% is the amount of scholarships that should be paid out of that year's contributions. ADOR will allow two years after the close of the fiscal year in which the contributions were received for the STO to spend the money.

EXAMPLE: STO ABC had $50,000 in original tax credit donations in fiscal year 2013. $5,000 was spent on their financial review (all allocated to the original tax credit program), leaving $45,000. 90% of $45,000 is $40,500. $40,500 in original scholarships must be paid by the end of fiscal year 2015.

188. What about all other revenue received prior to July 1, 2012?

Prior to July 1, 2012 the law required that 90% of all revenue an STO received (revenues from corporate donations, from interest income on bank accounts containing corporate donations, or a variety of other ways) fall under the 90% requirement. The annual report for Fiscal Year 2011/12 will be the last fiscal year in which the 90%/10% rule applies to all revenue.

189. What does the term "beginning funds" mean?

For every STO in operation prior to the law that went into effect January 1, 2011, ADOR will review their donation and scholarship patterns. Assuming that 90% of donations is paid out in scholarships (some STOs pay out more than 90%, but for this purpose, 90% will be used), total donations since the STO's first year in operation through 12/31/10 multiplied by 90% less total scholarships paid since the STO's first year in operation through 12/31/10 equals the beginning funds.

EXAMPLE: STO ABC had $50,000 in contributions in fiscal year 2011. $5,000 was spent on their financial review, leaving $45,000. 90% of $45,000 is $40,500. $40,500 in scholarship must be paid by the end of fiscal year 2013. If the STO was operational prior to fiscal year 2011 and had beginning funds of $40,000, ADOR will expect this STO to pay $80,500 in scholarships by the end of fiscal year 2013.

190. What if my STO only provides scholarships to one school during the fiscal year?

If on your annual report you show scholarships paid to only one school, you will receive a violation notice asking for the following resolution prior to the end of the 90 day period:

- A letter detailing your attempt to scholarship students to other schools in the fiscal year; *AND*
- Proof that your STO has awarded scholarships to students of more than one school in the current fiscal year prior to the end of the 90 day violation notice date.

191. How will ADOR monitor the other items that are basis for revoking certification but are not as clear as to how to determine if the STO is in compliance?

One way to assist ADOR in determining compliance with the law will be to ask for certain documents of information from STOs whenever they file their annual reports. Those documents include a write-up of the basis for the scholarship awards, a copy of the scholarship application and any brochures or publications the STO sends out in the donation solicitation process. Throughout the year, websites, brochures and applications for scholarships will be monitored.

When questions arise, additional information may be requested from the STOs. Examples include detail information on future allocations, clarification of STO scholarship award processes, etc. Questions regarding implementation of STO statutes and STO procedures may also be forwarded to the Arizona Attorney General's office for additional review.

ADOR CONTACT INFORMATION

If I still have questions, who can I contact?

DOROERA@azdor.gov

Mailing Address:

Arizona Department of Revenue
Office of Economic Research & Analysis
PO Box 29099
Phoenix, AZ 85038

ARIZONA REVISED STATUTES – STO PROGRAM REFERENCES

TITLE 20 - INSURANCE	
Chapter 2	**TRANSACTION OF INSURANCE BUSINESS**
Article 1	**Authorization of Insurers and General Requirements**
20-224.06	Premium tax credit for contributions to school tuition organization; low-income scholarships
20-224.07	Premium tax credit for contributions to school tuition organization; displaced students and students with disabilities

TITLE 43 – TAXATION OF INCOME	
Chapter 2	**ADMINISTRATION**
Article 2	**Income Tax Credit Review**
43-222	Income tax credit review schedule

Chapter 10	**INDIVIDUALS**
Article 5	**Credits**
43-1089	Credit for contributions to school tuition organization
43-1089.03	Credit for contributions to certified school tuition organization
43-1089.04	Pro rata credit for business contributions by S corporation school tuition organizations; definition

Chapter 11	**CORPORATIONS**
Article 6	**Credits**
43-1183	Credit for contributions to school tuition organization
43-1184	Credit for contributions to school tuition organization; displaced students; students with disabilities

Chapter 15	**SCHOOL TUITION ORGANIZATIONS FOR CORPORATE CONTRIBUTIONS**
Article 1	**General Provisions**
43-1501	Definitions
43-1502	Certification as a school tuition organization
43-1503	Operational requirements for school tuition organizations
43-1504	Special provisions; corporate donations for low-income scholarships; rules
43-1505	Special provisions; corporate donations for displaced students and students with disabilities; definition
43-1506	Annual report
43-1507	Audits and financial reviews

Chapter 16	**SCHOOL TUITION ORGANIZATIONS FOR INDIVIDUAL CONTRIBUTIONS**
Article 1	**General Provisions**
43-1601	Definitions
43-1602	Certification as a school tuition organization
43-1603	Operational requirements for school tuition organizations; notice; qualified schools
43-1604	Annual report
43-1605	Audits and financial reviews

ARIZONA DEPARTMENT OF REVENUE

School Tuition Organization Application for Certification To Receive Individual Donations A.R.S. §§ 43-1089 and 43-1089.03

I, Bob Example hereby certify that
Executive Director or President's name and title

XYZ School Tuition Organization meets each of the
Name of School Tuition Organization

following criteria to be considered for certification as a school tuition organization:

A.R.S. § 43-1602.A states that a "nonprofit organization in this state that is exempt or has applied for exemption from federal taxation under section 501(c)(3) may apply to the Department of Revenue for certification". Please initial in the space below verifying that you are a 501(c)(3) organization or have applied for 501(c)(3) status. *Attach a copy of your 501(c)(3) letter from the Internal Revenue Service.* If you are waiting for your exemption letter from the Internal Revenue Service, please indicate here the date you applied: _____ Forward a copy of the 501(c)(3) letter when received.

My organization meets this criteria: BE
(initial here)

A.R.S. § 43-1602.A states that a nonprofit organization in this state may apply to the Department of Revenue for certification. **In the space below**, please provide a description your organization's presence in Arizona (i.e. address of physical office site, # of employees in AZ, etc.) and how your organization conducts business in the state. Note that a statutory agent or mail box alone does not constitute a presence in the state.

XYZ STO currently employs 4 staff members who work at our 1234 W. 1st St office location. XYZ STO's primary focus is to work with students interested in attending private schools located in the Phoenix metro area.

My organization meets this criteria: BE
(initial here)

A.R.S. § 43-1602.C.4 states that a school tuition organization may not encourage, facilitate or knowingly permit taxpayers to engage in actions prohibited by Title 43, Chapter 16, Article 1. Please initial in the space below that you certify the above-named school tuition organization will not encourage, facilitate or knowingly permit taxpayers to engage in actions prohibited by Title 43, Chapter 16, Article 1.

My organization meets this criteria: BE
(initial here)

A.R.S. § 43-1603.B.1 states that a school tuition organization must allocate at least 90% of its annual revenue from contributions made for the purposes of A.R.S. §§ 43-1089 and 43-1089.03 for education scholarships or tuition grants. Please initial in the space below that you certify the above-named school tuition organization will allocate 90% of its annual revenues from contributions made for the purposes of A.R.S. §§ 43-1089 and 43-1089.03 for educational scholarships or tuition grants, as defined by the Arizona Department of Revenue.

My organization meets this criteria: BE
(initial here)

A.R.S. § 43-1603.B.2 states that a school tuition organization shall not limit the availability of education scholarships or tuition grants to only students of one school. Please initial in the space below that you certify the above-named school tuition organization will not limit the availability of education scholarships or tuition grants to only students of one school.

My organization meets this criteria: BE
(initial here)

EXAMPLE

ADOR 11137 (5/18)

A.R.S. § 43-1603.B.3 states that a school tuition organization may allow donors to recommend student beneficiaries, but shall not award, designate or reserve scholarships solely on the basis of donor recommendations. Please initial in the space below that you certify the above-named school tuition organization will not award, designate or reserve scholarships solely on the basis of donor recommendations.

My organization meets this criteria: BE
(initial here)

A.R.S. § 43-1603.B.4 states that a school tuition organization shall not allow donors to designate student beneficiaries as a condition of any contribution to the organization, or facilitate, encourage or knowingly permit the exchange of beneficiary student designations. Please initial in the space below that you certify the above-named school tuition organization will not take contributions with a student beneficiary as a condition of the donation and will not allow the practice of beneficiary "swapping".

My organization meets this criteria: BE
(initial here)

A.R.S. § 43-1603.B.5 states that a school tuition organization shall include on their website, if one exists, the percentage and total dollar amount of educational scholarships and tuition grants awarded during the previous fiscal year to a) students whose family income meets the economic eligibility established under the national school lunch and child nutrition acts for free or reduced price lunches and to b) students whose family income exceeds the threshold by subdivision (a) but does not exceed the 185% of the economic eligibility established under the national school lunch and child nutrition acts for free or reduced price lunches. Please initial in the space below that you certify the above-named school tuition organization will provide on their website, if one exists, the percentage and total dollar amount of educational scholarships and tuition grants awarded during the previous fiscal year to students whose family income meets the economic eligibility.

My organization meets this criteria: BE
(initial here)

A.R.S. § 43-1603.B.6 states that a school tuition organization must not award educational scholarships or tuition grants to students who are simultaneously enrolled in a district school or charter school and a qualified school. Please initial in the space below that you certify the above-named school tuition organization will not award scholarships to students simultaneously enrolled in a district school or charter school and a qualified school.

My organization meets this criteria: BE
(initial here)

A.R.S. § 43-1603.C states that a school tuition organization shall include the following notice in any printed materials soliciting donations, in applications for scholarships and on its website, if one exists:

> Notice
> A school tuition organization cannot award, restrict or reserve scholarships solely on the basis of a donor's recommendation.
> A taxpayer may not claim a tax credit if the taxpayer agrees to swap donations with another taxpayer to benefit either taxpayer's own dependent.

Please initial in the space below that you certify the above-named school tuition organization will include the notice in any printed materials soliciting donations, in applications for scholarships and on its website, if one exists.

My organization meets this criteria: BE
(initial here)

A.R.S. § 43-1604 states that on or before September 30 of each year a school tuition organization shall report for the prior fiscal year the donation and scholarship information for the purposes of A.R.S. §§ 43-1089 and 43-1089.03 to the Department of Revenue. Please initial in the space below that you certify the above-named school tuition organization will file the annual form prescribed by the Department of Revenue on or before September 30 of each year.

My organization meets this criteria: BE
(initial here)

EXAMPLE

A.R.S. § 43-1605 states that on or before September 30 of each year a school tuition organization shall provide for a financial audit or financial review of the organization. Within five days of receiving the financial audit or financial review the school tuition organization shall file a signed copy with the Department of Revenue. Please initial in the space below that you certify the above-named school tuition organization will provide for a financial audit or financial review on or before September 30 of each year and that a signed copy of the financial audit or financial review will be filed with the Department of Revenue within five days of receipt.

My organization meets this criteria: BE
(initial here)

I declare under penalty of perjury that all statements contained in this application are true and correct to the best of my knowledge and belief. This application is submitted with full knowledge that all statements made in this application are subject to verification by the Arizona Department of Revenue in a manner of its choosing.

Bob Example	President
Print Name of Executive Director or President*	Title
Bob Example	07/01/2018
Signature of Executive Director or President	Date

*A new certification form must be completed when a new Executive Director/President is appointed.

School Tuition Organization Contact Information

For Certified School Tuition Organization List Published on ADOR Website:

Name of School Tuition Organization: XYZ School Tuition Organization
Mailing Address: PO Box 0000
City: Phoenix
State: AZ
Zip: 85007
Phone Number: (602) 123-4567
Website: xyzsto.org
Contact Name: Sue Smith

Physical Address (if different from above, ADOR use only):

Street Address: 1234 W 1st St
City: Phoenix
State: AZ
Zip: 85007

School Tuition Organization Email Addresses (for ADOR use only):

Email 1: example@xyzsto.org
Email 2: smith@xyzsto.org
Email 3:
Email 4:

The completed application should be emailed to DOROERA@azdor.gov or mailed to the following address:

Arizona Department of Revenue
Office of Economic Research and Analysis
PO Box 29099
Phoenix, AZ 85038

Please email questions regarding completion of this form to DOROERA@azdor.gov

ADOR 11137 (5/18)

EXAMPLE

ARIZONA DEPARTMENT OF REVENUE

School Tuition Organization Application for Certification to Receive Corporate Donations A.R.S. §§ 20-224.06, 20-224.07, 43-1183 and 43-1184

I, Bob Example hereby certify that
Executive Director or President's name and title

XYZ School Tuition Organization meets each of the
Name of School Tuition Organization

following criteria to be considered for certification as a school tuition organization:

A.R.S. § 43-1502.A states that a "nonprofit organization in this state that is exempt or has applied for exemption from federal taxation under section 501(c)(3) may apply to the Department of Revenue for certification". Please initial in the space below verifying that you are a 501(c)(3) organization or have applied for 501(c)(3) status. *Attach a copy of your 501(c)(3) letter from the Internal Revenue Service.* If you are waiting for your exemption letter from the Internal Revenue Service, please indicate here the date you applied: _____ Forward a copy of the 501(c)(3) letter when received.

My organization meets this criteria: BE
(initial here)

A.R.S. § 43-1502.A states that a nonprofit organization in this state may apply to the Department of Revenue for certification. ***In the space below***, please provide a description your organization's presence in Arizona (i.e. address of physical office site, # of employees in AZ, etc.) and how your organization conducts business in the state. Note that a statutory agent or mail box alone does not constitute a presence in the state.

XYZ STO currently employs 4 staff members who work at our 1234 W. 1st St office location. XYZ STO's primary focus is to work with students interested in attending private schools located in the Phoenix metro area.

My organization meets this criteria: BE
(initial here)

A.R.S. § 43-1502.C.4 states that a school tuition organization may not encourage, facilitate or knowingly permit taxpayers to engage in actions prohibited by Title 43, Chapter 15, Article 1. Please initial in the space below that you certify the above-named school tuition organization will not encourage, facilitate or knowingly permit taxpayers to engage in actions prohibited by Title 43, Chapter 15, Article 1.

My organization meets this criteria: BE
(initial here)

A.R.S. § 43-1503.B.1 states that a school tuition organization must allocate at least 90% of its annual revenue from contributions made for the purposes of A.R.S. §§ 20-224.06, 20-224.07, 43-1183 and 43-1184 for education scholarships or tuition grants. Please initial in the space below that you certify the above-named school tuition organization will allocate 90% of its annual revenues from contributions made for the purposes of A.R.S. §§ 20-224.06, 20-224.07, 43-1183 and 43-1184 for educational scholarships or tuition grants, as defined by the Arizona Department of Revenue.

My organization meets this criteria: BE
(initial here)

A.R.S. § 43-1503.B.2 states that a school tuition organization shall not limit the availability of education scholarships or tuition grants to only students of one school. Please initial in the space below that you certify the above-named school tuition organization will not limit the availability of education scholarships or tuition grants to only students of one school.

My organization meets this criteria: BE
(initial here)

ADOR 11131 (5/18)

EXAMPLE

A.R.S. § 43-1503.B.3 states that a school tuition organization must allow the Department of Revenue to verify the education scholarships or tuition grants that are issued are awarded to students who attend a qualified school. Please initial in the space below that you certify the above-named school tuition organization will allow the Arizona Department of Revenue to do this verification in a manner of their choosing.

My organization meets this criteria: BE
(initial here)

A.R.S. § 43-1503.B.4 states that a school tuition organization must not knowingly collude with any other school tuition organization to circumvent the limits of A.R.S. § 43-1504.C. Please initial in the space below that you certify the above-named school tuition organization will not knowingly collude with any other school tuition organization to circumvent the limits of A.R.S. § 43-1504.C.

My organization meets this criteria: BE
(initial here)

A.R.S. § 43-1503.B.5 states that a school tuition organization must not award educational scholarships or tuition grants to students who are simultaneously enrolled in a district school or charter school and a qualified school. Please initial in the space below that you certify the above-named school tuition organization will not award scholarships to students simultaneously enrolled in a district school or charter school and a qualified school.

My organization meets this criteria: BE
(initial here)

A.R.S. § 43-1503.B.6 states that a school tuition organization shall include on their website, if one exists, the percentage and total dollar amount of educational scholarships and tuition grants awarded during the previous fiscal year to a) students whose family income meets the economic eligibility established under the national school lunch and child nutrition acts for free or reduced price lunches and to b) students whose family income exceeds the threshold by subdivision (a) but does not exceed the 185% of the economic eligibility established under the national school lunch and child nutrition acts for free or reduced price lunches. Please initial in the space below that you certify the above-named school tuition organization will provide on their website, if one exists, the percentage and total dollar amount of educational scholarships and tuition grants awarded during the previous fiscal year to students whose family income meets the economic eligibility.

My organization meets this criteria: BE
(initial here)

A.R.S. § 43-1506 states that on or before September 30 of each year a school tuition organization shall report for the prior fiscal year the donation and scholarship information for the purposes of A.R.S. §§ 20-224.06, 20-224.07, 43-1183 and 43-1184 to the Department of Revenue. Please initial in the space below that you certify the above-named school tuition organization will file the annual form prescribed by the Department of Revenue on or before September 30 of each year.

My organization meets this criteria: BE
(initial here)

A.R.S. § 43-1507 states that on or before September 30 of each year a school tuition organization shall provide for a financial audit or financial review of the organization. Within five days of receiving the financial audit or financial review the school tuition organization shall file a signed copy with the Department of Revenue. Please initial in the space below that you certify the above-named school tuition organization will provide for a financial audit or financial review on or before September 30 of each year and that a signed copy of the financial audit or financial review will be filed with the Department of Revenue within five days of receipt.

My organization meets this criteria: BE
(initial here)

I declare under penalty of perjury that all statements contained in this application are true and correct to the best of my knowledge and belief. This application is submitted with full knowledge that all statements made in this application are subject to verification by the Arizona Department of Revenue in a manner of its choosing.

Bob Example	President
Print Name of Executive Director or President*	Title
Bob Example	07/01/2018
Signature of Executive Director or President	Date

*A new certification form must be completed when a new Executive Director/President is appointed.

ADOR 11131 (5/18)

EXAMPLE

School Tuition Organization Contact Information

For Certified School Tuition Organization List Published on ADOR Website:

Name of School Tuition Organization XYZ School Tuition Organization

Mailing Address PO Box 0000

City Phoenix

State AZ

Zip 85007

Phone Number (602) 123-4567

Website xyzsto.org

Contact Name Sue Smith

Physical Address (if different from above, ADOR use only):

Street Address 1234 W 1st St

City Phoenix

State AZ

Zip 85007

School Tuition Organization Email Addresses (for ADOR use only):

Email 1 example@xyzsto.org

Email 2 smith@xyzsto.org

Email 3

Email 4

The completed application should be emailed to DOROERA@azdor.gov or mailed to the following address:

Arizona Department of Revenue
Office of Economic Research and Analysis
PO Box 29099
Phoenix, AZ 85038

Please email questions regarding completion of this form to DOROERA@azdor.gov

EXAMPLE

ADOR 11131 (5/18)

Attachment 3

Arizona Public School Enrollment Verification

This information is to be completed by the public school. Depending on the student's current enrollment status, you may need to provide information for both the current school year and the prior school year. If the student attended more than one public school during a school year, provide information for all public schools (a separate form for each school may be attached).

Student Name:

Name of Public School and District:	
First day of school year (mm/dd/yy):	Last day of school year (mm/dd/yy):
Student's Dates of Enrollment for School Year:	Grade:
Student was enrolled for one full semester of the school year. Yes ☐ No ☐ If NO, student was enrolled for _____ days of the school year.	
Name and Title of Individual Completing Form:	
Signature and Date:	

Name of Public School and District:	
First day of school year (mm/dd/yy):	Last day of school year (mm/dd/yy):
Student's Dates of Enrollment for School Year:	Grade:
Student was enrolled for one full semester of the school year. Yes ☐ No ☐ If NO, student was enrolled for _____ days of the school year.	
Name and Title of Individual Completing Form:	
Signature and Date:	

Attachment 4

Displaced Student Applicant Verification Form

Date _____

Name of Child
First _____ Middle _____ Last _____

Previous Name(s) _____

DOB (mm/dd/yyyy) _____ M/F _____ SSN _____

prev ssn _____

Name of
Legal Guardian _____

Address _____

City _____ State AZ Zip _____

Phone _____

Alternate Phone _____

Email _____

Return completed form to:

Name of STO _____

Contact Name _____ FAX number _____

Email _____

VERIFICATION (to be completed by DCS)

☐ Student **QUALIFIES** for the Displaced Scholarship program in accordance with A.R.S. 43-1505

☐ Student **DOES NOT QUALIFY** for the Displaced Student Scholarship program due to the following:

☐ There is no indication that the child was in foster care in Arizona pursuant to A.R.S. Title 8, Chapter 4.

☐ Other (explain):

_____

_____

_____

DCS Verification - Signature _____ Date _____

XYZ School Tuition Organization — FY2018/2019 STO Annual Report Workbook

Contact Information

*Indicates a required response

XYZ School Tuition Organization	School Tuition Organization (STO) Name
Mr.	STO Executive Prefix ('Ms.', 'Mr.', 'Mrs.', etc.)
Executive Director	STO Executive Title ('Executive Director', 'President', etc.)
Bob Example	STO Executive Name
Ms.	STO Contact Person Prefix ('Ms.', 'Mr.', 'Mrs.', etc.)
Sue Smith	STO Contact Person Name
602-123-4567	STO Phone Number
xyzsto.org	STO Website Homepage

Mailing Address

Has the mailing address for XYZ School Tuition Organization changed? (Yes / No) **No**

We will retain the Mailing Address currently on file for XYZ School Tuition Organization.

	Mailing Address Line 1
	Mailing Address Line 2
	City
	State
	Zip

Physical Address

Has the physcial address for XYZ School Tuition Organization changed? (Yes / No) **Yes**

1234 W 1st. St.	Physical Address Line 1
	Physical Address Line 2
Phoenix	City
AZ	State
85007	Zip

Email Addresses (please only provide if any have changed):

example@xzysto.org	STO E-mail 1
	STO E-mail 2
	STO E-mail 3
	STO E-mail 4

We will replace the current STO E-mail 1 with [example@xzysto.org].

You can email DOROERA@azdor.gov to check what email addresses are on file for your STO.

Audit Information

Jones CPA	**CPA Name**
$3,000	**Total Cost of Audit or Review/AUP paid in FY18/19**

XYZ School Tuition Organization — FY2018/2019 STO Annual Report Workbook

Questionnaire: FY2018/2019 STO Activities for XYZ School Tuition Organization

Instructions:
Answers to the questionnaire below will affect the other sheets in this workbook, helping you identify what information needs to be provided. Please read carefully and provide a 'Yes' or 'No' response to the questions below, then proceed to the following pages. **You will only be required to report information for 'Yes' answers. Wherever a 'Yes' response is provided, the specific annual report part that must be completed will appear under the 'Instructions' pane to the right of the question response.**

Individual Programs

*Indicates a required field.

		Yes/No
Q1	**Does the STO accept student recommendations? (Individual programs only)**	No

	Original	Yes/No	Instructions	Shortcuts
Q2	Did the STO receive any Original donations in FY19?	Yes	Complete Original Donations section on Page 2-Summary of ALL Programs.	Link
Q3	Did the STO award any Original scholarships in FY19?	Yes	Complete Original Scholarships section on Page 2-Summary of ALL Programs	Link
			*Also complete Scholarships Awarded by School section on Page 3-Original Scholarships.	Link
Q4	Did the STO allocate any future Original scholarships in FY19?	Yes	Complete Scholarships Future Allocated section on Page 3-Original Scholarships Future Allocated.	Link
Q5	Did the STO receive any prior year Original scholarship refunds in FY19?	Yes	Complete Prior Year Scholarships Refunded section on Page 3-Original Scholarships Prior Year Refunded.	Link
Q6	Did the STO transfer any Original contribution monies to another STO in FY19?	No		
Q7	Did the STO receive any Original contribution monies from another STO in FY19?	Yes	Include Original contributions transfer received information on the 'Transfers' page.	Link

Note: Contribution transfers are only allowed in the rare circumstance of an STO closing. Most STOs should not be reporting transfers sent or received.

	Switcher	
Q8	Did the STO receive any Switcher donations in FY19?	No
Q9	Did the STO award any Switcher scholarships in FY19?	No
Q10	Did the STO allocate any future Switcher scholarships in FY19?	No
Q11	Did the STO receive any prior year Switcher scholarship refunds in FY19?	No
Q12	Did the STO transfer any Switcher contribution monies to another STO in FY19?	No
Q13	Did the STO receive any Switcher contribution monies from another STO in FY19?	No

EXAMPLE

Corporate Programs

*Indicates a required field.

	Low-Income	Yes/No
Q14	Did the STO receive any Low-Income donations in FY19?	Yes
Q15	Did the STO award any Low-Income scholarships in FY19?	Yes
Q16	Did the STO allocate any future Low-Income scholarships in FY19?	No
Q17	Did the STO receive any prior year Low-Income scholarship refunds in FY19?	No
Q18	Did the STO transfer any Low-Income contribution monies to another STO in FY19?	No
Q19	Did the STO receive any Low-Income contribution monies from another STO in FY19?	No

Instructions	Shortcuts
Complete Low-Income Donations section on Page 2-Summary of ALL Programs.	Link
Complete Low-Income Scholarships section on Page 2-Summary of ALL Programs	Link
*Also complete Scholarships Awarded by School section on Page 5-Low-Income Scholarships.	Link

	Disabled/Displaced	Yes/No
Q20	Did the STO receive any D/D donations in FY19?	No
Q21	Did the STO award any D/D scholarships in FY19?	No
Q22	Did the STO allocate any future D/D scholarships in FY19?	No
Q23	Did the STO receive any prior year D/D scholarship refunds in FY19?	No
Q24	Did the STO transfer any D/D contribution monies to another STO in FY19?	No
Q25	Did the STO receive any D/D contribution monies from another STO in FY19?	No

QUESTIONNAIRE COMPLETE.
PLEASE REVIEW THE INSTRUCTIONS PROVIDED AND PROCEED TO COMPLETE THE NEXT TABS IN THIS WORKBOOK.

EXAMPLE

Individual Programs

Original

Donations		
Number of Donors (July 1 - December 31)	15	*If your STO received tax-credit contributions from another STO as a result of that STO decertifying, please include those amounts in these totals.*
Number of Donors (January 1 - June 30)	5	
Total	**20**	
Amount of cash contributions received (July 1 - December 31)	$15,000.00	
Amount of cash contributions received (January 1 - June 30)	$4,000.00	
Total	**$19,000.00**	
Scholarships		
Net number of students receiving scholarships in fiscal year (July 1 - June 30)	18	
Net $ amount of scholarships paid in fiscal year (July 1 - June 30)	$16,000.00	
$ Amount of scholarships paid to students with family income. . .		
… up to 185% of poverty level	$8,000.00	*50.00%*
… from 185% of poverty level to 342.25% of poverty level	$3,200.00	*20.00%*
		70.00%

Switcher

Donations		
Number of Donors (July 1 - December 31)		Based on responses provided on Page 1-Questionnaire, no information needs to be provided in this section.
Number of Donors (January 1 - June 30)		
Total	**N/A**	
Amount of cash contributions received (July 1 - December 31)		
Amount of cash contributions received (January 1 - June 30)		
Total	**N/A**	
Scholarships		
Net number of students receiving scholarships in fiscal year (July 1 - June 30)		Based on responses provided on Page 1-Questionnaire, no information needs to be provided in this section.
Net $ amount of scholarships paid in fiscal year (July 1 - June 30)		
$ Amount of scholarships paid to students with family income. . .		
… up to 185% of poverty level		*N/A*
… from 185% of poverty level to 342.25% of poverty level		*N/A*
		N/A

Corporate Programs

Low-Income

Donations		
Number of Donors (July 1 - December 31)	2	
Number of Donors (January 1 - June 30)	0	
Total	**2**	
Amount of cash contributions received (July 1 - December 31)	$10,000.00	
Amount of cash contributions received (January 1 - June 30)	$0.00	
Total	**$10,000.00**	
Scholarships		
Net number of students receiving scholarships in fiscal year (July 1 - June 30)	4	
Net $ amount of scholarships paid in fiscal year (July 1 - June 30)	$6,000.00	
$ Amount of scholarships paid to students with family income. . .		
… up to 185% of poverty level	$4,000.00	*66.67%*
… from 185% of poverty level to 342.25% of poverty level	$2,000.00	*33.33%*
		100.00%

Disabled/Displaced

Donations		
Number of Donors (July 1 - December 31)		Based on responses provided on Page 1-Questionnaire, no information needs to be provided in this section.
Number of Donors (January 1 - June 30)		
Total	**N/A**	
Amount of cash contributions received (July 1 - December 31)		
Amount of cash contributions received (January 1 - June 30)		
Total	**N/A**	
Scholarships		
Net number of students receiving scholarships in fiscal year (July 1 - June 30)		Based on responses provided on Page 1-Questionnaire, no information needs to be provided in this section.
Net $ amount of scholarships paid in fiscal year (July 1 - June 30)		
$ Amount of scholarships paid to students with family income. . .		
… up to 185% of poverty level		*N/A*
… from 185% of poverty level to 342.25% of poverty level		*N/A*
		N/A

EXAMPLE

XYZ School Tuition Organization — FY2018/2019 STO Annual Report Workbook

		Page 2 Totals:	**18**	**$16,000.00**
		This Page Totals:	18	$16,000.00
Original Scholarships by School			July 1 - June 30	
School Name	School Address	City	Net # of Scholarships	Net $ Amount of Scholarships
ABC Elementary School	10 W 10th St	Glendale	10	$6,000.00
First High School	200 E 20th St	Phoenix	8	$10,000.00

		Calculated Totals	2	$2,000.00
Future Allocated Original Scholarships by School			July 1 - June 30	
School Name	School Address	City	Net # of Scholarships	Net $ Amount of Scholarships
ABC Elementary School	10 W 10th St	Glendale	2	$2,000.00

		Calculated Totals	1	$500.00
Prior Year Refunded Original Scholarships by School (scholarships awarded in prior fiscal year but refunded in this fiscal year)			July 1 - June 30	
School Name	School Address	City	Net # of Scholarships	Net $ Amount of Scholarships
First High School	200 E 20th St	Phoenix	1	$500.00

XYZ School Tuition Organization — FY2018/2019 STO Annual Report Workbook

		Page 2 Totals:	**0**	**$0.00**
		This Page Totals:	0	$0.00
Switcher Scholarships by School			July 1 - June 30	
School Name	School Address	City	Net # of Scholarships	Net $ Amount of Scholarships

Skip this section! (You answered 'No' in the Questionnaire)				
		Calculated Totals	0	$0.00
Future Allocated Switcher Scholarships by School			July 1 - June 30	
School Name	School Address	City	Net # of Scholarships	Net $ Amount of Scholarships

Skip this section! (You answered 'No' in the Questionnaire)				
		Calculated Totals	0	$0.00
Prior Year Refunded Switcher Scholarships by School (scholarships awarded in prior fiscal year but refunded in this fiscal year)			July 1 - June 30	
School Name	School Address	City	Net # of Scholarships	Net $ Amount of Scholarships

EXAMPLE

XYZ School Tuition Organization — FY2018/2019 STO Annual Report Workbook

		Page 2 Totals:	**4**	**$6,000.00**
		This Page Totals:	4	$6,000.00
LI Scholarships by School			July 1 - June 30	
School Name	School Address	City	Net # of Scholarships	Net $ Amount of Scholarships
ABC Elementary School	10 W 10th St	Glendale	2	$2,000.00
First High School	200 E 20th St	Phoenix	2	$4,000.00

Skip this section! (You answered 'No' in the Questionnaire)				
		Calculated Totals	0	$0.00
Future Allocated LI Scholarships by School			July 1 - June 30	
School Name	School Address	City	Net # of Scholarships	Net $ Amount of Scholarships

Skip this section! (You answered 'No' in the Questionnaire)				
		Calculated Totals	0	$0.00
Prior Year Refunded LI Scholarships by School (scholarships awarded in prior fiscal year but refunded in this fiscal year)			July 1 - June 30	
School Name	School Address	City	Net # of Scholarships	Net $ Amount of Scholarships

XYZ School Tuition Organization — FY2018/2019 STO Annual Report Workbook

		Page 2 Totals:	**0**	**$0.00**
		This Page Totals:	0	$0.00
DD Scholarships by School			July 1 - June 30	
School Name	School Address	City	Net # of Scholarships	Net $ Amount of Scholarships

Skip this section! (You answered 'No' in the Questionnaire)				
		Calculated Totals	0	$0.00
Prior Year Refunded DD Scholarships by School (scholarships awarded in prior fiscal year but refunded in this fiscal year)			July 1 - June 30	
School Name	School Address	City	Net # of Scholarships	Net $ Amount of Scholarships

Skip this section! (You answered 'No' in the Questionnaire)				
		Calculated Totals	0	$0.00
Future Allocated DD Scholarships by School			July 1 - June 30	
School Name	School Address	City	Net # of Scholarships	Net $ Amount of Scholarships

EXAMPLE

Expecting transfer information (based on Questionnaire) for...

Original	Yes
Switcher	Yes
Low Income	Yes
Disabled/Displaced	Yes

Please read the instructions below, then provide transfer information in the table below the instructions.

Instructions

1. Under the 'Program' field, enter O for Original, S for Switcher, L for Low Income, or D for Disabled/Displaced
2. For 'Transfer Amount' field, enter the dollar amount transferred for the program
3. For the 'Sent or Received' field, either enter 'Sent' the transfer was outgoing to a different STO or 'Received' if the transfer was incoming from another STO
4. Enter the name of the other STO in the 'Name of other STO' field
5. Enter a brief note for the reason of the transfer in the 'Reason for Transfer' field

Program (O, S, L, D)	Transfer Amount ($)	Sent or Received	Name of other STO	Reason for Transfer
O	1000	Received	ZZZ STO	ZZZ STO ceased operations

EXAMPLE

Enter "N/A" in the cell below if the STO had no paid employees in FY19

Please follow the instructions below.

Instructions

Enter the name, title, and annual salary for the top 3 highest paid employees at the STO.

Employee Name	Job Title at STO	Annual Salary at STO ($)
Sue Smith	Office Manager	$35,000

XYZ School Tuition Organization — FY2018/2019 STO Annual Report Workbook

Please provide the URL on the STO's website that contains the UPDATED poverty $ and % information (or 'N/A' if STO has no website):

www.xzysto.org/scholarship-data

The items listed under 'Deliverable' below must be mailed to ADOR for compliance with State STO statutes.

MAILED to PO Box Below? (Yes/No)	Deliverable	If "No", please explain the delay below:
yes	Audit or Review engagement letter	
yes	if Review: agreed-upon-procedure letter	
yes	Basis for awarding scholarships (all programs)	
yes	Scholarship applications	
yes	Solicitation brochures	

PO Box Address:
Arizona Department of Revenue
Office of Economic Reseach & Analysis
PO Box 29099
Phoenix, AZ 85038

THIS IS THE FINAL PAGE OF THE FY19 ANNUAL REPORT WORKBOOK. PLEASE REVIEW YOUR WORKBOOK FOR ACCURACY.
IF YOU HAVE FULLY AND ACCURATELY COMPLETED THIS WORKBOOK, PLEASE **SAVE AS**
"[STO NAME] FY19 STO annual report"
REPLACING [STO NAME] WITH THE NAME OF YOUR STO.
SAVE A COPY FOR YOUR RECORDS AND ATTACH AND SEND A COPY VIA EMAIL TO **DOROERA@AZDOR.GOV.**

EXAMPLE

Instructions for Completing the School Tuition Organization Annual Activity Report Workbook

An excel workbook has been created to summarize all 4 scholarship programs for the fiscal year. After completing the 9 pages in the workbook, please name and save the excel workbook using the following naming convention: "[STO Name] FYxx STO annual report".
Email the completed excel workbook to DOROERA@azdor.gov by September 30.

Page 1 – Questionnaire

Please enter information into grey highlighted cells.

- Contact Information
  - School Tuition Organization Name - Please include the full organization name. Do not use initials or acronyms.
  - STO Executive name and title
  - STO Contact name - person who should be available to answer questions about this report
  - STO Phone Number
  - STO Website homepage
- STO Mailing Address
- STO Physical Address – if different from address provided above
- STO Email Addresses
- Audit Information
  - CPA Name
  - Total cost of audit or review/AUP paid in the fiscal year - This amount is the amount you paid for your audit or review (and agreed-upon-procedures) in the fiscal year but not necessarily for this fiscal year. For example, you had an audit or review for Fiscal Year 2016 that was not paid for until Fiscal Year 2017. Put the amount you paid for the Fiscal Year 2016 audit or review and agreed-upon-procedures on this line. This amount should *not* include charges for completing the Form 990.
- Questionnaire: Fiscal Year Activities – There are 25 questions that cover the four programs. You must answer "Yes" or "No" to ALL questions, regardless if you are certified for the program or not. The answers you provide will determine the additional reporting information required on Pages 2 through 7.
- STO Email addresses – We keep at most four email addresses on file for each STO, and these will be distribution list recipients for critical STO announcements and notices.

Page 2 – Summary of ALL Programs

Please enter information into grey highlighted cells. Other highlighted cells are auto-calculated.

Each tax credit program (Original, Switcher, Low-Income, Disabled/Displaced) has a corresponding section on this page for donor and scholarship data. The Questionnaire answers on Page 1 will highlight what information is to be reported.

- **Donations**
  This information needs to be divided into two 6-month periods. The reason for the two 6-month periods is that ADOR needs to report on the cost of tax credits on a tax year basis. In ADOR's report on all credits, the private school tuition organization credits will be shown by calendar year rather than by fiscal year.

- **Number of Donors:**
  This number should be the number of taxpayers donating for purposes of receiving the tax credit. If one taxpayer gave 12 times, that taxpayer should only be counted once in the first donation month. This must be reported in 2 six-month periods, July 1 through December 31 and January 1 through June 30. The fiscal year total is calculated for you in column D. Please make sure this total matches your records.

- **Amount of cash contributions received in the fiscal year for the tax credit:**
  This number should be the total amount of contributions received from taxpayers for purposes of the tax credit during the fiscal year. Checks that are postmarked in the reporting period but not received in the mail for a few days after the reporting period WOULD be included in the reporting period. This must be reported in 2 six-month periods, July 1 through December 31 and January 1 through June 30. The fiscal year total is calculated for you in column D. Please make sure this total matches your records.
  - If you received a transfer of money from a decertifying STO, please also include that amount in this field. The transfer will also be reported on Page 7. Note that this transfer is considered new money and subject to the 90% allocation requirement.

- **Scholarships**
  - **Net number of students receiving scholarships in the fiscal year:**
    This number is the net number of students that received scholarships between July 1 and June 30 of the fiscal year. If one student received a scholarship in August and then again in January, that student would be counted once. If a student is ”awarded” a scholarship during the fiscal year period but that scholarship is not paid until the next fiscal year, that student would not be counted in this fiscal year and would be included in the count of future allocated scholarships. Think of this as a cash-out count. How many students actually had their scholarship money disbursed in this period?

  - **Net $ amount of scholarships paid in the fiscal year:**
    This amount should be the amount of scholarships disbursed during the fiscal year period. If a scholarship was “awarded” during the fiscal year but not actually paid, it would not be counted in this fiscal year and would be included in future allocated scholarships. If the scholarship was paid and then refunded by the school in its entirety within the fiscal year period and then paid out again, it would only be counted once. If the scholarship was paid and then was refunded in its entirety by the school within the fiscal year period and not disbursed again during this fiscal year, it would not be included in this amount. If $5,000 in scholarship was paid in the fiscal year and $2,500 returned by the school because the student did not continue attending the school, this would count as one $2,500 scholarship.

- **Scholarships by Income**
  - **$ Amount of scholarships paid to students with family income up to 185% of poverty level:**
    For every student you give a scholarship, you should be collecting family financial information so that you can track these statutorily-required items. Report the total dollar amount of scholarships that went to students with family income up to but not exceeding

185% of poverty level. The percentage of scholarships that went to students with family income up to but not exceeding 185% of poverty level as a percent of total scholarships will be calculated for you in column E. This amount and percentage are required to be reported on your website by September 30.

- **$ amount of scholarships paid to students with family income from 185% of poverty level to 342.25% of poverty level:**
  For every student you give a scholarship, you should be collecting family financial information so that you can track these statutorily-required items. Report the total dollar amount of scholarships that went to students with family income that exceeded 185% of poverty level but was not more than 342.25% of poverty level. The percentage of scholarships that went to students with family income that exceeded 185% of poverty level but was not more than 342.25% of poverty level as a percent of total scholarships will be calculated for you in column E. This amount and percentage are required to be reported on your website by September 30.

Page 3 – Original Scholarships
Page 4 – Switcher Scholarships
Page 5 – Low-Income Scholarships
Page 6 – Disabled/Displaced Scholarships

Highlighted cells are auto-calculated.

Each tax credit program (3-Original, 4-Switcher, 5-Low-Income, 6-Disabled/Displaced) has its own tab that includes the following three sections for scholarship data by school.

- **Scholarships by School – for scholarships PAID during the fiscal year**
  Provide the following information Columns A through E
  - ✓ **Column A** – School Name
    Please include the full and correct name of the school. For example, St. Anthony's or St. Gregory's is not adequate as there are two of each of these in Arizona. DO NOT ABBREVIATE! If you do not have data to report, please enter N/A in row 5, column A.
  - ✓ **Column B** – School address
    Please include the full street address of the school
  - ✓ **Column C** – City
  - ✓ **Column D** – Net # of Scholarships
    Enter the net number of students receiving scholarships for this school. If you provided scholarships to 10 students for $10,000 to this particular school but one student decided not to attend and the school refunded the money, you would put 9 scholarships here for $9,000. If a student attends more than one school during the academic year and receives a scholarship to more than one school, the student would be counted under each school. Note that the total net # of scholarships has been calculated for you in row 3, column D. Please make sure this total matches your records. For comparison, the net $ amount of scholarships from the corresponding program reported on Page 2 is auto-filled on line 2, column D and should match the amount on line 3, column D. These amounts may not match if there are students that attended more than one school.
  - ✓ **Column E** - Net $ Amount of Scholarships

Enter the net $ amount of scholarships paid for students attending this school. If you provided scholarships to 10 students for $10,000 to this particular school but one student decided not to attend and the school refunded the money, you would put 9 scholarships here for $9,000. Note that the total net $ amount of scholarships has been calculated for you in row 3, column E. Please make sure this total matches your records. For comparison, the net $ amount of scholarships from the corresponding program reported on Page 2 is auto-filled on line 2, column E and should match the amount on line 3, column E.

- **Allocated Future Scholarships by School**
  Provide the following information Columns G through K
  - ✓ **Column G** – School Name
    Please include the full and correct name of the school. For example, St. Anthony's or St. Gregory's is not adequate as there are two of each of these in Arizona. DO NOT ABBREVIATE! If you do not have data to report, please enter N/A in row 5, column G.
  - ✓ **Column H** – School address
    Please include the full street address of the school
  - ✓ **Column I** – City
  - ✓ **Column J** - # of Scholarships Allocated
    This number is the number of students that have funding reserved for the next academic year and/or for future years. If asked, you would be able to provide names of students with corresponding amounts reserved for the next academic year and/or for future years. Note that the total # of scholarships allocated has been calculated for you in row 3, column J. Please make sure this total matches your records.
  - ✓ **Column K** - $ Amount of Scholarships Allocated
    If you have reserved funding for a specific student for the next academic year and/or for future years, that amount should be included on this line. If asked, you would be able to provide names of students with corresponding amounts reserved for the next academic year and/or future years that would total the amount on this line. This line should NOT include scholarship amounts actually paid during the current year for the upcoming academic year (i.e. spring payments made for fall semester). Note that the total $ amount of scholarships allocated has been calculated for you in row 3, column K. Please make sure this total matches your records.

- **Prior Year Refunded Scholarships by School – scholarships awarded in a prior fiscal year but refunded by the school in this fiscal year**
  Provide the following information Columns M through Q
  - ✓ **Column M** – School Name
    Please include the full and correct name of the school. For example, St. Anthony's or St. Gregory's is not adequate as there are two of each of these in Arizona. DO NOT ABBREVIATE! If you do not have data to report, please enter N/A in row 5, column M.
  - ✓ **Column N** – School address
    Please include the full street address of the school
  - ✓ **Column O** – City
  - ✓ **Column P** – Net # of Scholarships Refunded
    List the net # of prior year scholarships refunded during the current fiscal year. The net number of scholarships should only include full tuition refunds, and DOES NOT include

counts for partial refunds. If you paid a student's scholarship of $5,000 in the prior year and receive a partial refund of $2,000 in the current fiscal year, do not include this student in the count of the net number of prior year scholarships refunded. However, the $2,000 partial refund would be included in column Q. Note that the total net # of scholarships refunded has been calculated for you in row 3, column P. Please make sure this total matches your records.

- ✓ **Column Q** - Net $ Amount of Scholarships Refunded
  If a school returned scholarship money during the current fiscal year that was disbursed in a prior fiscal year and then this money was paid out again during this fiscal year that amount needs to be reported here. The re-disbursed money would be included on line 4 on tab 2, but ADOR will then reduce the amount reported on the applicable fiscal year's annual report as scholarships paid. This amount DOES include partial and full refunds. If you paid a student's scholarship of $5,000 in the prior year and receive a partial refund of $2,000 in the current fiscal year, the $2,000 refund would be reported on this line. Note that the total $ amount of scholarships allocated has been calculated for you in row 3, column Q. Please make sure this total matches your records.

Page 7 – Transfers

This page is to be completed ONLY if you answered "Yes" on the Page 1 Questionnaire that your STO transferred monies to another STO due to decertification or your STO received a transfer of monies from another STO as a result of that STO decertifying.

Please enter the program type, transfer amount, indicate transfer was "sent" or "received" by your STO, the name of the other STO and the reason for the transfer. If your STO received a transfer of money from a decertified STO, the transfer amount must also be reported in donations on Page 2 in the corresponding credit program section.

Page 8 – STO Employee Salaries for the Three Highest Paid Employees

Please enter information into grey highlighted cells.

Please enter the name (column C), job title (column D) and annual salary (column E) for the three highest paid employees in rows 5 through 7. If you did not have paid employees during the fiscal year, please enter "N/A" in row 5, column C.

Page 9 – Website and Documents

Please enter information into grey highlighted cells.

- Please provide the link (or links) to your website that contains the scholarship $ and % by poverty level. Note that this information is to be reported on your website separately by scholarship program. If your STO does not have a website, please enter "N/A".
- Indicate the following documents have been **MAILED** to the ADOR PO Box – indicate Yes or No. If the answer is "No", please explain the delay. If documents are not received by September 30, your STO will be in violation of statute.
  - Fiscal Year Audit or Review engagement letter – This letter is to be submitted by September 30 or your STO will be in violation of statute. Note that the completed signed

audit or review must be mailed to ADOR within 5 days of completion, which should not be later than December 31.

- For a Review there must also be an agreed-upon-procedure engagement letter (which may be included in the review engagement letter) – This letter is to be submitted by September 30 or your STO will be in violation of statute. Note that the completed agreed upon procedures is to be mailed to ADOR by December 31.
- Basis for awarding scholarships – You do not need to submit a basis explanation for each scholarship program unless it differs by program
- Scholarship applications – You do not need to submit a copy of the application for each program unless they differ by program. If your application is on-line only, please print out a copy and mail to ADOR.
- Solicitation brochures – You do not need to submit a copy of the brochure for each program unless they differ by program.
- These documents are to be mailed to ADOR by September 30 to:

  Arizona Department of Revenue
  Office of Economic Research & Analysis
  PO Box 29099
  Phoenix, AZ 85038

QUESTIONS? DOROERA@azdor.gov

Karen Jacobs at 602-716-6923 / kjacobs@azdor.gov

Steven Tran at 602-716-6459 / stran@azdor.gov

Attachment 7

Arizona Department of Revenue

School Tuition Organization Fiscal Compliance Questionnaire

School Tuition Organization_____

Fiscal Year Ended June 30, 20___

Table of Contents

Topic **Page**

TABLE OF CONTENTS 1

INSTRUCTIONS 2

DEFINITIONS 3

FISCAL COMPLIANCE QUESTIONS

A. EXEMPT/CORPORATE STATUS 4

B. CERTIFICATION 4

C. REQUIRED ANNUAL FILING 4

D. SCHOLARSHIP AVAILABILITY 5

E. REQUIRED NOTICES 5

F. WEBSITE REPORTING REQUIREMENT 6

G. 90% ANNUAL REVENUES 6

H. SPECIAL PROCEDURES: ORIGINAL INDIVIDUAL INCOME TAX CREDIT PROGRAM 7

I. SPECIAL PROCEDURES: SWITCHER INDIVIDUAL INCOME TAX CREDIT PROGRAM 8

J. SPECIAL PROCEDURES: LOW-INCOME CORPORATE INCOME TAX CREDIT PROGRAM 9

K. SPECIAL PROCEDURES: DISPLACED/DISABLED CORPORATE INCOME TAX CREDIT PROGRAM 10

INSTRUCTIONS

To determine whether a school tuition organization (STO) is complying with applicable fiscal requirements (A.R.S. Title 43, Chapters 15 & 16), the independent Arizona-licensed CPA performing an STO ***review*** must also complete the following School Tuition Organization Fiscal Compliance Questionnaire as a separate agreed-upon-procedures engagement in accordance with the Statements on Standards for Attestation Engagements (SSAEs). (Note: This questionnaire does not address all legal requirements for STOs. This document should not be the sole reference to determine all laws and regulations that are applicable to STOs.)

Statutory guidance on STOs can be found under A.R.S Title 43, Chapters 15 and 16. Guidance on the private school tax credits can be found in A.R.S. §43-1089 (original individual), §43-1089.03 (switcher individual), §43-1183 (low-income corporate), and §43-1184 (disabled/displaced corporate).

A detailed manual for STO requirements is available. To download a copy, visit:

https://azdor.gov/tax-credits/certification-school-tuition-organizations

The following prescribed minimum standards for completing the School Tuition Organization Fiscal Compliance Questionnaire must be used in all engagements. The Arizona Department of Revenue (ADOR) may reject any School Tuition Organization Fiscal Compliance Questionnaire not meeting these standards:

- Evidence must be obtained annually for each question to satisfactorily determine whether the STO complies with the fiscal requirements, and the evidence must be documented in the CPA's agreed-upon-procedures engagement file.
- Evidence may be obtained through test work, observation, examination, and client assertion. However, client assertion alone is not adequate evidence to support "Yes" answers to the questionnaire.
- If sufficient evidence has been obtained and documented during the current review engagement, that evidence may be referenced to answer these questions.
- All "No" and "N/A" answers must be adequately explained in the comments column or in an attachment. Findings must be described in sufficient detail to enable the ADOR to reference the finding in any 90-day letter. The description should include the number of items tested, applicable dollar amounts and the number of exceptions noted.
- A "Yes" answer indicates that the CPA has determined that the STO complies with the fiscal requirements of the question and a "No" answer indicates the STO does not comply. However, the final determination of compliance on each question, as well as overall compliance with fiscal requirements, is made by the ADOR based on the evidence presented in the questionnaire, the review, the CPA's review/agreed-upon procedures engagement files, and any other sources.

The resulting agreed-upon-procedures engagement file supporting the CPA's answers to the Fiscal Compliance Questionnaire must be made available on request for review by the ADOR. To facilitate this review, CPAs may wish to include in the engagement file a copy of the Questionnaire containing references to agreed-upon-procedures performed for each question.

DEFINITIONS

"ADOR" means Arizona Department of Revenue**.**

"Allocate" means expending money for scholarships or reserving money to be expended in the future for an award of a single or multiyear educational scholarship or tuition grant for a specific student.

"Carryover Funds" means contributions received before July 1, 2011 for individual and/or corporate donations that have not yet been expended, as determined by the ADOR.

"Cost of Education" means tuition costs only as stated at the time of the allocation. It does not include fees, books or other expenses.

"Qualified School" means a preschool that offers services to students with disabilities, nongovernmental primary school or secondary school, located in Arizona, that does not discriminate on the basis of race, color, disability, familial status or national origin and that requires all teaching staff and any personnel that have unsupervised contact with students to be fingerprinted. Charter schools are not qualified schools nor are any programs operated by a charter school.

"Revenue" means all monetary income received by the STO including donations, grants, interest, dividends and realized gains and losses. It does not include in-kind donated property, goods or services or unrealized gains or losses.

"Scholarships" means educational scholarships or tuition grants.

"**STO**" means school tuition organization.

"Swapping" means a taxpayer, with the intent to benefit his or her dependent or family member, agrees with one or more other taxpayers to designate each of their contributions to an STO for the direct benefit of the other taxpayer's dependent or family member.

SCHOOL TUITION ORGANIZATION FISCAL COMPLIANCE QUESTIONNAIRE
FISCAL YEAR ENDED JUNE 30, 20___

STO NAME_____

For each question below, circle the correct response and provide comments where appropriate.

A. Exempt/Corporate Status

Pursuant to A.R.S. §43-1502(A) and §43-1602(A), an STO must be a 501(c)(3) or must have applied for 501(c)(3) status.

1. Does the STO have an IRS determination letter granting their 501(c)(3) status?

YES	NO	N/A	COMMENTS:

2. If the STO has not yet received an IRS determination letter granting their 501(c)(3) status, have they received correspondence from the IRS acknowledging the receipt of the STO's application?

YES	NO	N/A	COMMENTS:

3. Does the STO appear in the IRS Publication 78 as being eligible to receive tax deductible contributions?

YES	NO	N/A	COMMENTS:

4. Is the STO in good standing according to the Arizona Corporation Commission's website?

YES	NO	N/A	COMMENTS:

B. Certification

Pursuant to A.R.S. §43-1502 and §43-1602, an STO must be certified by the ADOR to receive donations for tax credit purposes.

1. Was the STO listed on the ADOR's website for this fiscal year as being certified to receive:

a. Individual donations?

YES	NO	COMMENTS:

b. Corporate donations?

YES	NO	COMMENTS:

C. Required Annual Filing

Pursuant to A.R.S. §43-1506 and §43-1604, an STO must file annual reports with the ADOR on or before September 30 following the June 30 fiscal year-end. (A timely annual report is one which was postmarked by September 30 or electronically received by September 30.)

1. Did the STO timely file the required Arizona School Tuition Organization Annual Activity Report for this fiscal year related to the:

a. Original Individual Income Tax Credit Program

YES	NO	N/A	COMMENTS:

b. Switcher Individual Income Tax Credit Program

YES	NO	N/A	COMMENTS:

c. Low-Income Corporate Income Tax Credit Program

YES	NO	N/A	COMMENTS:

d. Disabled/Displaced Corporate Income Tax Credit Program

YES	NO	N/A	COMMENTS:

Contact Karen Jacobs to verify.

D. Scholarship Availability

Pursuant to A.R.S. §43-1503(B)(2) and §43-1603(B)(2), an STO may not limit the availability of its scholarships to only one school.

1. How many schools received scholarships from the STO in this fiscal year related to the:

a. Original Individual Income Tax Credit Program

#	COMMENTS:

b. Switcher Individual Income Tax Credit Program

#	COMMENTS:

c. Low-Income Corporate Income Tax Credit Program

#	COMMENTS:

d. Disabled/Displaced Corporate Income Tax Credit Program

#	COMMENTS:

E. Required Notices

Pursuant to A.R.S. §43-1603(C), an STO must include the following notice in any printed materials soliciting donations, in applications for scholarships and on its website.

> *A school tuition organization cannot award, restrict or reserve scholarships solely on the basis of a donor's recommendation.*
> *A taxpayer may not claim a tax credit if the taxpayer agrees to swap donations with another taxpayer to benefit either taxpayer's own dependents.*

1. Did the required notice appear in each of the STO's following materials soliciting donations?

a. STO's website

YES	NO	N/A	COMMENTS:

b. Scholarship applications

YES	NO	N/A	COMMENTS:

c. Brochures

YES	NO	N/A	COMMENTS:

d. Newspaper advertisements

YES	NO	N/A	COMMENTS:

e. Newsletters

YES	NO	N/A	COMMENTS:

f. Other _____

YES	NO	N/A	COMMENTS:

F. Website Reporting Requirement

Pursuant to A.R.S. §43-1503(B)(6) and §43-1603(B)(5), an STO shall include on the organization's website, if one exists, the percentage and total dollar amount of educational scholarships and tuition grants awarded during the previous fiscal year to students whose family income is up to 185% of poverty level and to students whose family income is greater than 185% of poverty level but not more than 342.25% of poverty level. The STO's website should be updated by September 30th of each year to show the required prior fiscal year data.

1. Did the STO's website include for each scholarship program a) the total dollar amount of scholarships awarded to students with family income up to 185% of poverty level and b) the percent of total scholarships awarded to students with family income up to 185% of poverty level for the prior fiscal year?

a. Original Individual Scholarships

YES	NO	N/A	COMMENTS:

b. Switcher Individual Scholarships

YES	NO	N/A	COMMENTS:

c. Low-Income Corporate Scholarships

YES	NO	N/A	COMMENTS:

d. Disabled/Displaced Corporate Scholarships

YES	NO	N/A	COMMENTS:

2. Did the STO's website include for each scholarship program a) the total dollar amount of scholarships awarded to students with family income that is greater than 185% of poverty level but not more than 342.25% of poverty level and b) the percent of total scholarships awarded to students with family income that is greater than 185% of poverty level but not more than 342.25% of poverty level for the prior fiscal year?

a. Original Individual Scholarships

YES	NO	N/A	COMMENTS:

b. Switcher Individual Scholarships

YES	NO	N/A	COMMENTS:

c. Low-Income Corporate Scholarships

YES	NO	N/A	COMMENTS:

d. Disabled/Displaced Corporate Scholarships

YES	NO	N/A	COMMENTS:

G. 90% of Annual Revenues Paid in Scholarships After Review Costs

Pursuant to A.R.S. §43-1503(B)(1), §43-1507(D), §43-1603(B)(1) and §43-1605(D), an STO must allocate at least 90% of its annual revenue (after subtracting the cost of the review and agreed upon procedures) for scholarships.

Obtain the STO's schedules of carryover funds as of June 30 of the most recently completed fiscal year from ADOR. Do the donation and scholarship numbers cited on ADOR's schedule match the numbers determined during the course of the audit or review? If not, the STO should be directed to provide ADOR with amended reports to correct the numbers. Based on these schedules, did the STO properly expend or allocate at least 90% of annual revenue as of June 30 from two fiscal years prior for scholarships for the applicable programs? For example, 90% of the annual revenue as of June 30, 2012 must be expended or

allocated by June 30, 2014. If ADOR's schedule does not match please provide specific details regarding the non-matching line items. If the STO has not met the 90% requirements, please indicate this fact on the comment line and direct STO management to provide an explanation to ADOR.

1. Original Individual Income Tax Credit Program

NUMBERS MATCH: YES NO	90% EXPENDED OR ALLOCATED: YES NO N/A:
COMMENTS:	

2. Switcher Individual Income Tax Credit Program

NUMBERS MATCH: YES NO	90% EXPENDED OR ALLOCATED: YES NO N/A:
COMMENTS:	

3. Low-Income Corporate Income Tax Credit Program

NUMBERS MATCH: YES NO	90% EXPENDED OR ALLOCATED: YES NO N/A:
COMMENTS:	

4. Disabled/Displaced Corporate Income Tax Credit Program

NUMBERS MATCH: YES NO	90% EXPENDED OR ALLOCATED: YES NO N/A:
COMMENTS:	

H. Special Procedures – Original Individual Income Tax Credit Program

Pursuant to A.R.S. §43-1603(D)(1), the STO shall not award, designate or reserve a scholarship solely on the recommendation of any person contributing money to the organization, but may consider the recommendation among other factors.

Pursuant to A.R.S. §43-1603(D)(2), the STO shall consider the financial need of applicants.

1. Does the STO have a written description of its award process which includes the criteria used to base its decisions for awarding, designating or reserving scholarship monies?

YES NO N/A	COMMENTS:

2. Does the written description of its award process include language such that the STO does not award, designate or reserve a scholarship solely on the recommendation of any person contributing money to the organization?

YES NO N/A	COMMENTS:

3. Does the written description of its award process include language stating that the STO considers the financial need of applicants?

YES NO N/A	COMMENTS:

4. Does the form and any related instructions used by the STO in obtaining family income describe income in accordance with the USDA's Definition of Income contained in the latest Notice of Child Nutrition Programs – Income Eligibility Guidelines

http://www.fns.usda.gov/cnd/governance/notices/iegs/iegs.htm

or the economic eligibility requirements established under the National School Lunch and Child Nutrition Acts (A.R.S. §43-1604(7) and 42 United States Code sections 1751 and 1785) for free or reduced price lunches?

YES NO N/A	COMMENTS:

5. Does the STO prohibit individual donors from making recommendations for students receiving scholarships?

YES NO N/A	COMMENTS:

6. From the population of students receiving disbursements of original individual scholarships during the fiscal year and using the table below, randomly select the appropriate number of individual student scholarships to answer the following question.

If the # of students receiving scholarships was:	***Sample size is:***
< 100	100% up to 5
100-499	10
500-1,000	15
>1,000	25

a. Does the STO have evidence that the school is a qualified school?

YES	NO	N/A	COMMENTS:

b. Is the scholarship awarded limited to the cost of tuition less any awards received by the student under the STO's other tax credit programs?

YES	NO	N/A	COMMENTS:

7. For allocated future scholarships, does the STO maintain a list of students with the corresponding amounts promised for future years?

YES	NO	N/A	COMMENTS:

I. Special Procedures – Switcher Individual Income Tax Credit Program

Pursuant to A.R.S. §43-1603(D)(1), the STO shall not award, designate or reserve a scholarship solely on the recommendation of any person contributing money to the organization, but may consider the recommendation among other factors.

Pursuant to A.R.S. §43-1603(D)(2), the STO shall consider the financial need of applicants.

1. Does the STO have a written description of its award process which includes the criteria used to base its decisions for awarding, designating or reserving scholarship monies?

YES	NO	N/A	COMMENTS:

2. Does the written description of its award process include language such that the STO does not award, designate or reserve a scholarship solely on the recommendation of any person contributing money to the organization?

YES	NO	N/A	COMMENTS:

3. Does the written description of its award process include language stating that the STO considers the financial need of applicants?

YES	NO	N/A	COMMENTS:

4. Does the form and any related instructions used by the STO in obtaining family income describe income in accordance with the USDA's Definition of Income contained in the latest Notice of Child Nutrition Programs – Income Eligibility Guidelines

http://www.fns.usda.gov/cnd/governance/notices/iegs/iegs.htm

or the economic eligibility requirements established under the National School Lunch and Child Nutrition Acts (A.R.S. §43-1604(7) and 42 United States Code sections 1751 and 1785) for free or reduced price lunches?

YES	NO	N/A	COMMENTS:

5. Does the STO prohibit individual donors from making recommendations for students receiving scholarships?

YES	NO	N/A	COMMENTS:

6. From the population of students receiving disbursements of switcher individual scholarships during the fiscal year and using the table below, randomly select the appropriate number of individual student scholarships to answer the following question.

If the # of students receiving scholarships was:	***Sample size is:***
< 100	100% up to 5
100-499	10
500-1,000	15
>1,000	25

a. Does the STO have evidence that the school is a qualified school?

YES	NO	N/A	COMMENTS:

b. Does the STO have evidence that the student meets one of the scholarship prerequisites (enrolled in an AZ public school for 90 days of the prior fiscal year; a kindergarten student; a preschool student with disabilities; a dependent of a member of the armed forces stationed in AZ; received a switcher individual, low-income corporate or disabled/displaced scholarship in a prior year)?

YES	NO	N/A	COMMENTS:

c. Is the scholarship awarded limited to the cost of tuition less any awards received by the student under the STO's other tax credit programs?

YES	NO	N/A	COMMENTS:

8. For allocated future scholarships, does the STO maintain a list of students with the corresponding amounts promised for future years?

YES	NO	N/A	COMMENTS:

J. Special Procedures – Low-Income Corporate Income Tax Credit Program

Pursuant to A.R.S. §43-1503(B)(3), the STO must verify that the scholarships are awarded to students who attend a qualified school.

Pursuant to A.R.S. §43-1504(A) & (B), the STO must provide scholarships only to children whose family income does not exceed 185% of the income limit required to qualify a child for reduced price lunches under the national school lunch and child nutrition acts (42 United States Code sections 1751 through 1785) but does not actually claim the reduced priced lunch benefit.

Pursuant to A.R.S. §43-1504(C), the per-student scholarship awarded by the STO cannot exceed the amounts listed below.

School Year	***K-8****	***9-12***
2016/17	$5,200	$6,500
2017/18	$5,300	$6,600
2018/19	$5,400	$6,700

*includes preschool students with disabilities

1. From the population of low-income corporate scholarships expended during the fiscal year, using the table below, randomly select the appropriate number of student scholarships expended to answer the questions below.

If the # of scholarships was:	*Sample size is:*
< 100	100% up to 5
100-499	10
500-1,000	15
>1,000	25

a. Does the STO have evidence that the school is a qualified school?

YES	NO	N/A	COMMENTS:

b. Does the STO have evidence that the student's family income does not exceed the income limit?

YES	NO	N/A	COMMENTS:

c. Does the STO have evidence that the student meets one of the scholarship prerequisites (enrolled in an AZ public school for 90 days of the prior fiscal year or one full semester; a kindergarten student; a preschool student with disabilities; a dependent of a member of the armed forces stationed in AZ; received a low-income corporate, an original individual or a switcher individual scholarship in a prior year)?

YES	NO	N/A	COMMENTS:

d. Is the scholarship awarded within the scholarship limits for the grade level in the current school year?

YES	NO	N/A	COMMENTS:

2. For allocated future scholarships, does the STO maintain a list of students with the corresponding amounts promised for future years?

YES	NO	N/A	COMMENTS:

K. Special Procedures – Disabled/Displaced Corporate Income Tax Credit Program

Pursuant to A.R.S. §43-1503(B)(3), the STO must verify that the scholarships are awarded to students who attend a qualified school.

Pursuant to A.R.S. §43-1505(E), the STO must verify that the scholarships are awarded to students who qualify as having been either place in foster care (pursuant to A.R.S. §8, chapter 5) at any time before the student graduates from high school or obtains a general equivalency diploma or identified as having a disability under section 504 of the rehabilitation act (29 United States Code section 794) or identified by a school district as a child with a disability as defined in A.R.S. §15-761 or a child with a disability who is eligible to receive services from a school district under A.R.S. §15-763.

Pursuant to A.R.S. §43-1505(B), the scholarships awarded by the STO cannot exceed the cost of tuition or 90% of state aid, whichever is less.

1. From the population of disabled/displaced corporate scholarships expended during the fiscal year, using the table below, randomly select the appropriate number of student scholarships expended to answer the questions below.

If the # of scholarships was:	*Sample size is:*
< 100	100% up to 5
100-499	10
500-1,000	15
>1,000	25

a. Does the STO have evidence that the school is a qualified school?

YES	NO	N/A	COMMENTS:

b. Does the STO have evidence that the student is qualified as either a disabled or displaced student?

YES	NO	N/A	COMMENTS:

c. Is the scholarship awarded limited to the cost of tuition or 90% of state aid, whichever is less?

YES	NO	N/A	COMMENTS:

2. For allocated future scholarships, does the STO maintain a list of students with the corresponding amounts promised for future years?

YES	NO	N/A	COMMENTS:

Accountant Letterhead

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

SAMPLE STO and Arizona Department of Revenue

I have performed the procedures enumerated on the attached School Tuition Organization Fiscal Compliance Questionnaire, which were agreed to by SAMPLE STO and Arizona Department of Revenue, solely to assist the specified parties in evaluating SAMPLE STO's compliance with the fiscal requirements of Arizona Revised Statutes Chapters 15 and 16 for the year ended June 30, 2017. Management of SAMPLE STO is responsible for SAMPLE STO's compliance with those requirements. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, I make no representation regarding the sufficiency of the procedures described in the School Tuition Organization Fiscal Compliance Questionnaire either for the purpose for which this report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. I was not engaged to, and did not, conduct an examination, or review, the objective of which would be the expression of an opinion or conclusion, respectively, on SAMPLE STO's compliance with the fiscal requirements of Arizona Revised Statutes Chapter 15 and 16. Accordingly, I do not express such an opinion or conclusion. Had I performed additional procedures, other matters might have come to my attention that would have been reported to you.

This report is intended solely for the information and use of SAMPLE STO and Arizona Department of Revenue and is not intended to be and should not be used by anyone other than those specified parties.

FIRM SIGNATURE

REPORT DATE