

# 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. These credits were changed by bills passed in the 2010 second regular legislative session, the 2012 second regular legislative session, the 2014 second regular legislative session, and the 2015 first regular legislative session<sup>1</sup>. The switcher individual income tax credit for donations to STOs became law in January 2012. The following information is intended to assist STOs in understanding their requirements for operation<sup>2</sup>. It is presented in a Frequently Asked Question format. Those questions that have been added or changed since the **June 2015** release of this document have been shaded.

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<sup>1</sup> Laws 2010, 2<sup>nd</sup> Regular Session, HB 2663, Ch. 292 and HB 2664, Ch. 293; Laws 2012, 2<sup>nd</sup> Regular Session, SB 1047, Ch. 4; and Laws 2014, 2<sup>nd</sup> Regular Session, SB 1301, Ch. 245 and HB 2328, Ch. 278, Laws 2015, 1<sup>st</sup> Regular Session, HB 2483, Ch. 217 and HB 2153 Ch. 301.

<sup>2</sup> 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](http://www.azdor.gov).

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## STO CREDITS AT A GLANCE

### Original Individual Income Tax Credit

Credit Amount	Scholarship Guidelines	Scholarship Prerequisites
<p><u>Tax Year 2016 Cap</u></p> <ul style="list-style-type: none"> <li>• \$545 single filers</li> <li>• \$1,090 married filing joint filers</li> </ul> <p><u>Tax Year 2017 Cap</u></p> <ul style="list-style-type: none"> <li>• \$546 single filers</li> <li>• \$1,092 married filing joint filers</li> </ul> <ul style="list-style-type: none"> <li>• Taxpayer may donate through April 15<sup>th</sup> * and count donation as tax credit in the preceding tax year.</li> </ul>	<ul style="list-style-type: none"> <li>• For K-12 students and preschool students with disabilities.</li> <li>• STO cannot award scholarship solely based on donor recommendations.</li> <li>• STO must consider financial need when awarding scholarships.</li> <li>• No scholarship cap.</li> </ul>	<ul style="list-style-type: none"> <li>• A preschool student with disabilities must have an MET or IEP from an Arizona public school (a 504 plan does not meet the requirement).</li> </ul>

### Switcher Individual Income Tax Credit

Credit Amount	Scholarship Guidelines	Scholarship Prerequisites
<ul style="list-style-type: none"> <li>• Taxpayer <b>MUST FIRST</b> donate the maximum credit amount for the original individual income tax credit before the switcher credit can be claimed.</li> </ul> <p><u>Tax Year 2016 Cap</u></p> <ul style="list-style-type: none"> <li>• \$542 single filers</li> <li>• \$1,083 married filing joint filers</li> </ul> <p><u>Tax Year 2017 Cap</u></p> <ul style="list-style-type: none"> <li>• \$543 single filers</li> <li>• \$1,085 married filing joint filers</li> </ul> <ul style="list-style-type: none"> <li>• Taxpayer may donate through April 15<sup>th</sup> * and count donation as tax credit in the preceding tax year.</li> </ul>	<ul style="list-style-type: none"> <li>• For K-12 students and preschool students with disabilities.</li> <li>• Priority given to students and siblings of students on the STO's waitlist.</li> <li>• No scholarship cap.</li> </ul>	<p>Student must meet ONE of the following prerequisites:</p> <ul style="list-style-type: none"> <li>• 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; <b>OR</b></li> <li>• Is enrolling or currently enrolled in a private school kindergarten; <b>OR</b></li> <li>• 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); <b>OR</b></li> <li>• 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); <b>OR</b></li> <li>• <b>Received</b> 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; <b>OR</b></li> <li>• <b>Received</b> a <u>low-income corporate</u> scholarship or a <u>disabled/displaced corporate</u> scholarship in a prior year and the child continued to attend a private school in subsequent years.</li> </ul>

\*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
<ul style="list-style-type: none"> <li>• Donation pre-approval required.</li> <li>• No limit on how much a single corporation can donate – except total credit limit.</li> <li>• S-corps must make a minimum aggregate contribution of \$5,000 during their taxable year (sum of both corporate programs).</li> </ul> <p><u>Credit Limit</u> <u>Fiscal Year 2016/2017</u></p> <ul style="list-style-type: none"> <li>• Total credits allowed limited to \$61,917,365</li> </ul> <p><u>Fiscal Year 2017/2018</u></p> <ul style="list-style-type: none"> <li>• Total credits allowed limited to \$74,300,838</li> </ul>	<ul style="list-style-type: none"> <li>• For K-12 students and preschool students with disabilities.</li> <li>• Student’s family income cannot exceed 185% of the income required to qualify a child for reduced price lunches.</li> </ul> <p><u>Academic Year 2016/2017</u> Scholarship cap:</p> <ul style="list-style-type: none"> <li>• \$5,200 for grades K-8 and preschool students with disabilities</li> <li>• \$6,500 for grades 9-12</li> </ul> <p><u>Academic Year 2017/2018</u> Scholarship cap:</p> <ul style="list-style-type: none"> <li>• \$5,300 for grades K-8 and preschool students with disabilities</li> <li>• \$6,600 for grades 9-12</li> </ul>	<p>Student’s family income <u>cannot</u> exceed 185% of the income required to qualify a child for reduced price lunches <b>AND</b> student must meet ONE of the following:</p> <ul style="list-style-type: none"> <li>• 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; <b>OR</b></li> <li>• Is enrolling or currently enrolled in a private school kindergarten; <b>OR</b></li> <li>• 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); <b>OR</b></li> <li>• 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); <b>OR</b></li> <li>• <b>Received</b> 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; <b>OR</b></li> <li>• <b>Received</b> 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.</li> </ul>

## Disabled/Displaced Corporate Income Tax Credit

Credit Amount	Scholarship Guidelines	Scholarship Prerequisites
<ul style="list-style-type: none"> <li>• Donation pre-approval required.</li> <li>• No limit on how much a single corporation can donate – except total credit limit.</li> <li>• S-corps must make a minimum aggregate contribution of \$5,000 during their taxable year (sum of both corporate programs).</li> </ul> <p><u>Fiscal Year Credit Limit</u></p> <ul style="list-style-type: none"> <li>• Total credits allowed limited to \$5,000,000</li> </ul>	<ul style="list-style-type: none"> <li>• For K-12 students and preschool students with disabilities.</li> <li>• The sum of a student’s DD scholarships is limited to 90% of state aid or cost of tuition, whichever is less.</li> </ul>	<p>Student must meet ONE of the following prerequisites:</p> <ul style="list-style-type: none"> <li>• Student has a MET or IEP from an Arizona public school (for preschool and grades K-12); <b>OR</b></li> <li>• Has a 504 plan from an Arizona public school (for grades K-12 only); <b>OR</b></li> <li>• 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).</li> </ul>

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## I. CERTIFICATION

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Any STO that wishes to receive donations from individuals<sup>3</sup> or corporations<sup>4</sup> 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. Copies of both Applications for Certification can be found at the end of this document as Attachment 1 and Attachment 2. You may request fillable versions of the certification forms from Caitlin Wooten at [cwooten@azdor.gov](mailto:cwooten@azdor.gov).

### **1. 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.

### **2. 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.

### **3. 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 2<sup>nd</sup> page of the certification application is the source of information that will appear on the certified list of STOs.

### **4. 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.

### **5. What address will be used for the certified list of STOs?**

The contact name, STO address, phone number and website address provided on page two of the application will be included in the certified list of STOs. If you prefer to use a PO Box address for the official list of STOs, you can provide the PO Box address on page two. However, if you cite a physical Arizona address to meet the “in the state” requirement you must include the physical location address in the “in the state” requirement description.

### **6. Why are there spots for two e-mail addresses?**

Two addresses are 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.

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<sup>3</sup> Effective January 1, 2011.

<sup>4</sup> Effective July 29, 2010.

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

If the Executive Director/President changes, if your STO address changes, if your STO phone number changes, or if your website address or e-mail addresses change, please fill out and send in a new certification application. This will not affect the date of your original certification but will ensure that all information is current.

**8. 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.

**9. 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.

**10. 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.

**11. 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 or if something more is needed from the STO.

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**II. GUIDELINES FOR STOs PARTICIPATING IN THE ORIGINAL INDIVIDUAL INCOME TAX CREDIT PROGRAM (A.R.S. § 43-1089)**

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To receive donations from individual taxpayers which can be claimed as an 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.**

**1. 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.

**2. 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.

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

No.

**4. 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. may allow donors to designate student beneficiaries but shall not award, designate or reserve scholarships solely on the basis of donor recommendations;
4. shall not allow donors to designate student beneficiaries as a condition of any contribution to the organization;
5. shall not facilitate, encourage or knowingly permit the exchange of student beneficiary designations (swapping);
6. 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;
7. must not award scholarships to students who are simultaneously enrolled in a district school or charter school and a qualified school; and
8. shall follow all other statutory requirements in A.R.S. § 43-1089 or Title 43, Chapter 16.

**5. 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. For the original scholarship program you will provide the following information on scholarships paid during the previous fiscal year:

- The total dollar amount of original scholarships paid to students with family income up to 185% of poverty level.
- The percent of total original scholarships paid to students with family income up to 185% of poverty level.
- The total dollar amount of original 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 original 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 will be updated on your website at the end of each fiscal year with the previous fiscal year data. The family income data is also to be reported on your annual report so you can update your website when you are preparing your annual report.

**6. What does “allocating at least 90% of its annual contributions to scholarships” mean?**

Effective July 1, 2012 the law requires that 90% of contributions for the original individual income tax credit 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 contributions received by an STO in one year must be paid out in scholarships within the following two years or reserved for future scholarships for specific students awarded next-year or multi-year scholarships.

**7. 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.

**8. 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 received \$100,000 in contributions 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.

**9. 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.

**10. 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 during a school year. 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 STO being asked to prove to ADOR that scholarships were not limited to one school alone.

**11. 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.

**12. On what basis can an STO award scholarships?**

An STO can award scholarships out of 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. This is covered in greater detail later in this document.

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

The scholarship or grant can cover tuition only. It may not be used for any other expenses or fees (such as application fees, tutoring).

**14. A school has adjusted a student's tuition based on the special need services identified in the student's IEP (Individualized Education Plan). Can the STO still scholarship the student's revised tuition?**

Yes.

**15. 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.

**16. 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.

**17. 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.

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

Yes.

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

Yes. However, in this case one of two things must occur. The school must refund the tuition already paid by the parent back to the parent OR the school must return the amount of the scholarship that exceeds the tuition balance to the STO. The school cannot carry forward 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.

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

No.

**21. 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.

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

Yes.

**23. 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. The amount of scholarships paid from all STOs for one student cannot exceed the amount of tuition for that academic year.

**24. 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. That student could also receive a scholarship from more than one STO for more than one donation program.

**25. 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.

**26. 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.

**27. 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 contacting Karen Jacobs at [kjacobs@azdor.gov](mailto:kjacobs@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.

**28. Is this definition different from the definition of qualified school for the switcher individual income tax credit program, the low-income corporate income tax credit program or the disabled/displaced corporate income tax credit program?**

No.

**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. 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.

**32. My STO wants to give a scholarship to a handicapped 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 or MET issued by the 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 3<sup>rd</sup> birthday) though a school district governing board may admit eligible children into preschool who are within 90 days of their 3<sup>rd</sup> 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. 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.

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

A student cannot accept an ESA and STO scholarship concurrently in the same academic year a parent signs an ESA contract. However, if the parent ends the ESA contract during the 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.

**36. Will the amount of the original individual income tax credit (\$500 for single, unmarried head of household and married filing separate, \$1000 for married filing joint) always remain the same?**

No. The amount of the individual income tax credit is to be indexed annually, based on the growth in the Metropolitan Phoenix CPI. If the CPI decreases, the credit amount is not to be indexed downward. The credit amounts for tax year 2016 are \$545 and \$1,090. The credit amounts for tax year 2017 are \$546 and \$1,092.

**37. 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?**

Beginning January 1, 2012, 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.

**38. 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.

**39. 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.

**40. Can a donation have a student recommendation?**

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

**41. 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.

**42. 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 payroll deduction.

**43. 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.

**44. 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.

**45. 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.

**46. 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).

**47. 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. Name, address and contact person of the STO;
2. Total # of contributions received during the fiscal year (from July 1 through June 30), broken down by 6-month increments;
3. Total \$ amount of contributions received during the fiscal year (from July 1 through June 30), broken down by 6-month increments;
4. Net # of children receiving educational scholarships or tuition grants during the fiscal year (from July 1 through June 30);
5. Net \$ amount of educational scholarships or tuition grants paid in the fiscal year (from July 1 through June 30);
6. Name and address of each school to which the educational scholarships or tuition grants were paid;
7. The net # and net \$ amount of educational scholarships or tuition grants going to each school in the fiscal year;
8. 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;
9. 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;
10. Total # and \$ amount of allocated scholarship money being held for identified students' scholarships in future years;
11. Name and address of each school for which allocated scholarships are being held for identified students' scholarships in future years;
12. The # and \$ amount of allocated scholarships by school;
13. Total # and \$ amount of refunds received in current fiscal year from scholarships paid in the prior fiscal year;
14. Name and address of each school from which refunds were received in the current fiscal year from scholarships paid in the prior fiscal year;
15. The net # and \$ amount of refunds received in the current fiscal year from scholarships paid in the prior fiscal year by school;
16. Total cost of audit or financial review (for all scholarship programs) paid during the fiscal year; and
17. Names, job titles and annual salaries of the 3 employees who receive the highest annual salaries from the STO.

ADOR does require that items 2 and 3 be reported in six-month time periods, 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. An example of the report can be found at the end of this document as Attachment 3. Instructions for the annual activity report are shown in Attachment 4.

**48. Does my STO need to have a fiscal year of July 1 through June 30?**

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

**49. Will ADOR ask for anything else to be submitted with the annual report?**

Yes. ADOR will request a copy of the STO's explanation of the basis for awarding scholarships and the STO will be required to submit a copy of the STO's scholarship application and any solicitation brochure that the STO may use to solicit donations. ADOR needs these materials to assist in determining if the laws governing STOs are being followed. Additionally, the STO is required to submit copies of the CPA engagement letter(s).

**50. 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.

**51. What about other revenue received by my STO? Is that information 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 individual donations, employee matching funds/corporate matching funds (not considered part of the corporate credit because it didn't go through an approval process), out-of-state donations, etc. which would be included in the financial statements prepared by your CPA during the audit or review process.

**52. What about items 10 through 12 on the list of annual report information? 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 on this future allocation line on the annual report?**

No. The only money reported on these lines 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 promised for future years. An example would be Jane Austen has been promised \$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 promised to specific students to the amount of scholarships paid, your percentage may be pushed up to 90%.

**53. 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.

**54. My STO's interest income and tax preparation fees are in one amount, not separated between the individual and corporate programs. What do I do about this when trying to report total revenue on the annual report?**

If interest income is on all funds (original individual, switcher individual, low-income corporate and disabled/displaced corporate), allocate the interest proportionately based on total donations from each

program for the year. For example, if the STO collected \$25,000 in original individual donations in the fiscal year, \$2,000 in switcher individual donations, \$5,000 in low-income corporate donations, and \$1,000 in disabled/displaced donations in the fiscal year, interest income should be allocated 76% to the original individual program ( $\$25,000/\$33,000$ ), 6% to the switcher individual program ( $\$2,000/\$33,000$ ), 15% to the low-income corporate program ( $\$5,000/\$33,000$ ) and 3% to the disabled/displaced corporate program ( $\$1,000/\$33,000$ ). The same procedure would be used to allocate tax preparation fees or other revenues that don't specifically belong to one program.

**55. 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 promised or awarded but not actually paid. (If the scholarship was an allocated scholarship, promised 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.)

**56. Is the information reported on the annual report considered confidential?**

No.

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

For 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 USDA 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.

**58. 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.

**59. 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. Such documentation could include a copy of the prior year's tax return or the last two paycheck stubs or perhaps a couple bank statements.

**60. 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 for academic year 2016/17 can be found at <https://www.gpo.gov/fdsys/pkg/FR-2016-03-23/pdf/2016-06463.pdf>. Reduced price lunch annual income eligibility guidelines by household size are shown in the table below, along with the next income threshold comparison identified in statute.

Household Size	Reduced price lunch income threshold (185% of poverty level)	342.25% of poverty level (185% of 185% of poverty level)
1	\$21,978	\$40,659
2	\$29,637	\$54,828
3	\$37,296	\$68,998
4	\$44,955	\$83,167
5	\$52,614	\$97,336
6	\$60,273	\$111,505
7	\$67,951	\$125,709
8	\$75,647	\$139,947
Each additional member	\$7,696	\$14,238

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.

**61. 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.

**62. Must my STO have a financial review or audit?**

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

**63. What do the financial reviews or audits involve?**

STOs receiving \$1 million or more in original individual donations plus switcher individual donations 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 CPA who is licensed in Arizona or who has 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 original individual donations plus switcher individual donations 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 16, Article 1. The review must be conducted by an independent CPA who is licensed in Arizona or who has 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 contributions and scholarships as reported on the Arizona School Tuition Organization Annual Activity Report, there must be a footnote included reconciling the differences.

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

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

**65. 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.

**66. So my STO received \$950,000 in original individual donations and \$100,000 in switcher individual donations. Do we have to have an audit or review?**

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

**67. 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.

**68. 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 \$5000 on an audit that covers their individual program and their corporate program, that \$5000 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.

ADOR recommends that this audit/review cost split be 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.

**69. What does “agreed-upon-procedures” mean?**

Agreed-upon-procedures take the form of the School Tuition Organization Fiscal Compliance Questionnaire, Attachment 13 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 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. 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 two sample letters, at the back of the manual as Attachment 14. One is the sample engagement letter for the agreed-upon-procedures. The other is a sample accountant’s report after the agreed-upon-procedures and audit/review have been completed.

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

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

**71. When must the financial audit or review be complete?**

The STO must have obtained an engagement letter with a CPA for the audit or review by September 30 of each year. If a review is required, the STO must also obtain an engagement letter for the agreed-upon-procedures by September 30th. Copies of these letters should be attached to the STO’s annual report. The audit/review and agreed-upon-procedures which includes the fiscal compliance questionnaire (if required) should be complete and submitted by December 31.

**72. 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. Effective August 6, 2016 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.

**73. 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**. The STO may send the signed copy of the audit or review by email to [DOROERA@azdor.gov](mailto:DOROERA@azdor.gov) or by mail to:

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

**74. 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.

**75. 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.

**76. A.R.S. § 43-1089 G states that a contribution that is made on or before the 15<sup>th</sup> day of the 4<sup>th</sup> 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.

Prior to January 1, 2012 this language did not affect an STO. Due to the creation of 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.

**77. What if the Department of Revenue extends the April 15<sup>th</sup> 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.

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### III. GUIDELINES FOR STOs PARTICIPATING IN THE SWITCHER INDIVIDUAL INCOME TAX CREDIT PROGRAM (A.R.S. § 43-1089.03)

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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.

To receive donations from individual taxpayers which can be claimed as an 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.**

**1. 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.

**2. 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.

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

No.

**4. 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. may allow donors to designate student beneficiaries but shall not award, designate or reserve scholarships solely on the basis of donor recommendations;
4. shall not allow donors to designate student beneficiaries as a condition of any contribution to the organization;
5. shall not facilitate, encourage or knowingly permit the exchange of student beneficiary designations (swapping);
6. 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;

7. must not award scholarships to students who are simultaneously enrolled in a district school or charter school and a qualified school; and
8. shall follow all other statutory requirements in A.R.S. § 43-1089 or Title 43, Chapter 16.

**5. 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. For the switcher scholarship program you will provide the following information on scholarships paid during the previous fiscal year:

- The total dollar amount of switcher scholarships paid to students with family income up to 185% of poverty level.
- The percent of total switcher scholarships paid to students with family income up to 185% of poverty level.
- The total dollar amount of switcher 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 switcher 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 will be updated on your website at the end of each fiscal year with the previous fiscal year data. The family income data is also to be reported on your annual report so you can update your website when you are preparing your annual report.

**6. What does “allocating at least 90% of its annual contributions to scholarships” mean?**

Effective July 1, 2012 the law requires that 90% of contributions for the switcher individual income tax credit 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 contributions received by an STO in one year must be paid out in scholarships within the following two years or reserved for future scholarships for specific students awarded next-year or multi-year scholarships.

**7. 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.

**8. 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 received \$100,000 in contributions 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.

**9. 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.

**10. 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.

**11. 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 during a school year. 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 STO being asked to prove to ADOR that scholarships were not limited to one school alone.

**12. 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.

**13. 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 any prior year 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. 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.

***14. 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.

***15. 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.

***16. 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.

***17. 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 form can be found at the end of this document as Attachment 12.

***18. 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.

***19. 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.

**20. 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.

**21. 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.

**22. 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.

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

The scholarship or grant can cover tuition only. It is not to be used for any other expenses or fees (such as application fees, tutoring).

**24. A school has adjusted a student's tuition based on the special need services identified in the student's IEP (Individualized Education Plan). Can the STO still scholarship the student's revised tuition?**

Yes.

**25. 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.

**26. 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.

**27. 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.

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

Yes.

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

Yes. However, in this case one of two things must occur. The school must refund the tuition already paid by the parent back to the parent OR the school must return the amount of the scholarship that exceeds the tuition balance to the STO. The school cannot carry forward 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.

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

No.

**31. 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.

**32. 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.

**33. 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.

**34. 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. The amount of scholarships paid from all STOs for one student cannot exceed the amount of tuition for that academic year.

**35. 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. That student could also receive a scholarship from more than one STO for more than one donation program.

**36. 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.

**37. 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.

**38. 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 contacting Karen Jacobs at [kjacobs@azdor.gov](mailto:kjacobs@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.

**39. Is this definition different from the definition of qualified school for the original individual income tax credit program, the low-income corporate income tax credit program or the disabled/displaced corporate income tax credit program?**

No.

**40. 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.

**41. 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.

**42. 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.

**43. My STO wants to give a scholarship to a handicapped 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 or MET issued by the public school district.

**44. 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 3<sup>rd</sup> birthday) though a school district governing board may admit eligible children into preschool who are within 90 days of their 3<sup>rd</sup> 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.

**45. 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.

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

A student cannot accept an ESA and STO scholarship concurrently in the same academic year a parent signs an ESA contract. However, if the parent ends the ESA contract during the 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.

**47. Will the amount of the switcher individual income tax credit (\$500 for single, unmarried head of household and married filing separate, \$1000 for married filing joint) always remain the same?**

No. The amount of the individual income tax credit is to be indexed annually, based on the growth in the Metropolitan Phoenix CPI. If the CPI decreases, the credit amount is not to be indexed downward.

The credit amounts for tax year 2016 are \$542 and \$1,083. The credit amounts for tax year 2017 are \$543 and \$1,085.

**48. Will the amount of the switcher individual income tax credit and the original individual income tax credit ever be the same?**

No.

**49. 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.

**50. 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.

**51. 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.

**52. 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.

**53. 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. The only instance the law refers to in which the donation can be made on the donor's behalf is through the donor's employer by way of payroll deduction.

**54. Donations made by an individual to STOs for the original individual income tax credit can be made through a deduction from withholding, where the employer takes part of that individual's withholding and sends it to the designated STO. Can this be done for the switcher individual income tax credit as well?**

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 of the individual income tax credits. However, this cannot begin for the switcher individual income tax credit until the effective date of August 2, 2012.

**55. 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.

**56. 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.

**57. 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).

**58. I am certified for the individual donation program, have received donations for the original individual program but no donations for the switcher program. Do I still need to file an annual report for the switcher program?**

Yes. The statute requires that if you are certified for the individual program, you must file annual reports for both of the individual programs. If you don't receive any switcher donations, how would we know this if you don't file a zero report?

**59. 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. Name, address and contact person of the STO;
2. Total # of contributions received during the fiscal year (from July 1 through June 30), broken down by 6-month increments;
3. Total \$ amount of contributions received during the fiscal year (from July 1 through June 30), broken down by 6-month increments;
4. Net # of children receiving educational scholarships or tuition grants during the fiscal year (from July 1 through June 30);
5. Net \$ amount of educational scholarships or tuition grants paid in the fiscal year (from July 1 through June 30);
6. Name and address of each school to which the educational scholarships or tuition grants were paid;
7. The net # and net \$ amount of educational scholarships or tuition grants going to each school in the fiscal year;
8. 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;
9. 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;
10. Total # and \$ amount of allocated scholarship money being held for identified students' scholarships in future years;
11. Name and address of each school for which allocated scholarships are being held for identified students' scholarships in future years;
12. The # and \$ amount of allocated scholarships by school;

13. Total # and \$ amount of refunds received in current fiscal year from scholarships paid in the prior fiscal year;
14. Name and address of each school from which refunds were received in the current fiscal year from scholarships paid in the prior fiscal year;
15. The net # and \$ amount of refunds received in the current fiscal year from scholarships paid in the prior fiscal year by school;
16. Total cost of audit or financial review (for all scholarship programs) paid during the fiscal year; and
17. Names, job titles and annual salaries of the 3 employees who receive the highest annual salaries from the STO.

ADOR does require that items 2 and 3 be reported in six-month time periods, 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. An example of the report can be found at the end of this document as Attachment 5. Instructions for the annual activity report are shown in Attachment 4.

**60. Does my STO need to have a fiscal year of July 1 through June 30?**

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

**61. Will ADOR ask for anything else to be submitted with the annual report?**

Yes. ADOR will request a copy of the STO's explanation of the basis for awarding scholarships and the STO will be required to submit a copy of the STO's scholarship application and any solicitation brochure that the STO may use to solicit donations. ADOR needs these materials to assist in determining if the laws governing STOs are being followed. Additionally, the STO is required to submit copies of the CPA engagement letter(s).

**62. 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 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.

**63. What about other revenue received by my STO? Is that information 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 individual donations, employee matching funds/corporate matching funds (not considered part of the corporate credit because it didn't go through an approval process), out-of-state donations, etc. which would be included in the financial statements prepared by your CPA during the audit or review process.

**64. What about items 10 through 12 on the list of annual report information? 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 on this future allocation line on the annual report?**

No. The only money reported on these lines 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 promised for future years. An example would be Jane Austen has been promised \$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 promised to specific students to the amount of scholarships paid, your percentage may be pushed up to 90%.

**65. 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.

**66. My STO's interest income and tax preparation fees are in one amount, not separated between the individual and corporate programs. What do I do about this when trying to report total revenue on the annual report?**

If interest income is on all funds (original individual, switcher individual, low-income corporate and disabled/displaced corporate), allocate the interest proportionately based on total donations from each program for the year. For example, if the STO collected \$25,000 in original individual donations in the fiscal year, \$2,000 in switcher individual donations, \$5,000 in low-income corporate donations, and \$1,000 in disabled/displaced donations in the fiscal year, interest income should be allocated 76% to the original individual program ( $\$25,000/\$33,000$ ), 6% to the switcher individual program ( $\$2,000/\$33,000$ ), 15% to the low-income corporate program ( $\$5,000/\$33,000$ ) and 3% to the disabled/displaced corporate program ( $\$1,000/\$33,000$ ). The same procedure would be used to allocate tax preparation fees or other revenues that don't specifically belong to one program.

**67. 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 promised or awarded but not actually paid. (If the scholarship was an allocated scholarship, promised 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.)

**68. Is the information reported on the annual report considered confidential?**

No.

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

For 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 USDA 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.

**70. 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.

**71. 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. Such documentation could include a copy of the prior year's tax return or the last two paycheck stubs or perhaps a couple bank statements.

**72. 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 for academic year 2016/17 can be found at <https://www.gpo.gov/fdsys/pkg/FR-2016-03-23/pdf/2016-06463.pdf>. Reduced price lunch annual income eligibility guidelines by household size are shown in the table below, along with the next income threshold comparison identified in statute.

Household Size	Reduced price lunch income threshold (185% of poverty level)	342.25% of poverty level (185% of 185% of poverty level)
1	\$21,978	\$40,659
2	\$29,637	\$54,828
3	\$37,296	\$68,998
4	\$44,955	\$83,167
5	\$52,614	\$97,336
6	\$60,273	\$111,505
7	\$67,951	\$125,709
8	\$75,647	\$139,947
Each additional member	\$7,696	\$14,238

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.

**73. 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.

**74. Does my STO have to have a financial review or audit?**

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

**75. What do the financial reviews or audits involve?**

STOs receiving \$1 million or more in original individual donations plus switcher individual donations 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 original individual donations plus switcher individual donations 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 16, 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 contributions and scholarships as reported on the Arizona School Tuition Organization Annual Activity Report, there must be a footnote included reconciling the differences.

**76. What is included in “individual donations” for purposes of determining if the STO needs an audit or review?**

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

**77. 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.

**78. So my STO received \$950,000 in original individual donations and \$100,000 in switcher individual donations. Do we have to have an audit or review?**

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

**79. 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.

**80. 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 \$5000 on an audit that covers their individual program and their corporate program, that \$5000 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.

ADOR recommends that this audit/review cost split be 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.

**81. What does “agreed-upon-procedures” mean?**

Agreed-upon-procedures take the form of the School Tuition Organization Fiscal Compliance Questionnaire, Attachment 13 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 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. 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 two sample letters, at the back of the manual as Attachment 14. One is the sample engagement letter for the agreed-upon-procedures. The other is a sample accountant's report after the agreed-upon-procedures and audit/review have been completed.

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

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

**83. When must the financial audit or review be complete?**

The STO must have obtained an engagement letter with a CPA for the audit or review by September 30 of each year. If a review is required, the STO must also obtain an engagement letter for the agreed-upon-procedures by September 30th. Copies of these letters should be attached to the STO's annual report. The audit/review and agreed-upon-procedures which includes the fiscal compliance questionnaire (if required) should be complete and submitted by December 31.

**84. 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. Effective August 6, 2016 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.

**85. 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**. The STO may send the signed copy of the audit or review by email to [DOROERA@azdor.gov](mailto:DOROERA@azdor.gov) or by mail to:

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

**86. 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.

**87. 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.

**88. A.R.S. § 43-1089.03 G states that a contribution that is made on or before the 15<sup>th</sup> day of the 4<sup>th</sup> 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.

Prior to January 1, 2012 this language did not affect an STO. Due to the creation of the switcher individual income tax credit effective January 1, 2012, all STOs must now ask the individual donors for 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.

**89. What if the Department of Revenue extends the April 15<sup>th</sup> 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.

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#### **IV. GUIDELINES FOR STOs PARTICIPATING IN THE LOW-INCOME CORPORATE INCOME TAX CREDIT PROGRAM (A.R.S. § 43-1183)**

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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.

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

No.

**2. 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;
4. must not knowingly collude with any other STO to circumvent the limits of the low-income corporate scholarship;
5. 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;

6. must not award scholarships to students who are simultaneously enrolled in a district school or charter school and a qualified school; and
7. shall follow all other statutory requirements in A.R.S. § 43-1183 or Title 43, Chapter 15.

**3. 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. For the low-income scholarship program you will provide the following information on scholarships paid during the previous fiscal year:

- The total dollar amount of low-income scholarships paid to students with family income up to 185% of poverty level.
- The percent of total low-income scholarships paid to students with family income up to 185% of poverty level.
- The total dollar amount of low-income 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 low-income 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 will be updated on your website at the end of each fiscal year with the previous fiscal year data. The family income data is also to be reported on your annual report so you can update your website when you are preparing your annual report.

**4. What does “allocating at least 90% of its annual contributions to scholarships” mean?**

Effective July 1, 2012 the law requires that 90% of 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 contributions received by an STO in one year must be paid out in scholarships within the following two years or reserved for future scholarships for specific students awarded next-year or multi-year scholarships.

**5. 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.

**6. 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 calendar 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.

**7. 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.

**8. *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.

**9. *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.

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

Effective July 1, 2012 the law 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.

**11. *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.

**12. *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.

**13. 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.

**14. 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.

**15. 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.

**16. 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 contacting Karen Jacobs at [kjacobs@azdor.gov](mailto:kjacobs@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.

**17. Is this definition different from the definition of qualified school for the original individual donation program, the switcher individual donation program or the disabled/displaced corporate donation program?**

No.

**18. 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.

**19. 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.

**20. 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.

**21. 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.

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

To qualify for a scholarship under the low-income corporate tax credit, the student's family income cannot exceed 185% of the income required to qualify a child for reduced price lunches 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; 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 any prior year 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.

**23. 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.

**24. 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.

**25. 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.

**26. My STO wants to give a scholarship to a handicapped 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 or MET issued by the public school district.

**27. 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 3<sup>rd</sup> birthday) though a school district governing board may admit eligible children into preschool who are within 90 days of their 3<sup>rd</sup> 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.

**28. 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.

**29. 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 12.

**30. 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.

**31. 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.

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

The scholarship or grant can cover tuition only. It is not to be used for any other expenses or fees (such as application fees, tutoring).

**33. A school has adjusted a student's tuition based on the special need services identified in the student's IEP (Individualized Education Plan). Can the STO still scholarship the student's revised tuition?**

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

**34. 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.

**35. 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.

**36. 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.

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

For each student to whom you award a scholarship beginning January 1, 2011, 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 USDA 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.

**38. 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.

**39. 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.

**40. 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 for academic year 2016/17 can be found at <https://www.gpo.gov/fdsys/pkg/FR-2016-03-23/pdf/2016-06463.pdf>. Reduced price lunch annual income eligibility guidelines by household size are shown in the table below, along with the next income threshold comparison identified in statute.

Household Size	Reduced price lunch income threshold (185% of poverty level)	342.25% of poverty level (185% of 185% of poverty level)
1	\$21,978	\$40,659
2	\$29,637	\$54,828
3	\$37,296	\$68,998
4	\$44,955	\$83,167
5	\$52,614	\$97,336
6	\$60,273	\$111,505
7	\$67,951	\$125,709

Household Size	Reduced price lunch income threshold (185% of poverty level)	342.25% of poverty level (185% of 185% of poverty level)
8	\$75,647	\$139,947
Each additional member	\$7,696	\$14,238

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.

**41. 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.

**42. 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.

**43. 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.

**44. 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.

**45. 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. The scholarship limitations for academic year 2016/2017 are \$5,200 for grades K through 8 (and preschool disabled) and \$6,500 for grades 9 through 12. The scholarship limitations for academic year 2017/2018 are \$5,300 for grades K through 8 (and preschool disabled) and \$6,600 for grades 9 through 12.

**46. 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.

**47. 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. That student could also receive a scholarship from more than one STO for more than one donation program.

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

Yes. However, in this case one of two things must occur. The school must refund the tuition already paid by the parent back to the parent OR the school must return the amount of the scholarship that exceeds the tuition balance to the STO. The school cannot carry forward 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.

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

No.

**50. 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.

**51. 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.

**52. 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.

**53. 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. The amount of scholarships paid from all STOs for one student cannot exceed the amount of tuition for that academic year.

**54. 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.

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

A student cannot accept an ESA and STO scholarship concurrently in the same academic year a parent signs an ESA contract. However, if the parent ends the ESA contract during the 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.

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

Yes. The original law set a limit of \$10 million for corporate tax credit donations and allowed a 20% increase in this amount each fiscal year. The corporate tax credit donation limitation for fiscal year 2016/17 will be \$61,917,365. The corporate tax credit donation limitation for fiscal year 2017/18 will be \$74,300,838.

**57. 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.

**58. 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.

**59. 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).

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

Yes. The S-corp 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.

**61. 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.

**62. 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).

**63. Can an LLC participate in this tax credit?**

Only those LLCs that are taxed as S-corps for federal and state purposes are eligible to make a donation for a tax credit.

**64. How does the corporate donation process work?**

1. A corporation contacts the STO to which they wish to donate or the STO contacts corporations to solicit donations.
2. The corporation indicates the amount of donation they wish to make.
3. The STO fills out the approval request on the ADOR website. To submit this document, press the button on the bottom right that says "Email Form". This will send it straight to ADOR. A copy of the approval form is attached as Attachment 6. For this program, check the box at the top that says "This donation is for the corporate tuition organization credit (A.R.S. § 43-1183)."
4. Be sure to check the box if the corporation you are dealing with is an S-corp. Also provide the parent S-corp information if the contributing company is a qualified subchapter S subsidiary.
5. Be sure to check the appropriate box if the corporation you are dealing with is an insurance company. ADOR must let the Arizona Department of Insurance know what corporations are taking this credit. If the box is not checked, ADOR won't let the Arizona Department of Insurance know of the donation and the insurance premium tax credit claim would be denied. Also, the Arizona Department of Insurance has asked that the insurance company's NAIC number be recorded on the form for identification purposes.
6. ADOR will respond to the request for approval within 20 days. The request shall be approved if there is credit available under the maximum allocation allowed for the fiscal year.
7. ADOR will e-mail the approval or denial to the STO. The STO should provide a copy of the approval form to the donating corporation.
8. 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.***
9. The STO must notify ADOR of receipt of the donation or if the STO does not receive a timely donation from the corporation. ADOR needs to know the exact date the donation is received.
10. The STOs are to provide the donating S-corp a form to report their shareholders' pro rata share of the approved credit. The form is to be returned directly to ADOR, not to the STO.

Instructions for this procedure and the application for approval form can be found on the ADOR website:

<http://www.azdor.gov/TaxCredits/CorporateTuitionTaxCredits.aspx>

The application for approval form can also be found at the end of this document as Attachment 6 and instructions for the form are shown in Attachment 7.

**65. If the corporation initiates a wire transfer for the donation by the 20<sup>th</sup> day has the 20 day deadline been met?**

Yes.

**66. The corporate donation process indicates that the application for approval must be sent by e-mail. Can't I just fax the form to ADOR?**

No. We cannot guarantee receipt of the approval form if you fax it because the fax machine is not located within one of our offices. You must transmit the application for approval by email. Press the button on the bottom right of the form located on ADOR's website. This will send it to a mailbox that is accessible to several of us in OERA; if one of us is out of the office, others have easy access to the application for approval.

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

No.

**68. 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.

**69. 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.

**70. 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. Name, address and contact person of the STO;
2. Total # of contributions received during the fiscal year (from July 1 through June 30), broken down by 6-month increments;
3. Total \$ amount of contributions received during the fiscal year (from July 1 through June 30), broken down by 6-month increments;
4. Net # of children receiving educational scholarships or tuition grants during the fiscal year (from July 1 through June 30);
5. Net \$ amount of educational scholarships or tuition grants paid in the fiscal year (from July 1 through June 30);
6. Name and address of each school to which the educational scholarships or tuition grants were paid;
7. The net # and net \$ amount of educational scholarships or tuition grants going to each school in the fiscal year;

8. 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;
9. 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;
10. Total # and \$ amount of allocated scholarship money being held for identified students' scholarships in future years;
11. Name and address of each school for which allocated scholarships are being held for identified students' scholarships in future years;
12. The # and \$ amount of allocated scholarships by school;
13. Total # and \$ amount of refunds received in current fiscal year from scholarships paid in the prior fiscal year;
14. Name and address of each school from which refunds were received in the current fiscal year from scholarships paid in the prior fiscal year;
15. The net # and \$ amount of refunds received in the current fiscal year from scholarships paid in the prior fiscal year by school;
16. Total cost of audit or financial review (for all scholarship programs) paid during the fiscal year; and
17. Names, job titles and annual salaries of the 3 employees who receive the highest annual salaries from the STO.

ADOR does require that items 2 and 3 be reported in six-month time periods, 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. An example of the report can be found at the end of this document as Attachment 8. Instructions for the annual activity report are shown in Attachment 4.

**71. Will ADOR ask for anything else to be submitted with the annual report?**

Yes. ADOR will request a copy of the STO's explanation of the basis for awarding scholarships and the STO will be required to submit a copy of the STO's scholarship application and any solicitation brochure that the STO may use to solicit donations. ADOR needs these materials to assist in determining if the laws governing STOs are being followed. Additionally, the STO is required to submit copies of the CPA engagement letter(s).

**72. 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.

**73. 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.

**74. What about items 10 through 12 on the list of annual report information? 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 on this future allocation line on the annual report?**

No. The only money reported on these lines 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 promised for future years. An example would be Jane Austen has been promised \$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 promised to specific students to the amount of scholarships paid, your percentage may be pushed up to 90%.

**75. 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.

**76. My STO's interest income and tax preparation fees are in one amount, not separated between the individual and corporate programs. What do I do about this when trying to report total revenue on the annual report?**

If interest income is on all funds (original individual, switcher individual, low-income corporate and disabled/displaced corporate), allocate the interest proportionately based on total donations from each program for the year. For example, if the STO collected \$25,000 in original individual donations in the fiscal year, \$2,000 in switcher individual donations, \$5,000 in low-income corporate donations, and \$1,000 in disabled/displaced donations in the fiscal year, interest income should be allocated 76% to the original individual program ( $\$25,000/\$33,000$ ), 6% to the switcher individual program ( $\$2,000/\$33,000$ ), 15% to the low-income corporate program ( $\$5,000/\$33,000$ ) and 3% to the disabled/displaced corporate program ( $\$1,000/\$33,000$ ). The same procedure would be used to allocate tax preparation fees or other revenues that don't specifically belong to one program.

**77. 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 promised or awarded but not actually paid. (If the scholarship was an allocated scholarship, promised 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.)

**78. Is the information reported on the annual report considered confidential?**

No.

**79. Does my STO have to have a financial review or audit?**

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

**80. What do the financial reviews or audits involve?**

STOs receiving \$1 million or more in low-income corporate donations plus disabled/displaced corporate donations 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 low-income corporate donations plus disabled/displaced corporate donations 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.

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

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

**82. 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.

**83. 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 \$5000 on an audit that covers their individual program and their corporate program, that \$5000 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.

ADOR recommends that this audit/review cost split be 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.

**84. So 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.

**85. My STO participates in the low-income corporate donation program and the disabled/displaced corporate donation program. Must I have an audit or review for each program?**

No. One audit or review would cover both programs.

**86. What does “agreed-upon-procedures” mean?**

Agreed-upon-procedures take the form of the School Tuition Organization Fiscal Compliance Questionnaire, Attachment 13 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. 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 two sample letters, at the back of the manual as Attachment 14. One is the sample engagement letter for the agreed-upon-procedures. The other is a sample accountant’s report after the agreed-upon-procedures and audit/review have been completed.

**87. 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.

**88. When must the financial audit or review be complete?**

The STO must have obtained an engagement letter with a CPA for the audit or review by September 30 of each year. If a review is required, the STO must also obtain an engagement letter for the agreed-upon-procedures by September 30th. Copies of these letters should be attached to the STO’s annual report. The audit/review and agreed-upon-procedures which includes the fiscal compliance questionnaire (if required) should be complete and submitted by December 31.

**89. 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.

**90. 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. Effective August 6, 2016 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.

**91. 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**. The STO may send the signed copy of the audit or review by email to [DOROERA@azdor.gov](mailto:DOROERA@azdor.gov) or by mail to:

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

**92. 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.

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**IV. GUIDELINES FOR STOs PARTICIPATING IN THE DISABLED/DISPLACED CORPORATE TAX CREDIT PROGRAM (A.R.S. § 43-1184)**

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To receive donations from corporations which can be claimed as a corporate income tax credit or an insurance premium tax credit and used for scholarships for disabled/displaced students, 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.

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

No.

**2. 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;
4. 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;

5. must not award scholarships to students who are simultaneously enrolled in a district school or charter school and a qualified school; and
6. shall follow all other statutory requirements in A.R.S. § 43-1184 or Title 43, Chapter 15.

### **3. 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. For the disabled/displaced scholarship program you will provide the following information on scholarships paid during the previous fiscal year:

- The total dollar amount of disabled/displaced scholarships paid to students with family income up to 185% of poverty level.
- The percent of total disabled/displaced scholarships paid to students with family income up to 185% of poverty level.
- The total dollar amount of disabled/displaced 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 disabled/displaced 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 will be updated on your website at the end of each fiscal year with the previous fiscal year data. The family income data is also to be reported on your annual report so you can update your website when you are preparing your annual report.

### **4. We were not required to report on family income for our disabled/displaced scholarships in the past. When do we have to start collecting and reporting the family income data?**

The STOs are to begin collecting family income information with scholarship applications beginning July 2015 and will start reporting the family income statistics on their FY 2015/16 annual report. The STO website will not be required to include the disabled/displaced family income data until the completion of FY 2015/16.

### **5. What does “allocating at least 90% of its annual contributions to scholarships” mean?**

Effective July 1, 2012 the law requires that 90% of 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 contributions received by an STO in one year must be paid out in scholarships within the following two years or reserved for future scholarships for specific students awarded next-year or multi-year scholarships.

### **6. The cost of the STO’s annual review or audit is taken out of total revenues 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.

### **7. 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 calendar 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.

**8. *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 more 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.

**9. *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 happens to receive applications for only 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.

**10. *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.

**11. *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.

**12. *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 contacting Karen Jacobs at [kjacobs@azdor.gov](mailto:kjacobs@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.

**13. *Is this definition different from the definition of qualified school for the original individual donation program, the switcher individual donation program or the low-income corporate donation program?***

No.

**14. *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.

**15. 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.

**16. 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.

**17. 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 3<sup>rd</sup> birthday) though a school district governing board may admit eligible children into preschool who are within 90 days of their 3<sup>rd</sup> 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.

**18. 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.

**19. 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 Economic Security 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 Economic Security is provided in Attachment 9.

**20. 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 or Individual Education Plan (IEP) 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 to be verified by the Arizona Department of Economic Security).

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.

**21. Wasn't there a prior Arizona public school enrollment requirement for new applicants for the disabled/displaced scholarship?**

The prior Arizona public school enrollment requirement was eliminated effective July 1, 2014.

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

The scholarship or grant can cover tuition only. It is not to be used for any other expenses or fees (such as application fees, tutoring).

**23. A school has adjusted a student's tuition based on the special need services identified in the student's IEP (Individualized Education Plan). Can the STO still scholarship the student's revised tuition?**

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

**24. 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.

**25. 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.

**26. 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.

**27. How can I determine if a student meets the disabled/displaced 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.

For displaced students, STOs must submit a form to the Arizona Department of Economic Security 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 Economic Security is provided in Attachment 9.

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

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.

**29. Do I need to verify if a student attended a qualified private school in the previous year?**

Yes. Once a student is determined to be a qualified disabled/displaced student they must continue to attend a qualified school in order to remain a qualified disabled/displaced student and be eligible for a disabled/displaced scholarship. The STO must verify that the student applying for a scholarship continued to attend a qualified school in order to be eligible in subsequent years.

**30. 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.

**31. 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. STOs may submit an information release form to ADOR to request information on disabled/displaced students that applied for eligibility prior to June 1, 2014. STOs must have parents complete the “information release form” and forward a copy to ADOR (by fax at 602-716-7991 or email [kjacobs@azdor.gov](mailto:kjacobs@azdor.gov)). 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. A copy of the information release form can be found at the end of this document as Attachment 10.

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

Yes. The amount of the scholarship that is issued by the STO to disabled/displaced students from disabled/displaced corporate donations shall not exceed the lesser of the cost of tuition to attend the qualified school or 90% of the amount of state aid that would otherwise have been computed for the student in Title 15, Chapter 9, Article 15.

**33. 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 disability category and grade. As soon as the data is available from the Arizona Department of Education, ADOR will provide STOs with the 90% of state aid matrix to be used to determine the maximum scholarship amount for each student. The maximum scholarship amount will be based on the lesser of 90% of the state aid funding amount (which varies by disability/displaced category and grade) and the cost of tuition.

**34. 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.

**35. 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.

**36. 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.

**37. If my STO gives a scholarship to a disabled/displaced student from the original individual donation program, do I report it on the disabled/displaced corporate donation report?**

No. Any scholarship given out of the original individual donation or switcher individual 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.

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

Yes. However, in this case one of two things must occur. The school must refund the tuition already paid by the parent back to the parent OR the school must return the amount of the scholarship that exceeds the tuition balance to the STO. The school cannot carry forward 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.

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

No.

**40. 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.

**41. 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.

**42. 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.

**43. 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. The amount of scholarships paid from all STOs for one student cannot exceed the amount of tuition for that academic year.

**44. 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.

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

A student cannot accept an ESA and STO scholarship concurrently in the same academic year a parent signs an ESA contract. However, if the parent ends the ESA contract during the 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.

**46. Is there any limit to the amount of money corporations can donate for a tax credit for the disabled/displaced student scholarships in a fiscal year?**

Yes. There is a limit of \$5 million of corporate tax credit donations. This amount remains constant from year to year.

**47. Is there any limit to the amount of money a single corporation can donate?**

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

**48. 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.

**49. 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).

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

Yes. The S-corp 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.

**51. 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.

**52. 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).

**53. Can an LLC participate in this tax credit?**

Only those LLCs that are taxed as S-corps for federal and state purposes are eligible to make a donation for a tax credit.

**54. How does the corporate donation process work?**

1. A corporation contacts the STO to which they wish to donate or the STO contacts corporations to solicit donations.
2. The corporation indicates the amount of donation they wish to make.
3. The STO fills out the approval request on the ADOR website. To submit this document, press the button on the bottom right that says "Email Form". This will send it straight to ADOR and result in faster approval at less cost to the STO. A copy of the approval form is attached as Attachment 6. For this program, check the box at the top that says "This donation is for the corporate disabled/displaced students credit (A.R.S. § 43-1184)."
4. Be sure to check the box if the corporation you are dealing with is an S-corp. Also provide the parent S-corp information if the contributing company is a qualified subchapter S subsidiary.
5. Be sure to check the appropriate box if the corporation you are dealing with is an insurance company. ADOR must let the Arizona Department of Insurance know what corporations are taking this credit. If the box is not checked, ADOR won't let the Arizona Department of Insurance know of the donation and the insurance premium tax credit claim would be denied. Also, the Arizona Department of Insurance has asked that the insurance company's NAIC number be recorded on the form for identification purposes.
6. ADOR will respond to the request for approval within 20 days. The request shall be approved if there is credit available under the maximum allocation allowed for the fiscal year.
7. ADOR will e-mail the approval or denial to the STO. The STO should provide a copy of the approval form to the donating corporation.

8. 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 a holiday; the donation must be received by that date.***
9. The STO must notify ADOR of receipt of the donation or if the STO does not receive a timely donation from the corporation. ADOR needs to know the exact date the donation is received.
10. The STOs are to provide the donating S-corp a form to report their shareholders' pro rata share of the approved credit. The form is to be returned directly to ADOR, not to the STO.

Instructions for this procedure and the application for approval form can be found on the ADOR website:

<http://www.azdor.gov/TaxCredits/CorporateTuitionTaxCredits.aspx>

The application for approval form can also be found at the end of this document as Attachment 6 and instructions for the form are shown in Attachment 7.

***55. If the corporation initiates a wire transfer for the donation by the 20<sup>th</sup> day has the 20 day deadline been met?***

Yes.

***56. The corporate donation process indicates that the application for approval must be e-mailed. Can't I just fax the form to ADOR?***

No. We cannot guarantee receipt of the approval form if you fax it because the fax machine is not located within one of our offices. You must transmit the application for approval by email. Press the button on the bottom right of the form located on ADOR's website. This will send it to a mailbox that is accessible to several of us in OERA; if one of us is out of the office, others have easy access to the application for approval.

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

No.

***58. Can a corporation donate after the end of its fiscal year and still claim the credit on its prior 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.

***59. 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.

***60. I am certified for the corporate donation program, have received donations for the low-income corporate program but no donations for the disabled/displaced program. Do I still need to file an annual report for the disabled/displaced program?***

Yes. The statute requires that if you are certified for the corporate program, you must file annual reports for both of the corporate programs.

**61. 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. Name, address and contact person of the STO;
2. Total # of contributions received during the fiscal year (from July 1 through June 30), broken down by 6-month increments;
3. Total \$ amount of contributions received during the fiscal year (from July 1 through June 30), broken down by 6-month increments;
4. Net # of children receiving educational scholarships or tuition grants during the fiscal year (from July 1 through June 30);
5. Net \$ amount of educational scholarships or tuition grants paid in the fiscal year (from July 1 through June 30);
6. Name and address of each school to which the educational scholarships or tuition grants were paid;
7. The net # and net \$ amount of educational scholarships or tuition grants going to each school in the fiscal year;
8. 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;
9. 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;
10. Total # and \$ amount of allocated scholarship money being held for identified students' scholarships in future years;
11. Name and address of each school for which allocated scholarships are being held for identified students' scholarships in future years;
12. The # and \$ amount of allocated scholarships by school;
13. Total # and \$ amount of refunds received in current fiscal year from scholarships paid in the prior fiscal year;
14. Name and address of each school from which refunds were received in the current fiscal year from scholarships paid in the prior fiscal year;
15. The net # and \$ amount of refunds received in the current fiscal year from scholarships paid in the prior fiscal year by school;
16. Total cost of audit or financial review (for all scholarship programs) paid during the fiscal year; and
17. Names, job titles and annual salaries of the 3 employees who receive the highest annual salaries from the STO.

ADOR does require that items 2 and 3 be reported in six-month time periods, 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. An example of the report can be found at the end of this document as Attachment 11. Instructions for the annual activity report are shown in Attachment 4.

**62. Will ADOR ask for anything else to be submitted with the annual report?**

Yes. ADOR will request a copy of the STO's explanation of the basis for awarding scholarships and the STO will be required to submit a copy of the STO's scholarship application and any solicitation brochure that the STO may use to solicit donations. ADOR needs these materials to assist in determining if the laws governing STOs are being followed. Additionally, the STO is required to submit copies of the CPA engagement letter(s).

**63. 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.

**64. One of the new items ADOR is asking for on the annual report is total revenues related to disabled/displaced corporate donations. What does this mean?**

The annual report for Fiscal Year 2011/12 will be the last fiscal year in which the 90%/10% rule applies to all revenues. In order for ADOR to determine if the STO is complying with the 90% rule, the STO will have to report total revenues received in the fiscal year. Total revenue is defined by ADOR as income received in the form of cash or cash equivalents, such as donations, interest earned on corporate donations, out-of-state donations, etc.

**65. 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.

**66. What about items 10 through 12 on the list of annual report information? 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 on this future allocation line on the annual report?**

No. The only money reported on these lines 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 promised for future years. An example would be Jane Austen has been promised \$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 promised to specific students to the amount of scholarships paid, your percentage may be pushed up to 90%.

**67. 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.

**68. My STO's interest income and tax preparation fees are in one amount, not separated between the individual and corporate programs. What do I do about this when trying to report total revenue on the annual report?**

If interest income is on all funds (original individual, switcher individual, low-income corporate and disabled/displaced corporate), allocate the interest proportionately based on total donations from each program for the year. For example, if the STO collected \$25,000 in original individual donations in the fiscal

year, \$2,000 in switcher individual donations, \$5,000 in low-income corporate donations, and \$1,000 in disabled/displaced donations in the fiscal year, interest income should be allocated 76% to the original individual program (\$25,000/\$33,000), 6% to the switcher individual program (\$2,000/\$33,000), 15% to the low-income corporate program (\$5,000/\$33,000) and 3% to the disabled/displaced corporate program (\$1,000/\$33,000). The same procedure would be used to allocate tax preparation fees or other revenues that don't specifically belong to one program.

**69. 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 promised or awarded but not actually paid. (If the scholarship was an allocated scholarship, promised 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.)

**70. Is the information reported on the annual report considered confidential?**

No.

**71. We were not required to report on family income for our disabled/displaced scholarships in the past. Why do we have to now?**

The STO operational requirements were revised beginning July 2015 and now require STOs to report on their website, if one exists, the percentage and total dollar amount of scholarships awarded to students whose family income is up to 185% of poverty level and for students whose family income is greater than 185% of poverty level but not more than 342.25% of poverty level. In order to meet the statutory requirement, STOs are now required to determine the family income for the scholarship recipients. The STOs are to begin collecting family income information beginning July 2015 and will start reporting the family income statistics on the FY 2015/16 annual report.

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

For 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 USDA 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.

**73. 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.

**74. 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. Such documentation could include a copy of the prior year's tax return or the last two paycheck stubs or perhaps a couple bank statements.

**75. 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 for academic year 2016/17 can be found at <https://www.gpo.gov/fdsys/pkg/FR-2016-03-23/pdf/2016-06463.pdf>. Reduced price lunch annual income eligibility guidelines by household size are shown in the table below, along with the next income threshold comparison identified in statute.

Household Size	Reduced price lunch income threshold (185% of poverty level)	342.25% of poverty level (185% of 185% of poverty level)
1	\$21,978	\$40,659
2	\$29,637	\$54,828
3	\$37,296	\$68,998
4	\$44,955	\$83,167
5	\$52,614	\$97,336
6	\$60,273	\$111,505

Household Size	Reduced price lunch income threshold (185% of poverty level)	342.25% of poverty level (185% of 185% of poverty level)
7	\$67,951	\$125,709
8	\$75,647	\$139,947
Each additional member	\$7,696	\$14,238

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.

**76. 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.

**77. Does my STO have to have a financial review or audit?**

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

**78. What do the financial reviews or audits involve?**

STOs receiving \$1 million or more in low-income corporate donations plus disabled/displaced corporate donations 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 low-income corporate donations plus disabled/displaced corporate donations 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.

**79. What is included in “corporate donations” for purposes of determining if the STO needs an audit or review?**

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

**80. 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.

**81. 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 \$5000 on an audit that covers their individual program and their corporate program, that \$5000 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.

ADOR recommends that this audit/review cost split be 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.

**82. So 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.

**83. My STO participates in the low-income corporate donation program and the disabled/displaced corporate donation program. Must I have an audit or review for each program?**

No. One audit or review would cover both programs.

**84. What does "agreed-upon-procedures" mean?**

Agreed-upon-procedures take the form of the School Tuition Organization Fiscal Compliance Questionnaire, Attachment 13 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. 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 two sample letters, at the back of the manual as Attachment 14. One is the sample engagement letter for the agreed-upon-procedures. The other is a sample accountant's report after the agreed-upon-procedures and audit/review have been completed.

**85. 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.

**86. When must the financial audit or review be complete?**

The STO must have obtained an engagement letter with a CPA for the audit or review by September 30 of each year. If a review is required, the STO must also obtain an engagement letter for the agreed-upon-procedures by September 30th. Copies of these letters should be attached to the STO’s annual report. The audit/review and agreed-upon-procedures which includes the fiscal compliance questionnaire (if required) should be complete and submitted by December 31.

**87. 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.

**88. 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. Effective August 6, 2016 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.

**89. 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**. The STO may send the signed copy of the audit or review by email to [DOROERA@azdor.gov](mailto:DOROERA@azdor.gov) or by mail to:

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

**90. 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.

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## **V. VIOLATIONS OF LAW; NOTIFICATION PROCESS**

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

- Failing or refusing to allocate at least 90% of annual contributions for scholarships;
- Failing or refusing to file the prescribed annual report;
- Limiting availability of scholarships to students of one school;

- Encouraging, facilitating or knowingly permitting taxpayers to engage in actions prohibited by Article 15 or Article 16;
- Awarding, restricting or reserving scholarships for use by a particular student based solely on the recommendation of a donor (individual donations only);
- Knowingly colluding with any other STO to circumvent the low-income corporate scholarship limits;
- Failing to allow ADOR to verify that the scholarships that are issued are awarded to students who attend a qualified school.

**1. 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.

**2. What happens if the STO does not correct the violation?**

If the STO fails to correct the violation, ADOR will remove the STO from the certification list. At that time, the STO can no longer accept donations from taxpayers for purposes of the tax credit and must inform its donors.

**3. 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. This hearing will be held by the Office of Administrative Hearings.

**4. How will ADOR monitor the 90% rule?**

ADOR will be asking each STO to report its total contributions for the fiscal year on each annual report. This amount less the cost of the audit or review 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 contributions in fiscal year 2013. \$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 2015.

**5. 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.

**6. 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.

**7. What if my STO only provides scholarships to one school?**

If on your annual report you show scholarships paid to only one school, ADOR will ask for proof that you have not limited availability to only one school.

**8. 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?**

This is a new administrative function for ADOR. Initially, the STO's signature on the application for certification will suffice. However, sometime during the first year, ADOR will begin to create procedures for verification of 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 will 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.

Not all STOs will be reviewed every year. The first few STOs to be reviewed will be "guinea pigs" of a sort while ADOR tries to determine what will work. Throughout the year, websites, brochures and applications for scholarships will be monitored. This will be a learning process for ADOR and STOs alike.

**9. If I still have questions, who can I contact?**

Call Karen Jacobs at 602-716-6923 (email [kjacobs@azdor.gov](mailto:kjacobs@azdor.gov)) or Caitlin Wooten at 602-716-6072 (email [cwooten@azdor.gov](mailto:cwooten@azdor.gov)).

Attachment 1  
ARIZONA DEPARTMENT OF REVENUE

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

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I, \_\_\_\_\_ hereby certify that  
Executive Director or President's name and title

\_\_\_\_\_ 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: \_\_\_\_\_  
(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 and how your organization conducts business in the state (i.e. physical office site, # of employees in AZ, type of work conducted in AZ, etc.). Note that a statutory agent or mail box alone does not constitute a presence in the state.

My organization meets this criteria: \_\_\_\_\_  
(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: \_\_\_\_\_  
(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: \_\_\_\_\_  
(initial here)

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: \_\_\_\_\_  
(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: \_\_\_\_\_  
(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.

\_\_\_\_\_  
Signature of Executive Director or President

\_\_\_\_\_  
Date

\_\_\_\_\_  
Print Name of Executive Director or President\*

\_\_\_\_\_  
Title

---

STO contact information to be included on Certified School Tuition Organization List\*:

\_\_\_\_\_  
Contact Name

\_\_\_\_\_  
STO Mailing Address

\_\_\_\_\_  
City

\_\_\_\_\_  
State

\_\_\_\_\_  
ZIP Code

\_\_\_\_\_  
Telephone (with area code)

\_\_\_\_\_  
Web Site Address

*For ADOR use only:*

\_\_\_\_\_  
E-mail Address 1

\_\_\_\_\_  
E-mail Address 2

\*A new certification form must be completed when a new Executive Director/President is appointed or for any changes in the contact information:

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This application should be mailed to the following address:

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

If you have questions regarding completion of this form, contact Caitlin Wooten at (602) 716-6072.

ARIZONA DEPARTMENT OF REVENUE

School Tuition Organization Application
For Certification To Receive Corporate Donations

A.R.S. § 20-224.06, A.R.S. § 20-224.07, A.R.S. § 43-1183 and A.R.S. § 43-1184

I, \_\_\_\_\_ hereby certify that
Executive Director or President's name and title

\_\_\_\_\_ 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: \_\_\_\_\_
(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 and how your organization conducts business in the state (i.e. physical office site, # of employees in AZ, type of work conducted in AZ, etc.). Note that a statutory agent or mail box alone does not constitute a presence in the state.

My organization meets this criteria: \_\_\_\_\_
(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: \_\_\_\_\_
(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: \_\_\_\_\_
(initial here)

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: \_\_\_\_\_
(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: \_\_\_\_\_  
(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: \_\_\_\_\_  
(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.

\_\_\_\_\_  
Signature of Executive Director or President

\_\_\_\_\_  
Date

\_\_\_\_\_  
Print Name of Executive Director or President\*

\_\_\_\_\_  
Title

---

**STO contact information to be included on Certified School Tuition Organization List\*:**

\_\_\_\_\_  
Contact Name

\_\_\_\_\_  
STO Mailing Address

\_\_\_\_\_  
City State ZIP Code

\_\_\_\_\_  
Telephone (with area code)

\_\_\_\_\_  
Web Site Address

*For ADOR use only:*

\_\_\_\_\_  
E-mail Address 1

\_\_\_\_\_  
E-mail Address 2

\*A new certification form must be completed when a new Executive Director/President is appointed or for any changes in the contact information:

---

This application should be mailed to the following address:  
Arizona Department of Revenue  
Office of Economic Research and Analysis  
Caitlin Wooten, Economist  
PO Box 29099  
Phoenix, AZ 85038

If you have questions regarding completion of this form, contact Caitlin Wooten at (602) 716-6072.

**Arizona School Tuition Organization Annual Activity Report  
relating to the  
Original Individual Income Tax Credit Program (A.R.S. § 43-1604)**

**FISCAL YEAR 2015/2016  
\*DUE SEPTEMBER 30, 2016\***

**Part 1 School Tuition Organization Information**

1 STO Name	
2 STO Address	
3 STO Contact Name	
4 STO Contact Phone # and Email	

**Part 2 Donor Information**

	(a) July 1 thru Dec 31	(b) Jan 1 thru June 30	(a+b) July 1 thru June 30
--	---------------------------	---------------------------	------------------------------

5 Total number of donors.....			
6 Total amount of cash contributions received in fiscal year for the tax credit.....	\$	\$	\$

**Part 3 Scholarship Information**

	July 1 thru June 30
--	---------------------

7 Net number of students receiving scholarships in fiscal year .....	
8 Net amount of scholarships paid in fiscal year .....	\$

**List Scholarship Information by School for the Fiscal Year**

		Net Number of Scholarships	Net Amount of Scholarships
--	--	----------------------------	----------------------------

School Name	School Address		\$
			\$
			\$
			\$
			\$
			\$

If additional space is required, please attach a separate sheet containing the required information.

	(a) Net amount of scholarships paid July 1 thru June 30	(b) Calculate % of total scholarships (line 9a ÷ line 8)
9 Scholarships paid to students with family income up to 185% of poverty level .	\$	%

	(a) Net amount of scholarships paid July 1 thru June 30	(b) Calculate % of total scholarships (line 10a ÷ line 8)
10 Scholarships paid to students with family income from 185% of poverty level to 342.25% of poverty level .....	\$	%

July 1 thru June 30

- 11 Number of students with allocated scholarships .....
- 12 Total amount of allocated scholarship money being held for students in future years. List number and amount of scholarships allocated by school below .....

\$

School Name	School Address	Number of Scholarships Allocated	Amount of Scholarships Allocated
			\$
			\$

If additional space is required, please attach a separate sheet containing the required information.

July 1 thru June 30

- 13 Net number of prior year scholarships refunded (only include full scholarship refunds) .....
- 14 Total amount of refunds received in current fiscal year from scholarships paid in prior fiscal year. List the number and amount of scholarships refunded by school below.....

\$

School Name	School Address	Net Number of Scholarships Refunded	Amount of Scholarships Refunded
			\$
			\$

If additional space is required, please attach a separate sheet containing the required information.

**Part 4 Cost of Audit or Review**

July 1 thru June 30

- 15 Total cost of audit or review (and agreed-upon-procedures) for all scholarship programs paid during the fiscal year.....

\$
----

**Part 5 Additional Information Required**

- 16 Check box to indicate a copy of STO's explanation of the basis for awarding scholarships is attached.
- 17 Check box to indicate a copy of STO's scholarship application and any solicitation brochures are attached.

**18 STO Employee Salaries for Three Highest Paid Employees**

Name	Job Title at STO	Annual Salary from STO
		\$
		\$
		\$

- 19  Yes  No I have attached a copy of the audit or review engagement letter for Fiscal Year 2016.
- 20  Yes  No I have attached a copy of the engagement letter for the agreed-upon-procedures for Fiscal Year 2016, if applicable

The completed audit or review and agreed-upon-procedures must be submitted to the department within five days of completion and is due no later than December 31.

Completed forms should be mailed **BY SEPTEMBER 30, 2016** to:

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

– OR –

The form may be faxed to (602) 716-7991 or emailed to DOROERA@azdor.gov  
If you have any questions, please contact Karen Jacobs at (602) 716-6923 or KJacobs@azdor.gov.

**Instructions for Completing the Arizona School Tuition Organization Annual Activity Report Relating to the Original Individual Income Tax Credit, the Switcher Individual Income Tax Credit, the Low-Income Corporate Income Tax Credit and the Disabled/Displaced Corporate Income Tax Credit**

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**Part 1 - School Tuition Organization:**

1. School Tuition Organization Name  
*Please write out your full name. Do not use initials or acronyms.*
  2. School Tuition Organization Address  
*Please write out the full address.*
  3. STO Contact Name  
*Please insert the name of the person that is filling out this form. That person should be available to answer questions about this report.*
  4. STO Contact Phone & and Email  
*Please insert the phone number and email of the person that can answer questions about this report.*
- 

**Part 2 - Donor Information:**

**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.**

5. Total 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 numbers in column (a) and column (b) should equal the number in column (c).***
  6. Total 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 numbers in column (a) and column (b) should equal the number in column (c).***
- 

**Part 3 - Scholarship Information:**

7. 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 on line 11. Think of this as a cash-out count. How many students actually had their scholarship money disbursed in this period?

8. 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 on line 12 for 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.*

**List Scholarship Information by School for the Fiscal Year**

*The sum of the net number of scholarships and net amount of scholarships paid to all schools should equal the information reported on lines 7 and 8. Please check to be sure this is true because you will be asked to redo the report if the amounts do not match. You may attach a separate sheet with this information if you prefer. If you attach a separate sheet please include totals for the attachment.*

School name

*Please put 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!***

School address

*Please put the full address of the school, including the street address, the city or town and the zip code.*

Net number of scholarships

*Please put 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.*

Net amount of scholarships

*Please put 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.*

9. Total 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. On 9(a) put the total dollar amount of scholarships that went to students with family income up to but not exceeding 185% of poverty level. On 9(b) calculate the scholarships that went to students with family income up to but not exceeding 185% of poverty level as a percent of total scholarships (line 9(a) ÷ line 8). **The amounts on lines 9(a) and 9(b) are the amounts you are required to report on your website.***

10. Total 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. On 10(a) put 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. On 10(b) calculate the 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 (line 10(a) ÷ line 8). **The amounts on lines 10(a) and 10(b) are the amounts you are required to report on your website.***

11. Number of students with allocated scholarships

*This number is the number of students that have been promised funding for the next academic year and/or for future years. If asked, you would be able to provide names of students with corresponding amounts promised for the next academic year and/or for future years.*

12. Total amount of allocated scholarship money being held for identified students' scholarship in future years

*If you have promised a specific student funding 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 promised for the next academic year and/or future years that would total the amount on this line. This line does not include scholarship amounts actually paid during the current year for the upcoming academic year (i.e. spring payments made for fall semester). All scholarships PAID during the fiscal year should be included on line 8.*

**List Allocated Scholarship Information by School**

*The sum of the number of students and amount of scholarships allocated should equal the information reported on lines 11 and 12. Please check to be sure this is true because you will be asked to redo the report if the amounts do not match. You may attach a separate sheet with this information if you prefer. If you attach a separate sheet please include totals for the attachment.*

School name

*Please put 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!***

School address

*Please put the full address of the school, including the street address, the city or town and the zip code.*

Number of students with allocated scholarships

*Please put the number of students with allocated scholarships for this school.*

Amount of scholarships allocated

*Please put the amount of scholarships allocated for students for this school.*

13. Net number of prior year scholarships refunded

*List the net number 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.*

14. Total amount of refunds received in the current fiscal year from scholarships paid in the prior fiscal year

*If a school returned scholarship money during the current fiscal year that was disbursed in the 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 8 but we will then reduce the amount reported on last year's annual report as scholarships paid. This amount includes partial and full refunds.*

**List Prior Year Refunded Scholarship Information by School**

*The sum of the net number of prior year scholarships refunded and amount of scholarships refunded should equal the information reported on lines 13 and 14. Please check to be sure this is true because you will be asked to redo the report if the amounts do not match. You may attach a separate sheet with this information if you prefer. If you attach a separate sheet please include totals for the attachment.*

**School name**

*Please put 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!***

**School address**

*Please put the **full address** of the school, including the street address, the city or town and the zip code.*

**Net number of scholarships refunded**

*Please put the net number of scholarships refunded for this school. The net number of scholarships should only include full tuition refunds, and does not include counts for partial refunds.*

**Amount of scholarships refunded**

*Please put the total amount of refunds received in this fiscal year from scholarships paid in the prior fiscal year for this school. This amount includes partial and full refunds.*

---

**Part 4 - Cost of Audit or Review:**

15. Cost of audit or review for ALL scholarship programs paid during the fiscal year

*This amount is the amount you paid for your audit or review (and agree-upon-procedures) in the fiscal year but not necessarily for this fiscal year. In other words, you had an audit or review for Fiscal Year 2015 that was not paid for until Fiscal Year 2016. Put the amount paid for the Fiscal Year 2015 audit or review and agreed-upon-procedures on this line. **THIS AMOUNT WILL BE THE SAME ON EACH ANNUAL REPORT WORKSHEET YOU COMPLETE.** This amount should not include charges for completing the Form 990.*

---

**Part 5 - Additional Information Required**

16. Copy of STO's explanation of the basis for awarding scholarships

*Check the box to indicate that you have attached your STO's basis for awarding scholarships. Yes, we asked for this last year. We will ask for it again next year. It is an annual request.*

17. Copy of STO's scholarship application and any solicitation brochures

*Check the box to indicate that you have attached the scholarship application and solicitation*

brochures. Yes, we asked for this last year. We will ask for it again next year. It is an annual request.

18. Name, Job Title at STO and Annual Salary from STO

*The statute requires that the STO report the names, job titles and annual salaries of the 3 employees who receive the highest annual salaries from the STO. That is pretty self-explanatory.*

19. Copy of audit or review engagement letter for Fiscal Year 2016 is attached

*Identify if a copy of the audit or review letter for FY2016 is attached. The letter is to be submitted by September 30<sup>th</sup> or your STO will be in violation of statute. Note that the completed signed audit or review must be submitted to ADOR within 5 days of completion, which should not be later than December 31<sup>st</sup>.*

20. Copy of engagement letter for agreed upon procedures for Fiscal Year 2016 is attached (if applicable)

*If applicable, identify if a copy of the engagement letter for agreed upon procedures for FY2016 is attached. The letter is to be submitted by September 30<sup>th</sup> or your STO will be in violation of statute. The completed agreed upon procedures is due to ADOR by December 31<sup>st</sup>.*

<p><b>QUESTIONS?</b> Contact Karen Jacobs at 602-716-6923 / e-mail <a href="mailto:kjacobs@azdor.gov">kjacobs@azdor.gov</a> or Caitlin Wooten at 602-716-6072 / email <a href="mailto:cwooten@azdor.gov">cwooten@azdor.gov</a></p>
--

**Arizona School Tuition Organization Annual Activity Report  
relating to the  
Switcher Individual Income Tax Credit Program (A.R.S. § 43-1604)**

**FISCAL YEAR 2015/2016  
\*DUE SEPTEMBER 30, 2016\***

**Part 1 School Tuition Organization Information**

1 STO Name	
2 STO Address	
3 STO Contact Name	
4 STO Contact Phone # and Email	

**Part 2 Donor Information**

(a) July 1 thru Dec 31      (b) Jan 1 thru June 30      (a+b) July 1 thru June 30

5 Total number of donors.....			
6 Total amount of cash contributions received in fiscal year for the tax credit.....	\$	\$	\$

**Part 3 Scholarship Information**

**July 1 thru June 30**

7 Net number of students receiving scholarships in fiscal year .....	
8 Net amount of scholarships paid in fiscal year .....	\$

**List Scholarship Information by School for the Fiscal Year**

**July 1 thru June 30**

School Name	School Address	Net Number of Scholarships	Net Amount of Scholarships
			\$
			\$
			\$
			\$
			\$
			\$

If additional space is required, please attach a separate sheet containing the required information.

9 Scholarships paid to students with family income up to 185% of poverty level .	(a) Net amount of scholarships paid July 1 thru June 30	(b) Calculate % of total scholarships (line 9a ÷ line 8)
	\$	%

10 Scholarships paid to students with family income from 185% of poverty level to 342.25% of poverty level .....	(a) Net amount of scholarships paid July 1 thru June 30	(b) Calculate % of total scholarships (line 10a ÷ line 8)
	\$	%

July 1 thru June 30

- 11 Number of students with allocated scholarships .....
- 12 Total amount of allocated scholarship money being held for students in future years. List number and amount of scholarships allocated by school below .....

\$

School Name	School Address	Number of Scholarships Allocated	Amount of Scholarships Allocated
			\$
			\$

If additional space is required, please attach a separate sheet containing the required information.

July 1 thru June 30

- 13 Net number of prior year scholarships refunded (only include full scholarship refunds) .....
- 14 Total amount of refunds received in current fiscal year from scholarships paid in prior fiscal year. List the number and amount of scholarships refunded by school below .....

\$

School Name	School Address	Net Number of Scholarships Refunded	Amount of Scholarships Refunded
			\$
			\$

If additional space is required, please attach a separate sheet containing the required information.

**Part 4 Cost of Audit or Review**

July 1 thru June 30

- 15 Total cost of audit or review (and agreed-upon-procedures) for **all** scholarship programs paid during the fiscal year .....

\$
----

**Part 5 Additional Information Required**

- 16 Check box to indicate a copy of STO's explanation of the basis for awarding scholarships is attached.
- 17 Check box to indicate a copy of STO's scholarship application and any solicitation brochures are attached.

**18 STO Employee Salaries for Three Highest Paid Employees**

Name	Job Title at STO	Annual Salary from STO
		\$
		\$
		\$

- 19  Yes  No I have attached a copy of the audit or review engagement letter for Fiscal Year 2016.
- 20  Yes  No I have attached a copy of the engagement letter for the agreed-upon-procedures for Fiscal Year 2016, if applicable

The completed audit or review and agreed-upon-procedures must be submitted to the department within five days of completion and is due no later than December 31.

Completed forms should be mailed **BY SEPTEMBER 30, 2016** to:

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

– OR –

The form may be faxed to (602) 716-7991 or emailed to DOROERA@azdor.gov  
If you have any questions, please contact Karen Jacobs at (602) 716-6923 or KJacobs@azdor.gov.



**Application for Approval of the  
Corporate Income Tax Credit for Donations to School Tuition Organizations  
(A.R.S. § 43-1183 or A.R.S. § 20-224.06) or  
Corporate Income Tax Credit for Disabled / Displaced Students  
(A.R.S. § 43-1184 or A.R.S. § 20-224.07)**

- **Program Guidelines available at [www.azdor.gov](http://www.azdor.gov):**  
Click on the "Tax Credits" link on left side of home page.
- **Send the completed form via email to:**  
DOROERA@azdor.gov
- **Questions regarding the program can be directed to:**  
Karen Jacobs.....(602) 716-6923

• **Attention:**  
Failure to complete the form will result in a delay in the processing of the request, resulting in an extension of the twenty-day approval period and possibly being moved down in the line for credit requests.

- This donation is for the corporate tuition organization credits (A.R.S. § 43-1183 or A.R.S. § 20-224.06).
- This donation is for the corporate disabled/displaced students credit (A.R.S. § 43-1184 or A.R.S. § 20-224.07).

STO requesting pre-approval:		
STO street address:		
City:	State:	ZIP Code:
STO contact person:	Phone Number (with area code)	
E-mail address:		

<b>Corporation requesting to donate:</b>		
Corporate street address:		
City:	State:	ZIP Code:
Corporate EIN:	<input type="checkbox"/> Check box if this donation is from an S corporation pursuant to A.R.S. § 43-1089.04.	
Name and EIN of parent S corporation if contributing company is a qualified subchapter S subsidiary:		
<input type="checkbox"/> Check box if this corporation pays insurance premium tax	NAIC Number:	
Amount the corporation is requesting to donate:		
\$		

**Approval or denial of this application will be emailed to the STO.**

**Instructions for the Application for Approval of the Corporate Income Tax Credit for Donations to School Tuition Organizations (A.R.S. § 43-1183 or A.R.S. § 20-224.06) or Corporate Income Tax Credit for Disabled/Displaced Students (A.R.S. § 43-1184 or A.R.S. § 20-224.07)**

The application for approval must be submitted by the School Tuition Organization (STO). Applications submitted directly by a corporation will not be processed.

**CHECK ONE BOX**

*Check the box that indicates for which credit the corporation is donating.*

**STO REQUESTING PRE-APPROVAL**

*Print the name of the School Tuition Organization that is requesting pre-approval for the corporate donation.*

**STO STREET ADDRESS, CITY, STATE, ZIP CODE**

*Print the street address or PO Box, city, state and zip code of the School Tuition Organization that is requesting pre-approval for the corporate donation.*

**STO CONTACT PERSON AND PHONE NUMBER**

*Print the name and phone number of the contact person at the School Tuition Organization that can be contacted in case of questions.*

**EMAIL ADDRESS**

*Provide the email address for the contact person so the approval can be emailed back to the STO.*

**CORPORATION REQUESTING TO DONATE**

*Print the name of the corporation that wishes to donate to your School Tuition Organization for a corporate credit.*

**CORPORATE STREET ADDRESS, CITY, STATE, ZIP CODE**

*Provide the corporate address, city, state and zip code. It is most helpful if the corporation can provide you with their address as it would appear on the Arizona corporate income tax return. This will assist in the verification of eligibility when the credit is claimed on the corporate income tax return.*

**CORPORATE EIN**

*Provide the corporate employer identification number as it would appear on the Arizona corporate income tax return. Without this number, it will be impossible to ensure that the credit claimed on the Arizona corporate income tax return will be allowed.*

**S CORPORATION BOX**

*Check this box if the contributing company is an S corporation who can potentially pass the credit through to its shareholders. This will assist in the verification of eligibility when the credit share is claimed on the Arizona individual income tax return.*

**NAME AND EIN OF PARENT S CORPORATION**

*Provide the name and corporate employer identification number of the parent S corporation if the contributing company is a qualified subchapter S subsidiary.*

**INSURANCE PREMIUM TAX BOX**

*Check this box if the donating corporation pays insurance premium tax rather than corporate income tax. You will need to ask the corporation which tax they pay.*

**NAIC NUMBER**

*If an insurance company is donating, the Department of Insurance needs their NAIC number. Failure to provide this could result in the insurance premium tax credit being denied.*

**AMOUNT THE CORPORATION IS REQUESTING TO DONATE**

*Provide the amount of money that the corporation wants to donate to your School Tuition Organization for purposes of the corporate credit.*

**Send the Application Form via email by hitting the “Email Form” button on the bottom of the application. An automatic email reply will be generated stating that the application has been received.**

**Approval (or denial) of the application will be emailed to the STO.**

**Arizona School Tuition Organization Annual Activity Report  
relating to the  
Low-Income Corporate Income Tax Credit Program (A.R.S. § 43-1506)**

**FISCAL YEAR 2015/2016  
\*DUE SEPTEMBER 30, 2016\***

**Part 1 School Tuition Organization Information**

1 STO Name	
2 STO Address	
3 STO Contact Name	
4 STO Contact Phone # and Email	

**Part 2 Donor Information**

(a) July 1 thru Dec 31      (b) Jan 1 thru June 30      (a+b) July 1 thru June 30

5 Total number of donors.....			
6 Total amount of cash contributions received in fiscal year for the tax credit.....	\$	\$	\$

**Part 3 Scholarship Information**

**July 1 thru June 30**

7 Net number of students receiving scholarships in fiscal year .....	
8 Net amount of scholarships paid in fiscal year .....	\$

**List Scholarship Information by School for the Fiscal Year**

**July 1 thru June 30**

School Name	School Address	Net Number of Scholarships	Net Amount of Scholarships
			\$
			\$
			\$
			\$
			\$
			\$

If additional space is required, please attach a separate sheet containing the required information.

	(a)	(b)
	Net amount of scholarships paid July 1 thru June 30	Calculate % of total scholarships (line 9a ÷ line 8)
9 Scholarships paid to students with family income up to 185% of poverty level .	\$	%

	(a)	(b)
	Net amount of scholarships paid July 1 thru June 30	Calculate % of total scholarships (line 10a ÷ line 8)
10 Scholarships paid to students with family income from 185% of poverty level to 342.25% of poverty level .....	\$	%

**July 1 thru June 30**

- 11** Number of students with allocated scholarships .....
- 12** Total amount of allocated scholarship money being held for students in future years. List number and amount of scholarships allocated by school below .....

\$

School Name	School Address	Number of Scholarships Allocated	Amount of Scholarships Allocated
			\$
			\$

If additional space is required, please attach a separate sheet containing the required information.

**July 1 thru June 30**

- 13** Net number of prior year scholarships refunded (only include full scholarship refunds) .....
- 14** Total amount of refunds received in current fiscal year from scholarships paid in prior fiscal year. List the number and amount of scholarships refunded by school below .....

\$

School Name	School Address	Net Number of Scholarships Refunded	Amount of Scholarships Refunded
			\$
			\$

If additional space is required, please attach a separate sheet containing the required information.

**Part 4 Cost of Audit or Review**

**July 1 thru June 30**

- 15** Total cost of audit or review (and agreed-upon-procedures) for **all** scholarship programs paid during the fiscal year .....

\$
----

**Part 5 Additional Information Required**

- 16** Check box to indicate a copy of STO's explanation of the basis for awarding scholarships is attached.
- 17** Check box to indicate a copy of STO's scholarship application and any solicitation brochures are attached.

**18 STO Employee Salaries for Three Highest Paid Employees**

Name	Job Title at STO	Annual Salary from STO
		\$
		\$
		\$

- 19**  Yes  No I have attached a copy of the audit or review engagement letter for Fiscal Year 2016.
- 20**  Yes  No I have attached a copy of the engagement letter for the agreed-upon-procedures for Fiscal Year 2016, if applicable

The completed audit or review and agreed-upon-procedures must be submitted to the department within five days of completion and is due no later than December 31.

Completed forms should be mailed **BY SEPTEMBER 30, 2016** to:

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

– OR –

The form may be faxed to (602) 716-7991 or emailed to [DOROERA@azdor.gov](mailto:DOROERA@azdor.gov)  
If you have any questions, please contact Karen Jacobs at (602) 716-6923 or [KJacobs@azdor.gov](mailto:KJacobs@azdor.gov).

**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 DES)**

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 5.

Other (explain):

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

DES Verification - Signature

Date

\_\_\_\_\_

\_\_\_\_\_

**Information Release Form for the Disabled/Displaced Scholarship Program**

For purposes of the Disabled/Displaced Scholarship Program, I permit the Arizona Department of Revenue to provide information regarding the eligibility status and scholarship limitation for

\_\_\_\_\_ (student's name) to the following School

Tuition Organization: \_\_\_\_\_.

STO Contact Person: \_\_\_\_\_

Phone: \_\_\_\_\_

Fax: \_\_\_\_\_

Email: \_\_\_\_\_

\_\_\_\_\_  
Parent/Guardian Name (please print)

Phone: \_\_\_\_\_

Email: \_\_\_\_\_

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

Please fax form to: (602) 716-7991  
Attn: Karen Jacobs  
Office of Economic Research and Analysis  
Arizona Department of Revenue

Or email to: [kjacobson@azdor.gov](mailto:kjacobs@azdor.gov)

**Arizona School Tuition Organization Annual Activity Report  
relating to the  
Disabled/Displaced Corporate Income Tax Credit Program (A.R.S. § 43-1506)**

**FISCAL YEAR 2015/2016  
\*DUE SEPTEMBER 30, 2016\***

**Part 1 School Tuition Organization Information**

1 STO Name	
2 STO Address	
3 STO Contact Name	
4 STO Contact Phone # and Email	

**Part 2 Donor Information**

	(a) July 1 thru Dec 31	(b) Jan 1 thru June 30	(a+b) July 1 thru June 30
--	---------------------------	---------------------------	------------------------------

5 Total number of donors.....			
6 Total amount of cash contributions received in fiscal year for the tax credit.....	\$	\$	\$

**Part 3 Scholarship Information**

	July 1 thru June 30
--	---------------------

7 Net number of students receiving scholarships in fiscal year .....	
8 Net amount of scholarships paid in fiscal year .....	\$

**List Scholarship Information by School for the Fiscal Year**

School Name		School Address	Net Number of Scholarships	Net Amount of Scholarships
-------------	--	----------------	----------------------------	----------------------------

				\$
				\$
				\$
				\$
				\$
				\$

If additional space is required, please attach a separate sheet containing the required information.

	(a) Net amount of scholarships paid July 1 thru June 30	(b) Calculate % of total scholarships (line 9a ÷ line 8)
9 Scholarships paid to students with family income up to 185% of poverty level .	\$	%

	(a) Net amount of scholarships paid July 1 thru June 30	(b) Calculate % of total scholarships (line 10a ÷ line 8)
10 Scholarships paid to students with family income from 185% of poverty level to 342.25% of poverty level .....	\$	%

**July 1 thru June 30**

- 11** Number of students with allocated scholarships.....
- 12** Total amount of allocated scholarship money being held for students in future years. List number and amount of scholarships allocated by school below .....

\$

School Name	School Address	Number of Scholarships Allocated	Amount of Scholarships Allocated
			\$
			\$

If additional space is required, please attach a separate sheet containing the required information.

**July 1 thru June 30**

- 13** Net number of prior year scholarships refunded (only include full scholarship refunds).....
- 14** Total amount of refunds received in current fiscal year from scholarships paid in prior fiscal year. List the number and amount of scholarships refunded by school below.....

\$

School Name	School Address	Net Number of Scholarships Refunded	Amount of Scholarships Refunded
			\$
			\$

If additional space is required, please attach a separate sheet containing the required information.

**Part 4 Cost of Audit or Review**

**July 1 thru June 30**

- 15** Total cost of audit or review (and agreed-upon-procedures) for **all** scholarship programs paid during the fiscal year.....

\$

**Part 5 Additional Information Required**

- 16** Check box to indicate a copy of STO's explanation of the basis for awarding scholarships is attached.
- 17** Check box to indicate a copy of STO's scholarship application and any solicitation brochures are attached.

**18 STO Employee Salaries for Three Highest Paid Employees**

Name	Job Title at STO	Annual Salary from STO
		\$
		\$
		\$

- 19**  Yes  No I have attached a copy of the audit or review engagement letter for Fiscal Year 2016.
- 20**  Yes  No I have attached a copy of the engagement letter for the agreed-upon-procedures for Fiscal Year 2016, if applicable

The completed audit or review and agreed-upon-procedures must be submitted to the department within five days of completion and is due no later than December 31.

Completed forms should be mailed **BY SEPTEMBER 30, 2016** to:

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

– OR –

The form may be faxed to (602) 716-7991 or emailed to [DOROERA@azdor.gov](mailto:DOROERA@azdor.gov)  
If you have any questions, please contact Karen Jacobs at (602) 716-6923 or [KJacobs@azdor.gov](mailto:KJacobs@azdor.gov).

## 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 <input type="checkbox"/> No <input type="checkbox"/> 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 <input type="checkbox"/> No <input type="checkbox"/> If NO, student was enrolled for _____ days of the school year.	
Name and Title of Individual Completing Form:	
Signature and Date:	

**Arizona Department of Revenue**  
**School Tuition Organization Fiscal Compliance Questionnaire**  
**School Tuition Organization\_\_\_\_\_**  
**Fiscal Year Ended June 30, 20\_\_**

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## **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:

<http://www.azdor.gov/TaxCredits/SchoolTaxCreditsforIndividuals.aspx>

Or

<http://www.azdor.gov/TaxCredits/CorporateTuitionTaxCredits.aspx>

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:
-----	----	-----	-----------

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**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.

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:
-----	----	-----	-----------

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**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 Karen Jacobs at 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? (*If the answer is YES or N/A, skip question 6. Continue with number 7.*)

YES	NO	N/A	COMMENTS:
-----	----	-----	-----------

6. What are the total individual income tax credit contributions received by the STO for this fiscal year. (The total on line C should correspond with the STO's annual activity report.)

a. With specific student recommendations

#	\$
---	----

b. Without specific student recommendations

#	\$
---	----

c. Total number and dollar amount of contributions

#	\$
---	----

7. 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.

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

a. 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:
-----	----	-----	-----------

### **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? **(If the answer is YES or N/A, skip question 6. Continue with number 7.)**

YES	NO	N/A	COMMENTS:
-----	----	-----	-----------

6. What are the total switcher individual income tax credit contributions received by the STO for this fiscal year. (The total on line C should correspond with the STO's annual activity report.)

a. With specific student recommendations

#	\$
---	----

b. Without specific student recommendations

#	\$
---	----

c. Total number and dollar amount of contributions

#	\$
---	----

7. 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.

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

a. 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:
-----	----	-----	-----------

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:
-----	----	-----	-----------

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.

<b>School Year</b>	<b>K-8*</b>	<b>9-12</b>
2015/16	\$5,100	\$6,400
2016/17	\$5,200	\$6,500
2017/18	\$5,300	\$6,600

\*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.

<b>If the # of scholarships was:</b>	<b>Sample size is:</b>
< 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 placed 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.

<b><i>If the # of scholarships was:</i></b>	<b><i>Sample size is:</i></b>
< 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:
-----	----	-----	-----------

## Sample Engagement Letter for Agreed-Upon-Procedures

CAUTION: This sample letter may not meet all CPA professional standards in all cases. Professional judgement by the CPA is essential and may require changes to this letter.

[CPA Firm's Letterhead]

[DATE]

[SAMPLE STO] and Arizona Department of Revenue

We are pleased to confirm our understanding of the nature and limitations of the services we are to provide for [SAMPLE STO].

We will apply the agreed-upon procedures which [SAMPLE STO] (Client ) and Arizona Department of Revenue (Other Specified Party) have specified, listed in the attached School Tuition Organization Fiscal Compliance Questionnaire, to determine [SAMPLE STO]'s compliance with the fiscal requirements of Arizona Revised Statutes Chapters 15 and 16 for the year ended June 30, 2011. This engagement is solely to assist [SAMPLE STO] and Arizona Department of Revenue in determining [SAMPLE STO]'s compliance with the fiscal requirement of Arizona Revised Statutes Chapters 15 and 16. Our engagement to apply agreed-upon procedures will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described in the attached School Tuition Organization Fiscal Compliance Questionnaire either for the purpose for which this report has been requested or for any other purpose. If, for any reason, we are unable to complete the procedures, we will describe any restriction on the performance of the procedures in our report, or will not issue a report as a result of this engagement.

Because the agreed-upon procedures listed in the attached School Tuition Organization Fiscal Compliance Questionnaire do not constitute an examination, we will not express an opinion on [SAMPLE STO]'s compliance with the fiscal requirements of Arizona Revised Statutes Chapters 15 and 16. In addition, we have no obligation to perform any procedures beyond those listed in the attached School Tuition Organization Fiscal Compliance Questionnaire.

We will complete the School Tuition Organization Fiscal Compliance Questionnaire listing the procedures performed and our findings. This report is intended solely for the use of [SAMPLE STO] and Arizona Department of Revenue, and should not be used by anyone other than these specified parties. Our report will contain a paragraph indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

You are responsible for the presentation of [SAMPLE STO]'s compliance with the fiscal requirements of Arizona Revised Statutes Chapters 15 and 16 in accordance with the Statutes included in the School Tuition Organization Fiscal Compliance Questionnaire; and for selecting the criteria and determining that such criteria are appropriate for your purposes. You are also responsible for making all management decisions and performing all management functions; for designating an individual with suitable skill, knowledge, and/or experience to oversee [DESCRIBE BOOKKEEPING, TAX OR OTHER NONATTEST SERVICES PROVIDED] we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them.

[SAMPLE CPA] is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

We plan to begin our procedures on approximately [DATE] and, unless unforeseeable problems are encountered, the engagement should be completed by [DATE]. At the conclusion of our engagement, we will require a representation letter from management that, among other things, will confirm management's responsibility for the presentation of [SAMPLE STO]'s compliance with the fiscal requirements of Arizona Revised Statutes Chapters 15 and 16 in accordance with the Statutes included in the School Tuition Organization Fiscal Compliance Questionnaire.

We estimate that our fees for these services will be \$[AMOUNT] and are solely the responsibility of [SAMPLE STO]. You will also be billed for travel and other out-of-pocket costs such as report production, word processing, postage, etc. Additional expenses are estimated to be \$[AMOUNT]. The fee estimate is based on anticipated cooperation from the personnel and the assumption that unexpected circumstances will not be encountered during the engagement. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes overdue and will not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

We appreciate the opportunity to assist you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us. If the need for additional procedures arises, our engagement with you will need to be revised. It is customary for us to enumerate these revisions in an addendum to this letter. If additional specified parties of the report are added, we will require that they acknowledge in writing their responsibility for the sufficiency of procedures.

Very truly yours,

[CPA FIRM'S NAME]

Response:

This letter correctly sets forth the understanding of [SAMPLE STO] and represents the School Tuition Organization Fiscal Compliance Questionnaire as approved by the Arizona Department of Revenue.

By:

Title:

Date:

## Sample Accountant's Report

CAUTION: This sample letter may not meet all CPA professional standards in all cases. Professional judgment by the CPA is essential and may require changes to this letter

### LETTERHEAD

#### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

[SAMPLE STO] and Arizona Department of Revenue

We 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, 2011. Management is responsible for [SAMPLE STO]'s compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those specified parties in this report. Consequently, we 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.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

[Firm's Signature]

[City, State]

[Report Date]