

AAA Scholarship Foundation, Inc.

Financial Statements,
Supplemental Information and
Independent Auditor's Report
June 30, 2019

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Independent Auditor's Report

The Board of Directors
AAA Scholarship Foundation, Inc.
Tampa, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of AAA Scholarship Foundation, Inc. ("AAA"), a non-profit organization, which comprise the statement of financial position as of June 30, 2019, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AAA Scholarship Foundation, Inc. as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance as required by the State of Florida Chapter 10.650, *Rules of the Auditor General*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2019, on our consideration of AAA Scholarship Foundation Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of AAA Scholarship, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AAA Scholarship Foundation Inc.'s internal control over financial reporting and compliance.

Kukuing Barbunio & Co.

Sarasota, Florida
October 30, 2019

AAA Scholarship Foundation, Inc.

Statement of Financial Position

June 30, 2019

Assets

Current Assets:

Cash & Cash Equivalents	\$ 5,323,796
Accounts Receivable (Net)	22,674,630
Other Current Assets	243,670
Investments, Short-Term	30,411,543
Total Current Assets	<u>58,653,639</u>

Non-Current Assets:

Refundable Deposits	15,186
Investments, Long-Term	1,734,235
Fixed Assets (Net)	382,196
Total Non-Current Assets	<u>2,131,617</u>

Total Assets \$ 60,785,256

Liabilities and Net Assets

Current Liabilities:

Accounts Payable	\$ 31,305
Accrued Expenses	645,647
Deferred Revenues	285,094
Loan Payable, Current Portion	214,562
Scholarships Payable	25,781,376
Total Current Liabilities	<u>26,957,984</u>

Long-Term Liabilities:

Loan Payable	106,197
Scholarships Payable	9,030,882
Total Long-Term Liabilities	<u>9,137,079</u>

Total Liabilities 36,095,063

Net Assets:

Without Donor Restrictions:

Designated by Board for Scholarships	1,342,264
Undesignated	114,975
	<u>1,457,239</u>

With Donor Restrictions:

Restricted for Scholarships	<u>23,232,954</u>
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Total Net Assets 24,690,193

Total Liabilities and Net Assets \$ 60,785,256

See accompanying notes to financial statements.

AAA Scholarship Foundation, Inc.

Statement of Activities
For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Contributions (Net of Allowance)	\$ -	\$ 48,034,927	\$ 48,034,927
Administrative Allowance	2,683,914	-	2,683,914
Other	90,633	-	90,633
Interest and Investments (Net)	897,684	-	897,684
Net Assets Released from Restrictions	44,327,966	(44,327,966)	-
Total Revenues	<u>48,000,197</u>	<u>3,706,961</u>	<u>51,707,158</u>
Expenses:			
Program Services:			
Scholarships	46,430,833	-	46,430,833
Total Program Services	<u>46,430,833</u>	<u>-</u>	<u>46,430,833</u>
Supporting Services:			
Management & General	195,753	-	195,753
Fundraising	1,004,644	-	1,004,644
Total Supporting Services	<u>1,200,397</u>	<u>-</u>	<u>1,200,397</u>
Total Expenses	<u>47,631,230</u>	<u>-</u>	<u>47,631,230</u>
Realized Gains (Losses)	-	-	-
Increase/(Decrease) in Net Assets	368,967	3,706,961	4,075,928
Beginning Net Assets	1,088,272	19,542,114	20,630,386
ASC 958 Adjustment	-	(16,121)	(16,121)
Ending Net Assets	<u>\$ 1,457,239</u>	<u>\$ 23,232,954</u>	<u>\$ 24,690,193</u>

See accompanying notes to financial statements.

AAA Scholarship Foundation, Inc.

Statement of Functional Expenses

For the Year Ended June 30, 2019

Description	Program Services			Total
	Scholarships	Mgmt & General	Fundraising	
Direct Program Costs	\$ 44,883,801	\$ -	\$ -	\$ 44,883,801
Accounting Fees	-	929	-	929
Audit Fees	1,700	11,170	-	12,870
Advertising/Marketing	100,965	-	564	101,529
Bank Service Fees	34,035	304	358	34,697
Business Registration Fees	648	9	3,958	4,615
Contractor Expenses	415,551	2,128	939,228	1,356,907
Depreciation	5,871	675	675	7,221
Dues, Fees & Subscriptions	11,877	355	3,328	15,560
Equipment Rental and Maintenance	14,746	1,416	1,416	17,578
Facility Expenses	78,015	12,633	-	90,648
Insurance Expense	122,909	1,364	1,364	125,637
Interest Expense	4,287	3	3	4,293
Legal Fees	13,566	10,462	16,927	40,955
License - Software	19,079	523	523	20,125
Office Equipment	14,120	1,580	1,580	17,280
Postage, Mailing Service	12,373	413	1,019	13,805
Printing & Reproduction	3,496	-	181	3,677
Professional Development	1,042	130	130	1,302
Supplies	11,045	(523)	(523)	9,999
Telephone, Telecommunications	18,091	1,523	1,665	21,279
Travel & Meetings	19,019	410	28,360	47,789
Uncollectible School Receivable	(5,840)	-	-	(5,840)
Wages and Benefits	605,470	146,361	-	751,831
Web/Internet Hosting	44,967	3,888	3,888	52,743
Total	\$ 46,430,833	\$ 195,753	\$ 1,004,644	\$ 47,631,230

See accompanying notes to financial statements.

AAA Scholarship Foundation, Inc.

Statement of Cash Flows For the Year Ended June 30, 2019

Cash Flows from Operating Activities:	
Change in Net Assets	\$ <u>4,075,928</u>
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	7,221
Amortization of Investment Discounts	(493,243)
Net Unrealized Gain from Investing	(27,177)
Change in Operating Assets:	
Accounts Receivable (Net)	(4,796,199)
Other Current Assets	(55,676)
Refundable Deposits	(7,067)
Change in Operating Liabilities:	
Accounts Payable	26,623
Accrued Expenses	96,187
Deferred Revenues	66,604
Scholarships Payable	2,040,439
Net Cash Provided by Operating Activities	<u>933,640</u>
Cash Flows from Investing Activities:	
(Purchase) of Fixed Assets	(2,550)
(Purchase) of Investments	(60,003,107)
Maturity of Investments	56,300,000
Net Cash Used in Investing Activities	<u>(3,705,657)</u>
Cash Flows from Financing Activities:	
Proceeds from Borrowings	400,000
Repayment of Debt	(419,204)
Net Cash Used in Financing Activities	<u>(19,204)</u>
Change in Cash & Cash Equivalents	<u>(2,791,221)</u>
Cash & Cash Equivalents - Beginning of Year	<u>8,115,017</u>
Cash & Cash Equivalents - End of Year	<u>\$ <u>5,323,796</u></u>
Supplemental Disclosure of Cash Flow Information:	
Cash Paid During the Year for Interest	\$ <u>3,496</u>
Non-cash Investing and Financing Activity:	
Fixed Assets Purchased Through Financing	\$ <u>339,963</u>

See accompanying notes to financial statements.

AAA Scholarship Foundation, Inc.

Notes to Financial Statements

June 30, 2019

I. Description of Organization

AAA Scholarship Foundation, Inc. ("AAA") is a Georgia not-for-profit organization incorporated March 26, 2010 with the mission of ensuring economically disadvantaged families and families of children with disabilities have equal access to the customized K-12 learning options they need to effectively educate their children. AAA believes that educational option programs spur improvements by equipping parents with the tools to seek the best education for their children. AAA's primary focus is in providing access to learning options for children from low-income and working-class families and for children with disabilities.

AAA Scholarship Foundation - FL, LLC ("AAA-FL") is a wholly-owned subsidiary of AAA that commenced operation in December 2013.

AAA is an approved Scholarship Organization ("SO") in Georgia, Arizona, and Nevada. AAA-FL is an approved SO in Florida. As an SO, AAA and AAA-FL (together, referred to as "AAA") may receive re-directed taxes from taxpayers which are then distributed to qualified students in the form of scholarships so they may attend the qualified private school of their parent's choice. Below are tables summarizing the five state tax credit programs administered by AAA during the twelve months ended June 30, 2019:

	Arizona Income-Based	Georgia Income-Based	Arizona Disabled-Displaced
Cap for Current Year	\$89.2 million	\$100 million	\$5 million
Year for Cap Purposes	July 1 - June 30	Jan 1 - Dec 31	July 1 - June 30
Taxes Available for Redirection	Corporate income tax & insurance premium tax	Corporate and individual income tax	Corporate income tax & insurance premium tax
Percentage of Tax Available for Redirection	100% for both taxes	75% for companies; Individuals filing as single or head of household can redirect up to \$1,000 per tax year. Individuals filing jointly can redirect up to \$2,500 per tax year	100% for both taxes
Value of Tax Credit	Dollar-for-dollar	Dollar-for-dollar	Dollar-for-dollar
State Mandated Maximum Annual Scholarship Value	\$5,400 for K-8 th grade \$6,700 for 9 th -12 th grade	\$9,817	90% of the amount of state aid that would otherwise have been computed for the student in Title 15, Chapter 9, Article 15
Scholarship Term	3 years	1 year	3 years
Administrative Allowance	10 percent	8% for first \$1.5 million; 6% for \$1.5 million – 10 million; 5% for \$10 million – 20 million; 4% over \$20 million	10 percent

AAA Scholarship Foundation, Inc.

Notes to Financial Statements (Continued)

June 30, 2019

I. Description of Organization (Continued)

	Nevada Income-Based	Florida Income-Based
Cap for Current Year	\$26 million (biennium)	\$873.6 million
Year for Cap Purposes	July 1 - June 30	Income Tax: Jan 1 – Corp FYE Insurance premium Tax: Jan 1 – Dec 31 Alcoholic beverages excise tax, direct pay sales and use tax, oil and/ or gas production tax and commercial lease sales tax: July 1 – June 30
Taxes Available for Redirection	Modified Business tax	Income tax, insurance premium tax, alcoholic beverage excise tax, direct pay sales and use tax, oil and/or gas production tax and commercial lease sales tax
Percentage of Tax Available for Redirection	100% for both taxes	100% for income tax, insurance premium, direct pays sales and use tax and commercial lease sales tax 90% for alcoholic beverage excise tax 50% for oil and /or gas production tax
Value of Tax Credit	Dollar-for-dollar	Dollar-for-dollar
State Mandated Maximum Annual Scholarship Value	\$8,132	Private schools \$6,519 K-5 th \$6,815 6 th -8 th \$7,112 9 th -12 th or \$500 transportation to public school outside of district
Scholarship Term	1 year	1 year
Administrative Allowance	5 percent	Zero percent for first 3 years then 3 percent

AAA is an approved administrator of the Florida Gardiner Scholarship Program (formerly known as the Florida Personal Learning Account or PLSA). The Florida Gardiner Scholarship Program was established in 2014 to provide parents the option to better meet the individual needs of their disabled children. Parents of eligible Florida children may use the accounts to purchase approved education related goods or services. The Gardiner Scholarship Program is funded by a direct appropriation from the Legislature, with the money disbursed to the various scholarship organizations based on the scholarship amounts awarded to each of their approved students. For the 2018-19 fiscal year, the state appropriation for the Florida Gardiner Scholarship Program was \$128,336,000.

2. Summary of Significant Accounting Policies

Accounts Receivable

Accounts receivable consists primarily of pledges receivable. Pledges receivable represent unconditional promises to give and are recorded as receivable and revenue at fair value when received. Management evaluates the collectability of its pledges receivable and records an allowance for estimated uncollectible amounts, if necessary.

Advertising Costs

Advertising costs are expensed as incurred. The amount charged for advertising expense for the twelve months ended June 30, 2019 was \$101,529.

Basis of Presentation

The financial statements of AAA have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. AAA is required to report information regarding its financial position and activities according to two classes of net assets:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations.

AAA Scholarship Foundation, Inc.

Notes to Financial Statements (Continued)

June 30, 2019

2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of AAA and/or the passage of time. When a restriction is met or expires, net assets with donor restrictions are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

AAA considers currency held in demand deposits with financial institutions to be cash and cash equivalents. AAA maintains its cash accounts at a commercial institution. Deposits on account at commercial banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per account. At June 30, 2019, cash on deposit at a commercial bank exceeded the \$250,000 FDIC limit by \$12,409,464.

Change in Accounting Principles

AAA implemented FASB ASU No. 2016-14 in the current year. The new standards change the following aspects of the financial statements:

The temporarily restricted net asset class has been renamed net assets with donor restrictions.

The unrestricted net asset class has been renamed net assets without donor restrictions.

The financial statements include disclosures about liquidity and availability of resources, and the methods used to allocate expenses.

AAA also implemented ASC 958 in the current year for the Gardiner Scholarship Program to better reflect the agency-type nature of the program. ASC 958 requires a recipient organization that accepts cash or other financial assets from a donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both to a specified unaffiliated beneficiary to recognize the fair value of those assets as a liability to the specified beneficiary concurrent with recognition of the assets received from the donor.

Subsequently, when a grant is received or interest is earned for the Gardiner Scholarship Program, only the scholarship payable and Gardiner Scholarship cash accounts will now be affected. This change had the following impact on the financial statement presentation, effective July 1, 2018:

The grant revenue line item has been removed from the Statement of Activities.

Interest earned on the idle Gardiner Scholarship program funds is no longer recorded as interest revenue on the Statement of Activities.

The scholarship expense value that would have been recorded in the same amount as the grant revenue and interest revenue is no longer being recorded.

The ASC 958 implementation created a cash versus accrual timing difference for the amortization of certain investments discounts. A reclassification entry was required to ensure the amortized discounts were not counted twice once the investment matured. The reclassification had the following net effect on beginning net assets at July 1, 2018:

AAA Scholarship Foundation, Inc.

Notes to Financial Statements (Continued)

June 30, 2019

2. Summary of Significant Accounting Policies (Continued)

Change in Accounting Principles (Continued)

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total Net Assets
Beginning Net Assets	\$ 1,088,272	\$ 19,542,114	\$ 20,630,386
ASC 958 Adjustment	-	(16,121)	(16,121)
Revised Beginning Net Assets	<u>\$ 1,088,272</u>	<u>\$ 19,525,993</u>	<u>\$ 20,614,265</u>

Contributions

Contributions received are recorded as net assets with or without donor restrictions depending on the existence and/or nature of any donor imposed stipulations.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. AAA recognized \$2,835 of donated goods during the twelve months ended June 30, 2019.

Estimates

The presentation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value

ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities AAA has the ability to access.

Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs would be developed based on the best information available in the circumstances and may include AAA's own data).

AAA Scholarship Foundation, Inc.

Notes to Financial Statements (Continued)

June 30, 2019

2. Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Income Taxes

AAA is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, AAA is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. AAA has determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS. The tax years from 2013 through 2018 remain subject to examination by the Internal Revenue Service.

Investments

AAA invests cash in excess of its immediate needs in Prime and Treasury money market funds, Fixed Income mutual funds and U.S. government securities. Investments are reported at fair value unless they are classified as held to maturity and reported at amortized cost.

Property and Equipment

AAA records property and equipment additions over \$2,500 at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

AAA reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the twelve months ended June 30, 2019.

Recent Accounting Pronouncements

In February 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The new guidance is effective for nonpublic entities for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted. AAA is currently evaluating the impact this ASU will have on its financial statements.

The FASB has issued certain new or modifications to, or interpretations of, existing accounting guidance in addition to the ASU described above. AAA is currently evaluating the impact these ASUs may have on its financial statements. At this time, AAA does not believe that any other new or modified guidance will have a material impact on AAA's reported financial position or activities in the near term.

AAA Scholarship Foundation, Inc.

Notes to Financial Statements (Continued)

June 30, 2019

3. Liquidity and Financial Asset Availability

AAA regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. AAA has various sources of liquidity at its disposal, including cash and cash equivalents, short-term investments, and a bank line of credit of \$500,000 to help manage unanticipated liquidity needs.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, AAA considers all expenditures related to its ongoing program activities, as well as the services undertaken to fund and support those activities, to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, AAA operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

AAA invests cash in excess of daily requirements in short-term investments. Effective July 1, 2016, AAA's governing board designated unrestricted interest and investment income earned on tax credit contributions to be used for any reasonable and appropriate purpose as determined by the President and approved by the board. Prior to that date, unrestricted earnings on tax credit contributions was designated for funding additional scholarships only. Although AAA does not intend to spend these board-designated funds on any general expenditures other than scholarships; if needed, these funds would become available with board approval.

As of June 30, 2019, the following tables show the total financial assets held by AAA that could readily be made available within one year of the balance sheet date to meet general expenditures:

Financial assets available to meet general expenditures over the next 12 months:

Cash & Cash Equivalents	\$	5,323,796
Account Receivable (Net)		22,674,630
Other Current Assets		79,170
Investments, Short-Term		30,411,543
Total	\$	<u>58,489,139</u>

4. Cash on Deposit for Scholarships

At June 30, 2019, cash on deposit for scholarships was as follows:

Georgia Private School Tax Credit Scholarship Program	\$	1,089,323
Arizona Low-Income Corporate Tax Credit Scholarship Program		402,762
Arizona Disabled-Displaced Tax Credit Scholarship Program		377,872
Florida Tax Credit Scholarship Program		1,612,428
Florida Gardiner Scholarship Program		72,814
Nevada Educational Choice Scholarship Program		1,012,747

5. Accounts Receivable

Accounts receivable at June 30, 2019 consists of the following:

Pledges Receivable	\$	22,632,764
School Refunds Receivable		41,866
Accounts Receivable (Net)	\$	<u>22,674,630</u>

AAA Scholarship Foundation, Inc.

Notes to Financial Statements (Continued)

June 30, 2019

5. Accounts Receivable (Continued)

At June 30, all pledges receivable are expected to be collected during the next year. Management has determined that the pledges receivable are fully collectible; therefore, no allowance for uncollectible pledges is considered necessary at June 30, 2019.

6. Investments

The following table presents AAA's investments and fair value hierarchy as of June 30, 2019:

Description	Amortized Cost	Level 1	Level 2	Level 3	Unrecognized Gain/(Loss)
U.S. government securities -short-term	\$ 21,669,506	\$ 21,697,017	\$ -	\$ -	\$ 27,511
Fixed income mutual fund -short-term	3,048,816	3,075,696	-	-	26,880
Prime and treasury money market short-term	<u>5,666,044</u>	<u>5,677,099</u>	<u>-</u>	<u>-</u>	<u>11,055</u>
Total short-term investments	30,384,366	30,449,812	-	-	65,446
U.S. government securities -long-term	<u>1,734,235</u>	<u>1,757,998</u>	<u>-</u>	<u>-</u>	<u>23,763</u>
Total	<u>\$ 32,118,601</u>	<u>\$ 32,207,810</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 89,209</u>

7. Held to Maturity Securities

AAA determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Securities are classified as held to maturity when the holder has the positive intent and ability to hold the securities to maturity. Held to maturity securities are recorded as either short or long-term on the Statement of Financial Position, based on contractual maturity date and are stated at amortized cost.

At June 30, 2019, AAA held investments in marketable securities that were classified as held to maturity and consisted of the following:

	Amortized Cost
Short-Term	
U.S. government securities	\$ 21,669,506
Long-Term	
U.S. government securities	<u>1,734,235</u>
Total held to maturity securities	<u>\$ 23,403,741</u>

AAA Scholarship Foundation, Inc.

Notes to Financial Statements (Continued)

June 30, 2019

8. Fixed Assets

At June 30, 2019, fixed assets consisted of the following:

Computers	\$	28,151
Computer Software		339,963
Furniture and Equipment		21,081
Intangible Asset		2,550
Leasehold Improvements		4,900
		<u>396,645</u>
Less accumulated depreciation and amortization		<u>(14,449)</u>
Net property and equipment	\$	<u>382,196</u>

Depreciation and amortization expense was \$7,221 for the twelve months ended June 30, 2019.

9. Debt

AAA has established an open-ended \$500,000 line of credit with a commercial bank. Interest on draws is charged at a variable rate and therefore is subject to increases or decreases without prior notice. The rate is equal to the Prime Rate plus 2.25% per annum. As of June 30, 2019, AAA had no outstanding balance.

AAA has one note payable for software development for \$320,759 as of June 30, 2019, financed directly with the vendor. The nominal interest rate is 4.75% compounded monthly. Payments are \$20,000 per month through 5/31/2020 and then are reduced to \$4,840 for the remainder of the loan period from 6/30/2020 through 5/31/2022. The first payment was due on June 30, 2019.

		June 30, 2019
Unsecured Note Payable	\$	<u>320,759</u>
Less Current Maturities		<u>(214,562)</u>
Note Payable, Long Term	\$	<u>106,197</u>

Principal payments on note payable are due as follows:

<u>Years Ended June 30</u>		<u>Amount</u>
2020	\$	214,562
2021		54,203
2022		51,994
Total future annual loan payments	\$	<u>320,759</u>

Interest expense year to date as of June 30, 2019 was \$796.

AAA Scholarship Foundation, Inc.

Notes to Financial Statements (Continued)

June 30, 2019

10. Operating Lease Commitments

AAA leases certain office space and equipment under operating leases which expire at various dates through February 2023.

Minimum future annual rental payments under operating leases are as follows:

<u>Years Ended June 30</u>	<u>Amount</u>
2020	\$ 80,928
2021	70,184
2022	72,005
2023	48,772
Total future annual minimum rent payments	\$ <u>271,889</u>

Rent expense for the twelve months ended June 30, 2019 was \$79,300.

11. Scholarships Awarded and Payable

AAA scholarships are awarded to qualified students for multi-year periods in Arizona and for a one-year period in Georgia, Florida and Nevada. To qualify for a scholarship, a student and the parents or guardian of that student must meet certain state and AAA requirements and agree to comply with certain other responsibilities.

For multi-year scholarships the parents or guardian must return a completed School Commitment Form by the specified deadline for subsequent years in order to remain eligible.

During the twelve months ended June 30, 2019, AAA recorded the following net scholarship awards/ (forfeits):

Georgia Private School Tax Credit Scholarship Program	\$ 1,233,440
Arizona Low-Income Corporate Tax Credit Scholarship Program	9,418,463
Arizona Disabled-Displaced Tax Credit Scholarship Program	298,995
Florida Tax Credit Scholarship Program	29,737,264
Nevada Educational Choice Scholarship	4,195,638

AAA Scholarship Foundation, Inc.

Notes to Financial Statements (Continued)

June 30, 2019

II. Scholarships Awarded and Payable (Continued)

The following schedule illustrates the net scholarships awarded but unpaid as of June 30, 2019:

	<u>Payable in 2019-20</u>	<u>Payable in 2020-21</u>	<u>Payable in 2020-22</u>	<u>Total</u>
Georgia Private School Tax Credit Scholarship Program	\$ 1,001,250	\$ -	\$ -	\$ 1,001,250
Arizona Low-Income Corporate Tax Credit Scholarship Program	8,888,200	6,733,775	2,004,100	17,626,075
Arizona Disabled-Displaced Tax Credit Scholarship Program	342,299	253,061	39,946	635,306
Florida Tax Credit Scholarship Program	7,201,937	-	-	7,201,937
Florida Gardiner Scholarship Program	3,714,565	-	-	3,714,565
Nevada Educational Choice Scholarship	4,633,125	-	-	4,633,125
Total:	<u>\$ 25,781,376</u>	<u>\$ 6,986,836</u>	<u>\$ 2,044,046</u>	<u>\$ 34,812,258</u>

Tax credit scholarship checks are disbursed in four installments each school year after receipt of completed verification reports from the schools. The verification reports limit the risk that a check might be issued for a student who has withdrawn from an eligible private school or the student's parent or guardian has not complied with their responsibilities under the programs.

Florida Gardiner Scholarship program disbursements are made pursuant to a request from a student's parent or guardian for an authorized education-related good or service. The disbursements are made electronically and may be made to a private school, a vendor or as a reimbursement to a parent or guardian.

12. Tax Credit Contributions

As an SO in Arizona, Florida, Georgia, and Nevada, AAA is eligible to receive tax credit contributions from taxpayers that owe certain taxes to the state. In return for their contribution to an eligible SO, the state grants a tax credit to the taxpayer.

During the twelve months ended June 30, 2019, AAA recorded the following re-directed taxes as contributions:

Georgia Private School Tax Credit Scholarship Program	\$ 1,145,170
Arizona Low-Income Corporate Tax Credit Scholarship Program	10,239,750
Arizona Disabled-Displaced Tax Credit Scholarship Program	-
Florida Tax Credit Scholarship Program	30,441,506
Florida Gardiner Scholarship Program	-
Nevada Educational Choice Scholarship Program	6,208,501

AAA Scholarship Foundation, Inc.

Notes to Financial Statements (Continued)

June 30, 2019

12. Tax Credit Contributions (Continued)

Of the re-directed taxes recorded as contributions, the following pledges were outstanding and deemed as collectible as of June 30, 2019:

Georgia Private School Tax Credit Scholarship Program	\$	-
Arizona Low-Income Corporate Tax Credit Scholarship Program		11,377,500
Arizona Disabled-Displaced Tax Credit Scholarship Program		-
Florida Tax Credit Scholarship Program		7,975,000
Nevada Educational Choice Scholarship Program		3,270,264

Each state allows an SO to claim a percentage of its re-directed taxes for reasonable and necessary expenses to administer the program. During the twelve months ended June 30, 2019, AAA claimed the following administrative allowances against re-directed taxes:

Georgia Private School Tax Credit Scholarship Program	\$	99,830
Arizona Low-Income Corporate Tax Credit Scholarship Program		1,137,750
Arizona Disabled-Displaced Tax Credit Scholarship Program		
Florida Tax Credit Scholarship Program		920,490
Nevada Educational Choice Scholarship Program		326,763

During the twelve months ended June 30, 2019, AAA realized the following interest and/or investment income on collected contributions:

Georgia Private School Tax Credit Scholarship Program	\$	9,051
Arizona Low-Income Corporate Tax Credit Scholarship Program		368,647
Arizona Disabled-Displaced Tax Credit Scholarship Program		1,579
Florida Tax Credit Scholarship Program		293,711
Nevada Educational Choice Scholarship Program		197,520

13. Grants

Florida Gardiner Scholarships are funded through a Florida Department of Education ("FL DOE") grant. The grant also provides for up to three percent of the authorized funding to be used for reasonable and necessary expenses to administer the program (an "administrative allowance"). AAA requests funding from the FL DOE once a student is determined eligible for the program. If the student withdraws from the program or is subsequently determined ineligible, the funds are returned to the FL DOE. If AAA incurs expenses to administer the withdrawing student's account, it is allowed to keep the administrative allowance, otherwise, the allowance is required to be returned to the FL DOE.

During the twelve months ended June 30, 2019, AAA recorded the following transactions related to the Florida Gardiner Scholarship program:

	<u>Scholarships</u>	<u>Administrative Allowance</u>
Grant Received from FL DOE	\$ 8,386,453	\$ 251,594
Returned to FL DOE	(297,400)	(8,146)
Net Grant Funds Received	<u>\$ 8,089,053</u>	<u>\$ 243,448</u>

AAA Scholarship Foundation, Inc.

Notes to Financial Statements (Continued)

June 30, 2019

13. Grants (Continued)

The Florida Gardiner Scholarship program allows students to transfer their scholarship accounts between eligible SFOs during the year. If an SFO incurs expenses to administer the student's account, they are allowed to keep the administrative allowance, otherwise, the allowance is required to be transferred along with the scholarship balance.

During the twelve months ended June 30, the following transfers occurred:

	<u>Scholarship Balance</u>	<u>Administrative Allowance</u>	<u>Interest</u>
Funds Transferred from an SFO	\$ 111,338	\$ 2,383	\$ 36
Funds Transferred to an SFO	(55,780)	(1,056)	(297)
Net Grant Funds Transferred	<u>\$ 55,558</u>	<u>\$ 1,327</u>	<u>\$ (261)</u>

Interest collected on Florida Gardiner Scholarship program funds must be allocated to each active student's account. If the student withdraws from the program or is subsequently determined ineligible, any unused interest is transferred to the FL DOE. If the student transfers to another SFO, any unused interest is transferred along with the student's scholarship funds.

During the twelve months ended June 30, 2019, AAA recorded the following transactions related to interest earned on the Florida Gardiner Scholarship program accounts:

Interest Collected	\$ 64,282
Interest Transferred to FL DOE	<u>(2,047)</u>
Net Interest Collected for Students	<u>\$ 62,235</u>

The Florida Tax Credit Scholarship Program requires that net eligible contributions remaining on June 30 of each year that are in excess of the 25 percent that may be carried forward shall be transferred to other eligible nonprofit scholarship-funding organizations to provide scholarships for eligible students. AAA made a grant payment of \$4,886,275 to an eligible nonprofit scholarship-funding organization during the 12 months ended June 30, 2019 in order to comply with this requirement.

14. Net Assets With Donor Restrictions

As of June 30, 2019, net assets with donor restrictions are restricted for the following purposes:

Georgia Private School Tax Credit Scholarship Program	\$ 74,855
Arizona Low-Income Corporate Tax Credit Scholarship Program	7,268,331
Arizona Disabled-Displaced Tax Credit Scholarship Program	-
Florida Tax Credit Scholarship Program	7,739,255
Nevada Educational Choice Scholarship Program	<u>8,150,513</u>
Total	<u>\$ 23,232,954</u>

AAA Scholarship Foundation, Inc.

Notes to Financial Statements (Continued)

June 30, 2019

14. Net Assets With Donor Restrictions (Continued)

During the twelve months ended June 30, 2019, net assets were released from donor restrictions by incurring expenses satisfying the conditions specified by donors as follows:

Georgia Private School Tax Credit Scholarship Program	\$ 1,233,440
Arizona Low-Income Corporate Tax Credit Scholarship Program	9,275,725
Arizona Disabled-Displaced Tax Credit Scholarship Program	39,072
Florida Tax Credit Scholarship Program	29,744,408
Nevada Educational Choice Scholarship Program	4,035,321
Total	<u>\$ 44,327,966</u>

15. Major Donor

Contributions from nine major donors accounted for approximately 69 percent of contributions received for the twelve months ended June 30, 2019.

16. Compliance with State Statutes

As an SO in multiple states, AAA must comply with certain operational and reporting requirements established and adopted into law by each state. Failure to comply with these statutes may result in sanctions that suspend or revoke operations for that program. For the twelve months ending June 30, 2019, AAA believes it is in compliance with all material operating and reporting requirements for each applicable state.

17. Retirement Plan

AAA participates in a SIMPLE IRA Retirement Plan. This Plan is available for the benefit of all permanent, full-time employees over the age of twenty-one who have completed at least 30 days of service.

In accordance with the Internal Revenue Code and Plan agreement, AAA makes dollar-for-dollar matching contributions of up to 3% of each participating employee's compensation. AAA's contributions, which are included in wages and benefits in the statement of functional expenses, were \$14,567 year to date as of June 30, 2019.

18. Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, data, voice, and information technology which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, interest, insurance, and others, which are allocated on a weighted average of projected student counts.

19. Subsequent Events

AAA has evaluated events and transactions for potential recognition or disclosure through October 30, 2019, which is the date the financial statements were available to be issued.

Supplemental Information

AAA Scholarship Foundation, Inc.
AAA Scholarship Foundation - FL , LLC
Schedule of Expenditures of State Financial Assistance
For the Year Ended June 30, 2019

<u>State Agency and State Project</u>	<u>CSFA Number</u>	<u>Contract Number</u>	<u>State Expenditures</u>
State of Florida Department of Education			
Florida Gardiner Scholarship Program	48.113	92V-90025-9D001	\$ 8,332,501
Total Expenditures of State Financial Assistance			<u>\$ 8,332,501</u>

See Independent Auditor's Report.

AAA Scholarship Foundation, Inc.
AAA Scholarship Foundation - FL, LLC

Notes to Schedule of Expenditures of State Financial Assistance
For the year June 30, 2019

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of State Financial Assistance (the "Schedule") includes the grant activity of AAA Scholarship Foundation - FL, Inc. under programs of the State of Florida for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the requirements of the State of Florida, Chapter 10.650, *Rules of the Auditor General*. The Schedule presents only a selected portion of the operations of AAA Scholarship Foundation, Inc. and is not intended to and does not present the financial position, changes in net assets, or cash flows of AAA Scholarship Foundation, Inc.

Note 2 - Summary of Significant Accounting Policies

Expenditures are reported on the accrual basis of accounting, following the cost principles established by the State of Florida Department of Financial Services.

AAA Scholarship Foundation, Inc. implemented ASC 958 in the current year for the Gardiner Scholarship Program to better reflect the agency-type nature of the program. As an agent for this program, AAA does not recognize revenues and expenses in the accompanying Statement of Activities for scholarship funds received and distributed from the State of Florida. The expenditures reported on the Schedule represent \$8,089,053 distributed for program-related expenditures, and \$243,448, which was used to pay direct administrative expenses for the administration of the program on behalf of the State of Florida.

Contract Compliance

Report of Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Directors
AAA Scholarship Foundation, Inc.
Tampa, Florida

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and Chapter 10.650, *Rules of the Auditor General*, the financial statements of AAA Scholarship Foundation, Inc. ("AAA"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered AAA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of AAA's internal control. Accordingly, we do not express an opinion on the effectiveness of AAA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AAA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kukuing Barbanio & Co.

Sarasota, Florida
October 30, 2019

Report Independent Auditor's Report of on Compliance for Each Major State Project and Report on Internal Control over Compliance Required by Chapter 10.650, Rules of the Auditor General of the State of Florida

The Board of Directors
AAA Scholarship Foundation, Inc.
Tampa, Florida

Report on Compliance for Each Major State Financial Assistance Project

We have audited the compliance of AAA Scholarship Foundation, Inc. ("AAA"), with the types of compliance requirements described in the State of Florida Department of Financial Services Projects Compliance Supplement that could have a direct and material effect on AAA's major state financial assistance project for the year ended June 30, 2019. AAA's major state financial assistance project is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, and the terms and conditions of its state financial assistance project.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for AAA's major state financial assistance project based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.650, *Rules of the Auditor General*. Those standards and Chapter 10.650, *Rules of the Auditor General* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state financial assistance project occurred. An audit includes examining, on a test basis, evidence about AAA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major state financial assistance project. However, our audit does not provide a legal determination of AAA's compliance.

Opinion on Each Major State Financial Assistance Project

In our opinion, AAA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state financial assistance project for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of AAA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered AAA's internal control over compliance with the types of requirements that could have a direct and material effect on its major state financial assistance project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its state financial assistance project and to test and report on internal control over compliance in accordance with Chapter 10.650, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of AAA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state financial assistance project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state financial assistance project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state financial assistance project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.650, *Rules of the Auditor General* of the State of Florida. Accordingly, this report is not suitable for any other purpose.

Kukuing Barbario & Co.

Sarasota, Florida
October 30, 2019

**AAA Scholarship Foundation, Inc. Schedule of Findings
and Questioned Costs
For the Year Ended June 30, 2019**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of AAA Scholarship Foundation, Inc.
2. No material weaknesses or significant deficiencies related to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of AAA Scholarship Foundation, Inc. were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of the major state project are reported in the Independent Auditor's Report on Compliance for Each Major State Financial Assistance Project and on Internal Control over Compliance Required by the State of Florida Chapter 10.650, Rules of the Auditor General.
5. The auditor's report on compliance for the major state project for AAA Scholarship Foundation, Inc. expresses an unmodified opinion.
6. The project tested as a major project is the Florida Gardiner Scholarship Program, CSFA Number 48.113.
7. The threshold for distinguishing Type A and Type B programs/projects was \$750,000 for state financial assistance projects.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

No matters were reported

C. FINDINGS AND QUESTIONED COSTS FOR STATE FINANCIAL ASSISTANCE

No matters were reported

D. OTHER ISSUES

1. No Summary Schedule of Prior Audit Findings is presented because there were no matters reported for the year ending June 30, 2018.
2. No Corrective Action Plan is presented because there were no findings required to be reported under the Florida Single Audit Act.
3. There was no management letter or control deficiency letter issued for the year ended June 30, 2019 and there were no matters required to be reported in these letters.