

Step Up For Students, Inc. and Subsidiaries

Consolidated Financial Report
June 30, 2019

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Independent Auditor's Report

To the Board of Directors
Step Up For Students, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Step Up For Students, Inc. and its subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Step Up For Students, Inc. and its subsidiaries as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Step Up For Students, Inc. and its subsidiaries' 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 30, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Emphasis of Matter – Change in Accounting

As discussed in Note 1 to the accompanying consolidated financial statements, Step Up For Students, Inc. and its subsidiaries adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters – Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position and consolidating statement of activities is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of state financial assistance, as required by State of Florida Chapter 10.650, *Rules of the Auditor General*, is also presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 December 18, 2019, on our consideration of Step Up For Students, Inc. and its subsidiaries' 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 solely 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 Step Up For Students, Inc. and its subsidiaries' 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 Step Up For Students, Inc. and its subsidiaries' internal control over financial reporting and compliance.

RSM US LLP

Orlando, Florida
December 18, 2019

Step Up For Students, Inc. and Subsidiaries

Consolidated Statement of Financial Position

June 30, 2019

(With Summarized Comparative Information for June 30, 2018)

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 63,558,310	\$ 19,085,583
Pledges receivable, less allowance for uncollectible pledges of \$20,000,000 in 2019 and 2018	542,649,336	502,820,023
Accounts and grants receivable, less allowance for uncollectible accounts of \$661,235 and \$102,760 in 2019 and 2018, respectively	5,088,297	5,137,782
Prepaid expenses and other assets	858,639	701,402
Funds held in trust for students	82,182,389	58,467,378
Total current assets	694,336,971	586,212,168
Restricted certificate of deposit	130,000	196,000
Property and equipment, net	2,896,104	2,986,165
Total assets	\$ 697,363,075	\$ 589,394,333
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 828,692	\$ 289,742
Accrued expenses	2,262,437	1,946,954
Line of credit	35,000,000	14,986,632
Funds held in trust for students liability	82,182,389	58,467,378
Total current liabilities	120,273,518	75,690,706
Commitments (Note 6)		
Net assets:		
Without donor restrictions	6,621,589	8,115,532
With donor restrictions	570,467,968	505,588,095
Total net assets	577,089,557	513,703,627
Total liabilities and net assets	\$ 697,363,075	\$ 589,394,333

See notes to consolidated financial statements.

Step Up For Students, Inc. and Subsidiaries

Consolidated Statement of Activities

Year Ended June 30, 2019

(With Summarized Comparative Information for June 30, 2018)

	2019			Total 2018
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenues and support:				
Contributions and grants:				
Florida Tax Credit Scholarship Program, net	\$ 18,622,135	\$ 644,767,033	\$ 663,389,168	\$ 679,111,068
Hope Scholarship Program	1,264,022	40,870,044	42,134,066	-
Alabama Tax Credit Scholarship Program	180,772	3,439,665	3,620,437	21,009,746
Gardiner Scholarship Program	3,537,044	-	3,537,044	2,834,231
Reading Scholarship Program	84,280	-	84,280	-
Grants and other contributions	771,443	1,976,730	2,748,173	3,094,815
Other revenue and interest income	692,448	1,446,841	2,139,289	1,260,909
Scholarship service contract revenue	981,486	-	981,486	718,720
Net assets released from restrictions	627,620,440	(627,620,440)	-	-
Total revenues and support	653,754,070	64,879,873	718,633,943	708,029,489
Expenses:				
Program services:				
Florida Tax Credit Scholarship Program	625,981,768	-	625,981,768	648,283,010
Alabama Tax Credit Scholarship Program	9,380,985	-	9,380,985	9,926,404
Gardiner Scholarship Program	4,993,457	-	4,993,457	3,418,161
School Development and Student Learning	1,785,546	-	1,785,546	1,893,947
Communications, Policy and Public Affairs	1,732,298	-	1,732,298	3,565,575
Hope Scholarship Program	1,427,683	-	1,427,683	151,511
Scholarship Service Contract	1,010,028	-	1,010,028	766,733
Advocacy and Civic Engagement	934,496	-	934,496	472,526
Reading Scholarship Program	827,726	-	827,726	126,091
Family Empowerment Scholarship	107,480	-	107,480	-
Total program services	648,181,467	-	648,181,467	668,603,958
Supporting services:				
General and administrative	4,399,635	-	4,399,635	3,918,934
Development and fundraising	2,666,911	-	2,666,911	2,449,330
Total supporting services	7,066,546	-	7,066,546	6,368,264
Total expenses	655,248,013	-	655,248,013	674,972,222
Change in net assets	(1,493,943)	64,879,873	63,385,930	33,057,267
Net assets:				
Beginning	8,115,532	505,588,095	513,703,627	480,646,360
Ending	\$ 6,621,589	\$ 570,467,968	\$ 577,089,557	\$ 513,703,627

See notes to consolidated financial statements.

Step Up For Students, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses

Year Ended June 30, 2019

(With Summarized Comparative Information for June 30, 2018)

	2019										
	Program Services										
	Florida Tax Credit Scholarship Program	Alabama Tax Credit Scholarship Program	Gardiner Scholarship Program	School Development and Student Learning	Communications, Policy and Public Affairs	Hope Scholarship Program	Scholarship Service Contract	Advocacy and Civic Engagement	Reading Scholarship Program	Family Empowerment Scholarship	Total Program Services
Scholarships and grants	\$ 615,252,820	\$ 8,781,932	\$ -	\$ -	\$ -	\$ 290,968	\$ -	\$ -	\$ -	\$ -	\$ 624,325,720
Salaries and wages	5,475,165	224,085	3,537,075	921,703	895,571	850,646	494,778	257,410	524,890	89,553	13,270,876
Payroll taxes and employee benefits	1,617,979	37,469	451,716	300,930	272,298	43,842	104,335	77,665	34,912	14,688	2,955,834
Contract services	376,932	160,866	159,122	136,680	237,248	20,903	235,711	93,677	84,043	-	1,505,182
Other costs	842,721	27,915	86,285	108,298	87,426	22,887	20,913	143,101	23,938	198	1,363,682
Recruiting and advertising	475,133	12,011	225,012	-	10,716	73,668	6,656	8,240	52,763	26	864,225
Rent	266,321	25,064	157,461	57,623	50,230	33,895	33,895	27,116	33,895	-	685,500
Travel, lodging and meals	85,425	55,376	16,254	112,856	46,435	7,782	12,961	252,264	2,863	2,414	594,630
Depreciation	224,219	1,006	180,241	48,513	39,952	28,537	28,537	23,459	28,537	-	603,001
Professional fees	15,898	-	1,382	389	20,331	229	14,644	183	229	-	53,285
Write-off of school receivables	578,562	25,000	-	-	-	-	-	-	-	-	603,562
Repairs and maintenance	140,505	472	102,047	29,135	23,994	17,138	17,138	13,711	17,138	-	361,278
Printing and postage	154,155	12,913	11,019	19,509	2,708	9,711	14,314	8,707	4,356	-	237,392
Telephone	102,469	10,937	43,433	26,985	20,050	4,786	4,829	12,045	4,855	601	230,990
Bank charges and fees	244,662	-	(45,574)	-	-	10,191	-	-	3,121	-	212,400
Insurance	85,327	1,629	64,588	18,462	15,204	10,860	10,860	9,706	10,860	-	227,496
Office expenses	40,241	4,310	3,396	4,463	10,135	1,640	741	7,212	1,326	-	73,464
Temporary labor	3,234	-	-	-	-	-	9,716	-	-	-	12,950
Total	\$ 625,981,768	\$ 9,380,985	\$ 4,993,457	\$ 1,785,546	\$ 1,732,298	\$ 1,427,683	\$ 1,010,028	\$ 934,496	\$ 827,726	\$ 107,480	\$ 648,181,467

(Continued)

Step Up For Students, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses (Continued)
 Year Ended June 30, 2019
 (With Summarized Comparative Information for June 30, 2018)

	2019				
	Supporting Services				
	General and Administrative	Development and Fundraising	Total Supporting Services	Total Expenses	Total 2018 Expenses
Scholarships and grants	\$ -	\$ -	\$ -	\$ 624,325,720	\$ 650,979,063
Salaries and wages	1,462,006	1,378,519	2,840,525	16,111,401	12,743,602
Payroll taxes and employee benefits	574,775	336,602	911,377	3,867,211	3,225,823
Contract services	829,035	86,613	915,648	2,420,830	1,847,534
Other costs	330,505	212,287	542,792	1,906,474	950,590
Recruiting and advertising	72,551	43,527	116,078	980,303	661,958
Rent	123,441	67,131	190,572	876,072	809,539
Travel, lodging and meals	126,364	147,256	273,620	868,250	616,355
Depreciation	100,760	54,849	155,609	758,610	384,633
Professional fees	499,164	125,436	624,600	677,885	507,403
Write-off of school receivables	-	-	-	603,562	126,721
Repairs and maintenance	72,916	32,563	105,479	466,757	408,807
Printing and postage	34,834	83,513	118,347	355,739	308,886
Telephone	31,703	36,768	68,471	299,461	384,792
Bank charges and fees	85,772	-	85,772	298,172	431,288
Insurance	39,435	21,652	61,087	288,583	274,012
Office expenses	16,374	40,195	56,569	130,033	143,806
Temporary labor	-	-	-	12,950	167,410
Total	\$ 4,399,635	\$ 2,666,911	\$ 7,066,546	\$ 655,248,013	\$ 674,972,222

See notes to consolidated financial statements.

Step Up For Students, Inc. and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended June 30, 2019
(With Summarized Comparative Information for June 30, 2018)

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 63,385,930	\$ 33,057,267
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	758,610	384,633
Provision for uncollectible pledges	13,436,770	19,450,366
Write-off of school receivables	603,562	126,721
Change in operating assets and liabilities:		
(Increase) decrease in assets:		
Pledges receivable	(53,266,083)	(85,622,856)
Accounts and grants receivable	(554,077)	(3,671,712)
Prepaid expenses and other assets	(157,237)	(122,190)
Funds held in trust for students	(23,715,011)	(22,236,359)
Increase (decrease) in liabilities:		
Accounts payable	538,950	148,977
Accrued expenses	315,483	372,792
Funds held in trust for students liability	23,715,011	22,236,359
Net cash provided by (used in) operating activities	25,061,908	(35,876,002)
Cash flows from investing activities:		
Purchases of property and equipment	(668,549)	(1,957,806)
Decrease in restricted certificate of deposit	66,000	29,000
Net cash used in investing activities	(602,549)	(1,928,806)
Cash flows from financing activities:		
Borrowings on line of credit	90,000,000	20,000,000
Repayments on line of credit	(69,986,632)	(5,013,368)
Net cash provided by financing activities	20,013,368	14,986,632
Net increase (decrease) in cash and cash equivalents	44,472,727	(22,818,176)
Cash and cash equivalents:		
Beginning	19,085,583	41,903,759
Ending	\$ 63,558,310	\$ 19,085,583
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 130,714	\$ 13,368

See notes to consolidated financial statements.

Step Up For Students, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(With Summarized Comparative Information as of or for the Year Ended June 30, 2018)

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: The primary mission of Step Up For Students, Inc. and its subsidiaries (collectively, the Organization) is to empower parents to pursue and engage in the most appropriate learning options for their children, with an emphasis on families who lack the information and financial resources to access these options. By pursuing this mission, the Organization helps public education fulfill the promise of equal opportunity.

Step Up For Students, Inc. (Step Up For Students) is a not-for-profit organization incorporated on February 18, 2000. Through the Florida Tax Credit Scholarship Program, Step Up For Students served 100,415 and 106,548 students in 1,811 and 1,818 private schools across Florida during the 2018 – 2019 and 2017 – 2018 school years, respectively.

Additionally, Step Up For Students administers the Gardiner Scholarship Program. The Gardiner Scholarship Program was created to provide the option for parents to better meet the individual educational needs of an eligible child. The Gardiner Scholarship Program provides eligible students a scholarship that can be used to purchase approved services or products. During the years ended June 30, 2019 and 2018, Step Up For Students administered the program on behalf of the State of Florida for 11,845 and 9,601 eligible children, respectively.

The Alabama Opportunity Scholarship Fund, LLC (Alabama Opportunity Scholarship Fund) is a not-for-profit limited liability company incorporated on October 4, 2013, whose sole member is Step Up For Students. The Alabama Opportunity Scholarship Fund was established to operate under the standards prescribed by the Alabama Accountability Act of 2013. Through the Alabama Opportunity Scholarship Fund K-12 scholarship program, 1,568 and 1,590 children received scholarships to attend private schools for the 2018 – 2019 and 2017 – 2018 school years, respectively.

The C2 Opportunity Scholarships, LLC (C2) is a not-for-profit limited liability company incorporated on November 28, 2018, whose sole member is Step Up For Students. C2 was established to operate under the standards prescribed by the Alabama Accountability Act of 2013. Through the C2 K-12 scholarship program, there were no scholarships made during the year ended June 30, 2019.

The Alabama Opportunity Action Fund (AOAF) is a not-for-profit organization incorporated on March 15, 2019, affiliated to Step Up For Students through common control and management, with the support of the American Federation for Children to create positive grassroots and legislative influence for scholarship programs and school choice programs in Alabama. AOAF brought dozens of scholarship families from around the State to the Statehouse to share their stories with Legislators and ask them to continue supporting the scholarship program. Additionally, AOAF spent the session creating a grassroots team to support an education savings account for special needs students, which it continues to grow.

Step Up For Students, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(With Summarized Comparative Information as of or for the Year Ended June 30, 2018)

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

The following is a summary of the programs operated by the Organization:

- **Florida Tax Credit Scholarship Program:** Step Up For Students, Inc. is approved under Florida Statute 1002.395 to serve as a Scholarship Funding Organization (SFO). Since July 1, 2011, Step Up For Students has been the predominate Florida SFO. As an SFO, Step Up For Students can solicit and receive corporate contributions that are entitled to a state tax credit against 100% of corporate income tax, insurance premium tax, and direct-pay sales tax liabilities, 90% of alcoholic beverage tax liabilities, and 50% of oil and gas severance tax liabilities. Those contributions, in turn, must be spent to provide scholarships to low income Florida school children in compliance with the Florida Tax Credit Scholarship Program. For the 2018 – 2019 school year and the 2017 – 2018 school year, qualified students received a maximum scholarship of \$7,111 and \$6,920, respectively, to attend a private school that have been approved by the State of Florida or \$750 for transportation to an out-of-district public school. Scholarships are expensed when a student attends a qualified school. Step Up For Students is allowed to use up to 3% of the contributions collected to administer the scholarship program.
- **Alabama Tax Credit Scholarship Program:** The Alabama Opportunity Scholarship Fund and C2 were established to operate under standards prescribed in the Alabama Accountability Act of 2013 and is approved under the Alabama Department of Revenue to serve as a Scholarship Granting Organization (SGO). In accordance with the Alabama Accountability Act of 2013 and the Administrative Rulings by the Alabama Department of Revenue, the Alabama Opportunity Scholarship Fund and C2 must use at least 95% of revenue from credit eligible scholarship donations and all interest and investment income attributable to these scholarship funds for educational scholarships. Therefore, the Alabama Opportunity Scholarship Fund and C2 may use no more than 5% of the amount of its scholarship donations for purposes other than making scholarship grants. As an SGO, the Alabama Opportunity Scholarship Fund and C2 can solicit and receive corporate and individual donations that entitle the donors to certain tax credits administrated by the Alabama Department of Revenue.
- **School Development and Student Learning:** This program oversees the process development intended to assist schools and families in establishing and maintaining collaborative partnerships that ensure the academic, social and emotional success of every child; while at the same time, upholding the belief that the ultimate responsibility for the education of the child resides with the parent.
- **Gardiner Scholarship Program:** In June 2014, legislation creating scholarships for special needs children was signed into law in Florida. This scholarship is for Florida students in kindergarten through 12th grade with one of the following disabilities: Autism, Muscular Dystrophy, Cerebral palsy, Down syndrome, Prader-Willi syndrome, Spina bifida, Williams syndrome, Intellectual Disability (severe cognitive impairment), Phelan McDermid Syndrome, rare diseases as defined by the National Organization for Rare Disorders, Anaphylaxis, deaf, visually impaired, dual sensory impaired, traumatic brain injured, hospital or home bound. Also, kindergarten students deemed "high risk" because of developmental delays may be eligible. The students need either an Individual Education Plan (IEP) from a Florida school district or a formal diagnosis from a licensed physician or psychologist to qualify. Students can participate in this scholarship as part of home education; however, they cannot be enrolled in a public school or be receiving any other state-sponsored scholarship, including the McKay Scholarship or the Florida Tax Credit Scholarship. A Gardiner Scholarship account is established for each child that is awarded a special needs scholarship. Parents use this money to personalize the education of their children with unique abilities by directing money towards a combination of programs and state approved providers. These include schools, therapists, specialists, curriculum and technology and college savings accounts.

Step Up For Students, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(With Summarized Comparative Information as of or for the Year Ended June 30, 2018)

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Step Up For Students, per the provisions of state statute, receives an administrative fee of 3% of funded scholarships from the State of Florida to cover the administration of the program on behalf of the State of Florida. During the years ended June 30, 2019 and 2018, Step Up For Students received an administrative fee for administering the program on behalf of the State of Florida in the amount of approximately \$3,537,000 and \$2,834,000, respectively.

During the years ended June 30, 2019 and 2018, Step Up For Students distributed approximately \$97.8 million and \$77.2 million, leaving a balance of approximately \$79.5 million and \$58.5 million, respectively, which is recorded in the accompanying consolidated statement of financial position as both an asset and liability. Step Up For Students is acting as an agent for this program; therefore, there are no revenues and expenses reported on the accompanying consolidated statement of activities for scholarship funds received and distributed from the State of Florida.

- **Communications, Policy and Public Affairs:** This program takes the message of the scholarship program to constituency groups, community and political leaders, and local, state and national news publications. It creates monthly student spotlights, issues press releases on topics of special concern, writes commentary for various publications and publishes a newsletter. The group also analyzes demographic, achievement and participation data and trends in the program and school choice movement.
- **Advocacy and Civic Engagement:** This program, through the Florida Parent Network, organizes parents and supporters who believe children should be educated based on how they learn, rather than where they live. This includes parents who utilize scholarships as well as charter, magnet, home and virtual schools. The Florida Parent Network educates, informs and trains parents to be advocates and supporters for the protections and expansion of choice opportunities. Advocacy and civic engagement provides these services to parents of children participating in programs administered by the Organization and to parents utilizing other choice options under contract service agreements with choice advocacy groups.
- **Scholarship Service Contract:** Step Up For Students has contracted with Empower Illinois, an approved 501(c)(3), Scholarship Granting Organization (SGO) in the State of Illinois, that administers the Illinois Invest in Kids Scholarship program, a tax credit scholarship program. Effective November 2017, Step Up For Students has provided scholarship administration services for Empower Illinois, both in-house and through a third-party partner. Empower Illinois can solicit and receive corporate and individual contributions that are entitled to a 75% state tax credit of corporate and individual state income tax. Those contributions, in turn must be spent to provide scholarships to low income Illinois school children in compliance with the Invest in Kids Act. For the 2018 – 2019 school year, qualified students received scholarships of up to \$13,336, or for Individuals with Disabilities Education Act students, up to \$26,673, to attend a participating private school within the State of Illinois. Scholarships are expended when a student attends a participating school. Empower Illinois is allowed to use up to 5% of the contributions collected to administer this program, and Step Up For Students is compensated for its work by Empower Illinois via those administrative funds.

Step Up For Students, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(With Summarized Comparative Information as of or for the Year Ended June 30, 2018)

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

- **Hope Scholarship Program:** The Hope Scholarship Program was established by Florida Statute 1002.40, which was created in 2018 to provide the option of private-school scholarships to students in public schools who have experienced acts of bullying and intimidation. Step Up For Students, as an approved Scholarship Funding Organization (SFO), is authorized to administer Hope Scholarships. The Hope law provides that automobile buyers may redirect up to \$105 of their state taxes on each purchase toward an authorized SFO. Those contributions must be used to provide tuition scholarships to participating private schools or a \$750 transportation scholarship to a public school in another district. Any unused funds in the Hope Scholarship Program can be used to fund scholarships to students in the Florida Tax Credit Scholarship Program in the next State of Florida fiscal year. The maximum tuition scholarships for 2018 – 2019 are \$6,519 for elementary grades, \$6,815 for middle school and \$7,111 for high school. Step Up for Students is allowed to use up to 3% of the contributions to administer the scholarship. The Hope Scholarship Program became effective for the 2018 – 2019 school year and served 128 students. During the year ended June 30, 2019, Step Up For Students collected \$42,134,066 of eligible contributions. Step Up For Students claimed an administrative allowance of \$1,264,022 and expended \$290,968 for scholarships during the year ended June 30, 2019.
- **Reading Scholarship Program:** The Reading Scholarship Program was established by Florida Statute 1002.411, which was created in 2018 to provide academic support for elementary school students who struggle in reading in district or charter schools. Step Up For Students, as an approved Scholarship Funding Organization (SFO), is authorized to administer the program. The scholarship is available to students in third- through fifth-grade who have scored a Level 1 or 2 on the English Language Arts section of the Florida Standards Assessment (FSA). Each scholarship is worth \$500, which the parent can use to pay for tuition and fees related to part-time tutoring, summer and after-school literacy programs, instructional materials and more. The funding is from direct state appropriation. A Reading Scholarship account is established for each child that is awarded a reading scholarship. The Reading Scholarship Program became effective for the 2018 – 2019 school year and served 5,658 students.

Step Up For Students, per the provisions of state statute, receives an administrative fee of 3% of funded scholarships from the State of Florida to cover the administration of the program on behalf of the State of Florida. During the year ended June 30, 2019, Step Up For Students received an administrative fee for administering the program on behalf of the State of Florida in the amount of approximately \$84,000.

During the year ended June 30, 2019, Step Up For Students distributed approximately \$304,000, leaving a balance of approximately \$2.7 million, which is recorded in the accompanying consolidated statement of financial position as both an asset and liability. Step Up For Students is acting as an agent for this program, therefore, there are no revenues and expenses reported on the accompanying consolidated statement of activities for scholarship funds received and distributed from the State of Florida.

- **Family Empowerment Scholarship:** In May 2019, Governor Ron Desantis signed into law the Family Empowerment Scholarship, which is intended to help reduce the waiting list for the Florida Tax Credit Scholarship Program and similarly services students from low-income and working-class households. Step Up For Students worked directly with the State Department of Education to administer this scholarship and its first-year goal in 2019 – 2020 is to serve 18,000 K-12 students.

Step Up For Students, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(With Summarized Comparative Information as of or for the Year Ended June 30, 2018)

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

A summary of the Organization's significant accounting policies follows:

Principles of consolidation: The consolidated financial statements include the accounts of Step Up For Students and its wholly owned subsidiaries, the Alabama Opportunity Scholarship Fund, LLC and C2 Opportunity Scholarships, LLC. In addition, the consolidated financial statements include the accounts of Alabama Opportunity Action Fund, which is affiliated to Step Up For Students through common control and management. All significant intercompany transactions have been eliminated in consolidation.

Comparative financial statements: The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Use of estimates: The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 support, and expenses during the reporting period. Actual results could differ from those estimates.

Basis of presentation: The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

A not-for-profit organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed stipulations, but may be designated for specific purposes by action of the Board of Directors.

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

Cash and cash equivalents: For purposes of the consolidated statement of cash flows, the Organization considers all short-term securities purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents excludes funds held in trust for students.

The Organization maintains their cash accounts at commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC). Balances exceed amounts insured by the FDIC and the Organization has not experienced any losses on such accounts. To help reduce any potential losses, excess balances are swept into a money market fund, which is invested in U.S. Government Obligations.

Step Up For Students, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(With Summarized Comparative Information as of or for the Year Ended June 30, 2018)

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Pledges receivable, contributions and grants: Contributions and grants are recorded in the period received at fair value as net assets without donor restrictions or net assets with donor restrictions support depending on the existence or nature of any donor restrictions. Contributions and grants that are restricted by the donor are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When time restrictions expire or purpose restrictions are fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Unconditional promises to give (pledges) are recognized as support in the period received at fair value. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Organization uses the allowance method to determine uncollectible pledges receivable. The allowance is established based upon management's analysis of specific pledges and other economic factors. The Organization has received promises to give from corporations for the Florida Tax Credit Scholarship Program, from corporations and individuals for the Alabama Tax Credit Scholarship Program, and from private foundations.

Pledges, which become uncollectible or for which an allowance is established in the year of the pledge, are written off against contribution revenue. Pledges which become uncollectible in subsequent years are charged to the allowance for uncollectible pledges.

Contributed services are recognized and reported at fair value in the period received, if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. There were no contributed services for the years ended June 30, 2019 and 2018.

Accounts and grants receivable: Accounts and grants receivable are stated at net realizable value. The Organization uses the allowance method to determine uncollectible accounts receivable. The allowance is established based upon management's analysis of specific accounts and other economic factors. In the opinion of management, an allowance for uncollectible accounts of \$661,235 and \$102,760 was considered necessary at June 30, 2019 and 2018, respectively.

Restricted certificate of deposit: Restricted certificate of deposit held by the Organization represents funds required to be set aside by the lessor relating to an office lease signed by the Organization in 2015 for collateral and is carried at amortized cost.

Property and equipment: Property and equipment are recorded at cost when purchased or at fair value at the date of gift, if contributed. Depreciation of property and equipment is computed using the straight-line method of accounting over the estimated useful lives of the depreciable assets. Routine maintenance and repair costs are charged to expense as incurred, while major replacements and improvements are capitalized as additions to the related assets. When assets are sold or retired, the related cost and accumulated depreciation are removed from the accounts and gains or losses from dispositions are credited or charged to income.

Step Up For Students, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(With Summarized Comparative Information as of or for the Year Ended June 30, 2018)

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Impairment of long-lived assets: The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate such value may not be recoverable. Recoverability of assets or asset groups to be held and used is measured by a comparison of the carrying amount of an asset or asset group to future net cash flows expected to be generated by the asset or asset group. If such assets or asset groups are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets or asset group. Assets or asset groups to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. No impairment of the Organization's long-lived assets or asset groups have been recognized during the years ended June 30, 2019 and 2018.

Funds held in trust for students and funds held in trust for students liability: Funds held in trust for students and funds held in trust for students liability represents funds received for the Gardiner Scholarship Program and the Reading Scholarship Program. A Gardiner Scholarship account is established for each child that is awarded a special needs scholarship and a Reading Scholarship account is established for each child that is awarded a reading scholarship. As parents use these funds in accordance with State of Florida guidelines, the asset and liability are reduced accordingly. The following represents a breakout of the funds held in trust for students and funds held in trust for students liability at June 30, 2019 and 2018:

	2019	2018
Gardiner Scholarship Program	\$ 79,443,366	\$ 58,467,378
Reading Scholarship Program	2,739,023	-
	<u>\$ 82,182,389</u>	<u>\$ 58,467,378</u>

Functional expenses: The costs of providing the various programs and supporting services have been summarized on a functional basis in the consolidated statement of activities and in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the various programs and supporting services benefited. Salaries and related payroll expenses are allocated among functional categories based on the estimated proportion of time spent to each function. All other expenses are allocated based on management's estimate of the relative functional activity.

Income taxes: Step Up For Students is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under similar provisions of the Florida Statutes. Accordingly, no provision for federal and state income taxes has been recorded in the accompanying consolidated financial statements. Step Up For Students has made an election under Section 501(h) of the Internal Revenue Code, which permits certain eligible 501(c)(3) organizations to make limited expenditures to influence legislation. Step Up For Students would be subject to an excise tax if it spends more than the amounts permitted. Such limits have not been exceeded.

The Alabama Opportunity Scholarship Fund is a disregarded entity for federal and state income tax purposes and, therefore, reports all federal and state tax information through Step Up For Students. Accordingly, no provision for federal and state income taxes has been recorded in the accompanying consolidated financial statements.

C2 is a disregarded entity for federal and state income tax purposes and, therefore, reports all federal and state tax information through Step Up For Students. Accordingly, no provision for federal and state income taxes has been recorded in the accompanying consolidated financial statements.

Step Up For Students, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(With Summarized Comparative Information as of or for the Year Ended June 30, 2018)

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

AOAF is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code and from state income taxes under similar provisions of the Alabama Statutes. Accordingly, no provision for federal and state income taxes has been recorded in the accompanying consolidated financial statements.

The Organization follows accounting standards relating to accounting for uncertainty in income taxes. Management assessed whether there were any uncertain tax positions which may give rise to income tax liabilities and determined that there were no such matters requiring recognition in the accompanying consolidated financial statements. Generally, the Organization is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before June 30, 2016.

Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will become effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the impact this ASU will have on its consolidated financial statements.

In February 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, *Leases (Topic 842)*. 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. Lessees will no longer be provided with a source of off-balance sheet financing. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Nonpublic entities should apply the amendments for fiscal years beginning after December 15, 2019. The Organization is currently evaluating the impact this ASU will have on its consolidated financial statements.

The FASB has issued certain new or modifications to, or interpretations of, existing accounting guidance in addition to the ASU's described above. The Organization has considered the new pronouncements and does not believe that any other new or modified guidance will have a material impact on the Organization's reported financial position or activities in the near term.

Change in accounting: In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 changes presentation and disclosure requirements for not-for-profit entities to provide qualitative and quantitative requirements as follows:

- Net assets presentation in two categories – net assets without donor restrictions and net assets with donor restrictions;
- Presentation of investment income net of investment expenses;
- Analysis of expenses by both natural and functional classification;
- Liquidity and availability of resources disclosure requirement;
- Presentation of operating cash flows either direct or indirect method; permits the use of direct method without reconciliation of change in net assets to net cash flows from operating activities.

Step Up For Students, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(With Summarized Comparative Information as of or for the Year Ended June 30, 2018)

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

As the result of ASU No. 2016-14 adoption, the Organization has adjusted the presentation of these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

Subsequent events: Management has assessed subsequent events through December 18, 2019, the date the consolidated financial statements were available to be issued.

Note 2. Tax Credit Scholarship Programs and Scholarships Awarded

Florida Tax Credit Scholarship Program and Scholarships Awarded – Florida Statutes permit Scholarship Funding Organizations participating in the Florida Tax Credit Scholarship Program to use up to 3% of eligible contributions received for administrative expenses. Scholarship Funding Organizations must expend for annual or partial-year scholarships an amount equal to or greater than 75% of the net eligible contributions remaining after administrative expenses during the year in which such contributions are collected. No more than 25% of such net eligible contributions may be carried forward for expenditure to the following year. During the year ended June 30, 2019, Step Up For Students collected \$615,088,723 of eligible contributions. Step Up For Students claimed an administrative allowance of \$18,452,512 and expended \$615,252,820 for scholarships during the year ended June 30, 2019. During the year ended June 30, 2018, Step Up For Students collected \$611,426,578 of eligible contributions. Step Up For Students claimed an administrative allowance of \$18,342,797 and expended \$641,591,249 for scholarships during the year ended June 30, 2018. During the year ended June 30, 2019, Step Up For Students received transferred funds from another SGO amounting to \$8,481,132 in which Step Up For Students was entitled to a 2% administrative allowance of \$169,623.

Scholarships under the Florida Tax Credit Scholarship Program are awarded annually to qualified students. To qualify for a scholarship, a student and the parents or guardian of that student must meet economic need requirements, enroll in an eligible private school and comply with certain other responsibilities for program participation. Scholarships for the 2018 – 2019 and 2017 – 2018 school years could not exceed \$7,111 and \$6,920, respectively. The scholarship checks are made payable to the student's parent or guardian and the private school. The checks are mailed to the schools in quarterly installments. Before the mailing, the schools verify the students' attendance and that the students' parents or guardians have complied with their responsibilities under the program. Both the parents or guardians and schools endorse the checks before they are deposited into the schools' bank accounts.

Alabama Tax Credit Scholarship Program and Scholarships Awarded – The Alabama Accountability Act of 2013 and the Administrative Rulings by the Alabama Department of Revenue permit Scholarship Granting Organizations participating in the Alabama Tax Credit Scholarship Program to use up to 5% of eligible contributions received for administrative expenses. Scholarship Granting Organizations must expend for scholarships an amount equal to or greater than 95% of the net eligible contributions remaining after administrative expenses. During the year ended June 30, 2019, the Alabama Opportunity Scholarship Fund collected \$3,339,900 of eligible contributions. The Alabama Opportunity Scholarship Fund claimed an administrative allowance of \$166,995 and expended \$8,781,932 for scholarships during the year ended June 30, 2019. During the year ended June 30, 2018, the Alabama Opportunity Scholarship Fund collected \$22,521,746 of eligible contributions. The Alabama Opportunity Scholarship Fund claimed an administrative allowance of \$1,126,045 and expended \$9,387,814 for scholarships during the year ended June 30, 2018. During the year ended June 30, 2019, C2 collected \$275,537 of eligible contributions. C2 claimed an administrative allowance of \$13,777 and there were amounts expended for scholarships during the year ended June 30, 2019.

Step Up For Students, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(With Summarized Comparative Information as of or for the Year Ended June 30, 2018)

Note 2. Tax Credit Scholarship Programs and Scholarships Awarded (Continued)

Scholarships under the Alabama Tax Credit Scholarship Program are awarded annually to qualified students. To qualify for a scholarship, a student and the parents or guardian of that student must meet economic need requirements, enroll in an eligible private school and comply with certain other responsibilities for program participation.

Note 3. Property and Equipment

Property and equipment consisted of the following at June 30:

	2019	2018
Furniture and equipment	\$ 1,320,061	\$ 1,505,601
Software	3,269,663	3,358,716
Leasehold improvements	47,544	58,625
	<u>4,637,268</u>	<u>4,922,942</u>
Less accumulated depreciation	(1,741,164)	(1,936,777)
	<u>\$ 2,896,104</u>	<u>\$ 2,986,165</u>

Depreciation expense for the years ended June 30, 2019 and 2018, was \$758,610 and \$384,633, respectively.

Note 4. Line of Credit

Step Up For Students has a \$40,000,000 line of credit agreement with a bank bearing interest at the one-month LIBOR interest rate plus 1.5% (4.0% at June 30, 2019). Interest on the line of credit is payable monthly and matures on April 29, 2020. The line of credit is collateralized by substantially all the assets of Step Up For Students. The Organization maintains the line of credit for the purpose of funding Florida Tax Credit Scholarship commitments in the event that expected contributions from donors are delayed. The line of credit had an outstanding balance of \$35,000,000 and \$14,986,632 at June 30, 2019 and 2018, respectively. On September 30, 2019, the line of credit was increased to \$60,000,000.

The outstanding balances were utilized to fund scholarships for the last distributions of the fiscal year for the Florida Tax Credit Scholarship Program. During 2019, several donors took advantage of a change in the statutory program provisions that allowed them to make donation payments up to the due date for submission of their tax returns. As such, pledges receivable increased by \$39,829,313 during 2019 and the Organization used the line of credit to offset these delayed receipts. The outstanding balances were repaid in full on July 2, 2019 and July 5, 2018 for the year ended 2019 and 2018, respectively.

Note 5. Net Assets

Net assets without donor restrictions are available for the following purposes at June 30:

	2019	2018
Undesignated	\$ 5,338,047	\$ 8,115,532
Board designated for specified purposes	1,283,542	-
	<u>\$ 6,621,589</u>	<u>\$ 8,115,532</u>

Step Up For Students, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(With Summarized Comparative Information as of or for the Year Ended June 30, 2018)

Note 5. Net Assets (Continued)

Net assets with donor restrictions are available for the following purposes at June 30:

	2019	2018
Florida Tax Credit Scholarship Program	\$ 521,424,386	\$ 491,496,263
Hope Scholarship	40,840,971	-
Alabama Tax Credit Scholarship Program	7,548,453	12,937,978
Communications, Policy and Public Affairs	654,158	1,153,854
	<u>\$ 570,467,968</u>	<u>\$ 505,588,095</u>

Net assets with donor restrictions were released from donor restrictions by incurring expenses satisfying the purpose specified by donors as follows:

	2019	2018
Florida Tax Credit Scholarship Program	\$ 615,886,182	\$ 641,657,071
Hope Scholarship	290,968	-
Alabama Tax Credit Scholarship Program	9,226,864	9,910,152
Communications, Policy and Public Affairs	2,216,426	1,309,560
	<u>\$ 627,620,440</u>	<u>\$ 652,876,783</u>

Note 6. Commitments

The Organization leases certain office equipment and office space under operating leases which expire at various dates through August 2021. Rent expense for the years ended June 30, 2019 and 2018, was \$876,072 and \$809,539, respectively.

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

Years ending June 30:	
2020	\$ 605,719
2021	3,896
2022	649
	<u>\$ 610,264</u>

Step Up For Students, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(With Summarized Comparative Information as of or for the Year Ended June 30, 2018)

Note 7. Liquidity and Availability of Resources

As of June 30, 2019, the following reflects the Organization's financial assets, reduced by amounts not available for general use because of contractual or donor-imposed restrictions, board designations and amounts used to repay the line of credit on July 2, 2019 within one year of June 30, 2019.

Financial assets, at year-end	
Cash and cash equivalents	\$ 63,558,310
Pledges receivable, net	542,649,336
Accounts and grants receivable, net	5,088,297
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donors with purpose restrictions	(570,467,968)
Board designations:	
Board designated for Florida Tax Credit Scholarship Program	(1,283,542)
Repayment of line of credit on July 2, 2019	<u>(35,000,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 4,544,433</u></u>

The Organization's goal is to manage its tax-credited fundraising and associated scholarship commitments such that as many students as possible receive a scholarship while maintaining a 5% reserve of the funds received (approximately \$32.5 million). The purpose of that reserve is to provide for timing differences and potential rescindments by donors.

Historically, the Organization pays scholarship payments four times per year during the school year, the timing for which is established based on historical fundraising trends such that sufficient donations are received prior to each payment. Donations received between scholarship payments are invested in short-term U.S. Treasury instruments, the interest from which is designated by the Board of Directors to fund scholarships. The Company maintains a \$40 million line of credit (increased to \$60 million on September 30, 2019) for the purpose of funding scholarship commitments in the event that expected contributions from donors are delayed.

As of the statement of financial position date, the Organization has materially paid all scholarship commitments as the school year had ended for all of its scholarship recipients. During 2019, donors took advantage of a new statutory provision that allowed them to delay their contributions as long as they reserved their credits with the State of Florida prior to the end of their fiscal year. This new provision contributed to the delay of approximately \$56 million in tax-credited donations from 2019 to 2020, which significantly impacted cash flow forecasts. Accordingly, the Organization borrowed \$35 million in June 2019 to fund the final major distribution of the 2019 school year. The full amount was repaid on July 2, 2019, as sufficient funds were available.

Note 8. Major Donors

Step Up For Students: Contributions from one major donor accounted for approximately 22.4% of contributions and grants – Florida Tax Credit Scholarship Program during the year ended June 30, 2019. At June 30, 2019, approximately 26.7% of pledges receivable are due from this major donor. Contributions from two major donors accounted for approximately 32.0% of contributions and grants – Florida Tax Credit Scholarship Program during the year ended June 30, 2018. At June 30, 2018, approximately 34.4% of pledges receivable are due from these major donors.

Step Up For Students, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(With Summarized Comparative Information as of or for the Year Ended June 30, 2018)

Note 8. Major Donors (Continued)

Alabama Opportunity Scholarship Fund: Contributions from one major donor accounted for approximately 44.8% of contributions and grants – Alabama Tax Credit Scholarship Program during the year ended June 30, 2019. Contributions from one major donor accounted for approximately 14.3% of contributions and grants – Alabama Tax Credit Scholarship Program during the year ended June 30, 2018.

C2: Contributions from one major donor accounted for approximately 14.5% of contributions and grants – Alabama Tax Credit Scholarship Program during the year ended June 30, 2019.

Note 9. Retirement Plan

The Organization has a defined contribution 401(k) Savings Plan (the Plan). All employees who meet certain age and service requirements are eligible to participate in the Plan. The Plan provides for salary reduction contributions from employees up to the federal tax limit according to the Internal Revenue Code. In addition, there could be additional retirement benefits from discretionary employer contributions. Contributions to this Plan for the years ended June 30, 2019 and 2018, were \$756,938 and \$658,683, respectively, which is included in payroll taxes and employee benefits in the accompanying consolidated statement of functional expenses.

Step Up For Students, Inc. and Subsidiaries

**Consolidating Statement of Financial Position
June 30, 2019**

	Step Up For Students, Inc.	Alabama Opportunity Scholarship Fund, LLC	C2 Opportunity Scholarships, LLC	Alabama Opportunity Action Fund	Eliminations	Consolidated
Assets						
Current assets:						
Cash and cash equivalents	\$ 55,486,043	\$ 7,614,360	\$ 341,702	\$ 116,205	\$ -	\$ 63,558,310
Pledges receivable, net	542,644,336	5,000	-	-	-	542,649,336
Accounts and grants receivable, net	4,888,036	75,261	-	125,000	-	5,088,297
Prepaid expenses and other assets	835,210	23,429	-	-	-	858,639
Funds held in trust for students	82,182,389	-	-	-	-	82,182,389
Due from related party	61,075	-	-	-	(61,075)	-
Total current assets	686,097,089	7,718,050	341,702	241,205	(61,075)	694,336,971
Restricted certificate of deposit	130,000	-	-	-	-	130,000
Property and equipment, net	2,883,967	12,137	-	-	-	2,896,104
Total assets	\$ 689,111,056	\$ 7,730,187	\$ 341,702	\$ 241,205	\$ (61,075)	\$ 697,363,075
Liabilities and Net Assets						
Current liabilities:						
Accounts payable	\$ 774,599	\$ 54,093	\$ -	\$ -	\$ -	\$ 828,692
Accrued expenses	2,200,830	47,303	6,683	7,621	-	2,262,437
Line of credit	35,000,000	-	-	-	-	35,000,000
Funds held in trust for students liability	82,182,389	-	-	-	-	82,182,389
Due to related party	-	39,312	12,993	8,770	(61,075)	-
Total current liabilities	120,157,818	140,708	19,676	16,391	(61,075)	120,273,518
Net assets:						
With donor restrictions	6,258,537	302,786	60,266	-	-	6,621,589
Without donor restrictions	562,694,701	7,286,693	261,760	224,814	-	570,467,968
Total net assets	568,953,238	7,589,479	322,026	224,814	-	577,089,557
Total liabilities and net assets	\$ 689,111,056	\$ 7,730,187	\$ 341,702	\$ 241,205	\$ (61,075)	\$ 697,363,075

Step Up For Students, Inc. and Subsidiaries

**Consolidating Statement of Activities
Year Ended June 30, 2019**

	Step Up For Students, Inc.			Alabama Opportunity Scholarship Fund, LLC		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support:						
Contributions and grants:						
Florida Tax Credit Scholarship Program, net	\$ 18,622,135	\$ 644,767,033	\$ 663,389,168	\$ -	\$ -	\$ -
Hope Scholarship Program	1,264,022	40,870,044	42,134,066	-	-	-
Alabama Tax Credit Scholarship Program	-	-	-	166,995	3,177,905	3,344,900
Gardiner Scholarship Program	3,537,044	-	3,537,044	-	-	-
Reading Scholarship Program	84,280	-	84,280	-	-	-
Grants and other contributions	651,991	1,426,730	2,078,721	300	210,000	210,300
Other revenue and interest income	692,448	1,309,167	2,001,615	-	137,674	137,674
Scholarship service contract revenue	981,486	-	981,486	-	-	-
Net assets released from restrictions	618,328,390	(618,328,390)	-	9,176,864	(9,176,864)	-
Total revenues and support	644,161,796	70,044,584	714,206,380	9,344,159	(5,651,285)	3,692,874
Expenses:						
Program services:						
Florida Tax Credit Scholarship Program	625,981,768	-	625,981,768	-	-	-
Alabama Tax Credit Scholarship Program	-	-	-	9,360,220	-	9,360,220
Gardiner Scholarship Program	4,993,457	-	4,993,457	-	-	-
School Development and Student Learning	1,785,546	-	1,785,546	-	-	-
Communications, Policy and Public Affairs	1,667,112	-	1,667,112	-	-	-
Hope Scholarship Program	1,427,683	-	1,427,683	-	-	-
Scholarship Service Contract	1,010,028	-	1,010,028	-	-	-
Advocacy and Civic Engagement	923,754	-	923,754	10,612	-	10,612
Reading Scholarship Program	827,726	-	827,726	-	-	-
Family Empowerment Scholarship	107,480	-	107,480	-	-	-
Total program services	638,724,554	-	638,724,554	9,370,832	-	9,370,832
Supporting services:						
General and administrative	4,108,789	-	4,108,789	236,594	-	236,594
Development and fundraising	2,508,286	-	2,508,286	111,109	-	111,109
Total supporting services	6,617,075	-	6,617,075	347,703	-	347,703
Total expenses	645,341,629	-	645,341,629	9,718,535	-	9,718,535
Change in net assets	(1,179,833)	70,044,584	68,864,751	(374,376)	(5,651,285)	(6,025,661)
Net assets:						
Beginning	7,438,370	492,650,117	500,088,487	677,162	12,937,978	13,615,140
Ending	\$ 6,258,537	\$ 562,694,701	\$ 568,953,238	\$ 302,786	\$ 7,286,693	\$ 7,589,479

Step Up For Students, Inc. and Subsidiaries

Consolidating Statement of Activities (Continued)
Year Ended June 30, 2019

	C2 Opportunity Scholarships, LLC			Alabama Opportunity Action Fund			Consolidated
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	
Revenues and support:							
Contributions and grants:							
Florida Tax Credit Scholarship Program, net	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 663,389,168
Hope Scholarship Program	-	-	-	-	-	-	42,134,066
Alabama Tax Credit Scholarship Program	13,777	261,760	275,537	-	-	-	3,620,437
Gardiner Scholarship Program	-	-	-	-	-	-	3,537,044
Reading Scholarship Program	-	-	-	-	-	-	84,280
Grants and other contributions	119,152	50,000	169,152	-	290,000	290,000	2,748,173
Other revenue and interest income	-	-	-	-	-	-	2,139,289
Scholarship service contract revenue	-	-	-	-	-	-	981,486
Net assets released from restrictions	50,000	(50,000)	-	65,186	(65,186)	-	-
Total revenues and support	182,929	261,760	444,689	65,186	224,814	290,000	718,633,943
Expenses:							
Program services:							
Florida Tax Credit Scholarship Program	-	-	-	-	-	-	625,981,768
Alabama Tax Credit Scholarship Program	20,765	-	20,765	-	-	-	9,380,985
Gardiner Scholarship Program	-	-	-	-	-	-	4,993,457
School Development and Student Learning	-	-	-	-	-	-	1,785,546
Communications, Policy and Public Affairs	-	-	-	65,186	-	65,186	1,732,298
Hope Scholarship Program	-	-	-	-	-	-	1,427,683
Scholarship Service Contract	-	-	-	-	-	-	1,010,028
Advocacy and Civic Engagement	130	-	130	-	-	-	934,496
Reading Scholarship Program	-	-	-	-	-	-	827,726
Family Empowerment Scholarship	-	-	-	-	-	-	107,480
Total program services	20,895	-	20,895	65,186	-	65,186	648,181,467
Supporting services:							
General and administrative	54,252	-	54,252	-	-	-	4,399,635
Development and fundraising	47,516	-	47,516	-	-	-	2,666,911
Total supporting services	101,768	-	101,768	-	-	-	7,066,546
Total expenses	122,663	-	122,663	65,186	-	65,186	655,248,013
Change in net assets	60,266	261,760	322,026	-	224,814	224,814	63,385,930
Net assets:							
Beginning	-	-	-	-	-	-	513,703,627
Ending	\$ 60,266	\$ 261,760	\$ 322,026	\$ -	\$ 224,814	\$ 224,814	\$ 577,089,557

Step Up For Students, Inc. and Subsidiaries

**Schedule of Expenditures of State Financial Assistance
Year Ended June 30, 2019**

Grantor/Program Title	State CSFA Number	Contract/ Grant Number	State Expenditures
State Financial Assistance			
Florida Department of Education and Commissioner of Education:			
Gardiner Scholarship Program	48.113	92X-90025-9D001	\$ 101,368,773
Reading Scholarship Accounts Program	48.157	92X-90550-9D001	<u>388,324</u>
Total expenditures of state financial assistance			<u><u>\$ 101,757,097</u></u>

See notes to schedule of expenditures of state financial assistance.

Step Up For Students, Inc. and Subsidiaries

Notes to Schedule of Expenditures of State Financial Assistance Year Ended June 30, 2019

Note 1. Basis of Presentation

The accompanying schedule of expenditures of state financial assistance (the Schedule) includes the state financial assistance project activity of Step Up For Students, Inc. and its subsidiaries (the Organization) under programs of the State of Florida for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of the State of Florida Chapter 10.650, *Rules of the Auditor General*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are recognized on the accrual basis of accounting. Such expenditures are reported following the cost principles established by the State of Florida Department of Financial Services, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers (contract or grant number) are presented where available.

Step Up For Students is acting as an agent for the Gardiner Scholarship Program; therefore, there are no revenues and expenses reported on the accompanying consolidated statement of activities for scholarship funds received and distributed from the State of Florida. The expenditures reported as state financial assistance on the Schedule represent amounts distributed for reimbursement of program-related educational expenditures on behalf of eligible children, which totaled \$97,831,729 and \$3,537,044 received from the State of Florida, which were used to pay administrative expenses for the administration of the program on behalf of the State of Florida.

Step Up For Students is acting as an agent for the Reading Scholarship Accounts Program; therefore, there are no revenues and expenses reported on the accompanying consolidated statement of activities for scholarship funds received and distributed from the State of Florida. The expenditures reported as state financial assistance on the Schedule represent amounts distributed for reimbursement of program-related expenditures on behalf of eligible children, which totaled \$304,044 and \$84,280 received from the State of Florida, which were used to pay administrative expenses for the administration of the program on behalf of the State of Florida.

Note 3. Subrecipients

There was no state financial assistance passed through to subrecipients by the Organization.

**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***

Independent Auditor's Report

To the Board of Directors
Step Up For Students, Inc.

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, the consolidated financial statements of Step Up For Students, Inc. and its subsidiaries (the Organization), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 18, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 a 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 the Organization's consolidated 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Orlando, Florida
December 18, 2019

**Report on Compliance for its Major State Financial Assistance Project and
Report on Internal Control Over Compliance Required by State of
Florida Chapter 10.650, *Rules of the Auditor General***

Independent Auditor's Report

To the Board of Directors
Step Up For Students, Inc.

Report on Compliance for its Major State Financial Assistance Project

We have audited Step Up For Students, Inc. and its subsidiaries' (the Organization) compliance with the types of compliance requirements described in the Department of Financial Services' State Projects Compliance Supplement that could have a direct and material effect on the Organization's major state financial assistance project for the year ended June 30, 2019. The Organization'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 state statutes, regulations, and the terms and conditions of its state financial assistance applicable to its state financial assistance project.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Organization'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 the State of Florida Chapter 10.650, *Rules of the Auditor General*. Those standards and the State of Florida 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 the Organization'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 the Organization's compliance.

Opinion on its Major State Financial Assistance Project

In our opinion, the Organization 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 the Organization 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 the Organization'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 major state financial assistance project and to test and report on internal control over compliance in accordance with the State of Florida 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 the Organization'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 the State of Florida Chapter 10.650, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

Orlando, Florida
December 18, 2019

Step Up For Students, Inc. and Subsidiary

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency(ies) identified?	<u> </u> Yes	<u> X </u> None Reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

State Financial Assistance

Internal control over major program:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency(ies) identified?	<u> </u> Yes	<u> X </u> None Reported

Type of auditor's report issued on compliance for major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 10.654(1)(h)(1)(f), *Rules of the Auditor General*? Yes X No

Identification of major program:

<u>CSFA Number(s)</u>	<u>Name of State Financial Assistance Project</u>
48.113	Gardiner Scholarship Program

Dollar threshold used to distinguish between type A and type B state financial assistance projects: \$ 3,052,713

II. Financial Statement Findings

No matters to report.

III. Findings and Questioned Costs for State Financial Assistance

No matters to report.

IV. Other Reporting

1. No Summary Schedule of Prior Audit Findings is presented because there were no prior audit findings related to state financial assistance projects.
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.