

ARETE SCHOLARS FUND, INC.

Financial Statements
With Independent Auditors' Report

June 30, 2017 and 2016

ARETE SCHOLARS FUND, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Arete Scholars Fund, Inc.
Dacula, Georgia

We have audited the accompanying financial statements of Arete Scholars Fund, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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.

(continued)

Board of Directors
Arete Scholars Fund, Inc.
Dacula, Georgia

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arete Scholars Fund, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Lawrenceville, Georgia
DATE

ARETE SCHOLARS FUND, INC.

Statements of Financial Position

| | June 30, | |
|---|---------------------|---------------------|
| | <u>2017</u> | <u>2016</u> |
| ASSETS: | | |
| Cash and cash equivalents: | | |
| Operating | \$ 293,588 | \$ 252,085 |
| Temporarily restricted for scholarships | <u>7,863,125</u> | <u>6,041,953</u> |
| | 8,156,713 | 6,294,038 |
| Other assets | <u>42,378</u> | <u>55,853</u> |
| Total Assets | <u>\$ 8,199,091</u> | <u>\$ 6,349,891</u> |
| LIABILITIES AND NET ASSETS: | | |
| Accounts payable and accrued expenses | <u>\$ -</u> | <u>\$ 21,611</u> |
| Net assets: | | |
| Unrestricted: | | |
| Available at board discretion | 335,966 | 286,327 |
| Temporarily restricted for: | | |
| Scholarships | <u>7,863,125</u> | <u>6,041,953</u> |
| | <u>8,199,091</u> | <u>6,328,280</u> |
| Total Liabilities and Net Assets | <u>\$ 8,199,091</u> | <u>\$ 6,349,891</u> |

See notes to financial statements

ARETE SCHOLARS FUND, INC.

Statements of Activities

| | Year Ended June 30, | | | | | |
|--------------------------------------|---------------------|---------------------------|--------------|--------------|---------------------------|--------------|
| | 2017 | | | 2016 | | |
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| SUPPORT AND REVENUE: | | | | | | |
| Support: | | | | | | |
| Contributions | \$ 113,969 | \$ - | \$ 113,969 | \$ 47,244 | \$ - | \$ 47,244 |
| Tax credit contributions | - | 5,123,439 | 5,123,439 | - | 4,923,662 | 4,923,662 |
| Interest and other revenue | 4,201 | - | 4,201 | 157 | 2,011 | 2,168 |
| Total Support and Revenue | 118,170 | 5,123,439 | 5,241,609 | 47,401 | 4,925,673 | 4,973,074 |
| RECLASSIFICATIONS: | | | | | | |
| Satisfaction of purpose restrictions | 2,898,626 | (2,898,626) | - | 1,740,672 | (1,740,672) | - |
| Administrative assessments (Note 1) | 403,641 | (403,641) | - | 389,656 | (389,656) | - |
| Total Reclassifications | 3,302,267 | (3,302,267) | - | 2,130,328 | (2,130,328) | - |
| EXPENSES: | | | | | | |
| Program services: | | | | | | |
| Scholarship awards | 2,898,626 | - | 2,898,626 | 1,736,253 | - | 1,736,253 |
| Other scholarship related costs | 248,755 | - | 248,755 | 331,058 | - | 331,058 |
| | 3,147,381 | - | 3,147,381 | 2,067,311 | - | 2,067,311 |
| Supporting activities: | | | | | | |
| General and administrative | 123,437 | - | 123,437 | 141,448 | - | 141,448 |
| Fund raising | 99,980 | - | 99,980 | 139,770 | - | 139,770 |
| | 223,417 | - | 223,417 | 281,218 | - | 281,218 |
| Total Expenses | 3,370,798 | - | 3,370,798 | 2,348,529 | - | 2,348,529 |
| Change in Net Assets | 49,639 | 1,821,172 | 1,870,811 | (170,800) | 2,795,345 | 2,624,545 |
| Net Assets, Beginning of Year | 286,327 | 6,041,953 | 6,328,280 | 457,127 | 3,246,608 | 3,703,735 |
| Net Assets, End of Year | \$ 335,966 | \$ 7,863,125 | \$ 8,199,091 | \$ 286,327 | \$ 6,041,953 | \$ 6,328,280 |

See notes to financial statements

ARETE SCHOLARS FUND, INC.

Statements of Cash Flows

| | Year Ended June 30, | |
|---|---------------------|---------------------|
| | <u>2017</u> | <u>2016</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 1,870,811 | \$ 2,624,545 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Change in other assets | 13,475 | (53,361) |
| Change in accounts payable and accrued expenses | (21,611) | 20,661 |
| Net Cash Provided by Operating Activities | <u>1,862,675</u> | <u>2,591,845</u> |
| Net Change in Cash and Cash Equivalents | 1,862,675 | 2,591,845 |
| Cash and Cash Equivalents, Beginning of Year | <u>6,294,038</u> | <u>3,702,193</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 8,156,713</u> | <u>\$ 6,294,038</u> |

See notes to financial statements

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2017 and 2016

1. NATURE OF ORGANIZATION:

Arete Scholars Fund, Inc. (Arete) was incorporated in June 2010, for the purpose of helping economically disadvantaged children discover and use their unique gifts and talents through educational opportunity. Arete accomplishes this by providing K-12 scholarships to low-income families, enabling their children to reach their highest potential. Arete is a non-profit organization as defined in section 501(c)(3) of the Internal Revenue Code (Code) and not a private foundation as defined in section 509 of the Code. The primary source of funding is contributions received from the general public, including individuals and corporations.

Arete operates as a Georgia Student Scholarship Organization (SSO). The state of Georgia has approved the existence of SSOs for the purpose of providing student scholarships to parents that will help cover the cost of a private school education for their children in the state of Georgia. Georgia taxpayers (individuals and corporations) are able to make contributions to SSOs and receive a dollar for dollar tax credit, within limits prescribed by the law, against their Georgia state income tax liability. An approved SSO can take administrative assessments against tax credit contributions received as follows: (a) up to 10% on the first \$1,500,000, (b) up to 7% on the next \$8,500,000, (c) up to 6% on the next \$10,000,000, and (d) up to 5% on all remaining amounts. An approved SSO must designate available amounts to particular students prior to December 31 of the calendar year in which the available amounts were received. As of June 30, 2017 and 2016, Arete was in compliance with these requirements. The following shows this transactional flow:

| | Year Ended June 30, | |
|--|---------------------|--------------|
| | 2017 | 2016 |
| Support and revenue received for scholarships: | | |
| Tax credit contributions | \$ 5,123,439 | \$ 4,923,662 |
| Administrative assessment against tax credit contributions: | | |
| From corporations | (397,929) | (388,171) |
| From individuals | (5,712) | (1,485) |
| Interest earned on these contributions prior to distribution | - | 2,011 |
| Amount eligible for scholarships, subject to the assessment and distribution requirements listed above | 4,719,798 | 4,536,017 |
| Balance temporarily restricted for scholarships, beginning of year | 6,041,953 | 3,242,189 |
| Amount available for scholarships in the current year | 10,761,751 | 7,778,206 |
| Scholarship expense | (2,898,626) | (1,736,253) |
| Balance temporarily restricted for scholarships, end of year | \$ 7,863,125 | \$ 6,041,953 |

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the statements to the reader.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and disclosures at the date of the financial statements. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash held in checking, savings, and money market accounts. While Arete maintains cash and cash equivalents in bank deposit accounts which, at times, exceed federally insured limits, it has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

NET ASSETS

The financial statements report amounts separately by class of net assets:

Unrestricted amounts are currently available at the discretion of or designated for specific purposes by the board of directors.

Temporarily restricted amounts are contributed with donor stipulations for specific operating purposes or programs, with time restrictions, or not currently available for use until commitments regarding their use have been fulfilled.

REVENUES, EXPENSES, AND RECLASSIFICATIONS

Revenue is recognized when earned and support when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of donated assets is transferred to Arete.

Arete reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated amounts. When a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

During the year ended June 30, 2017, 87% of total contributions were provided by six donors. During the year ended June 30, 2016, 79% of total contributions were provided by six donors. Arete understands the implications of these concentrations.

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUES, EXPENSES, AND RECLASSIFICATIONS, continued

Expenses are recorded when incurred in accordance with the accrual basis of accounting. The costs of providing various program services and supporting activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

UNCERTAIN TAX POSITIONS

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statements of activities. As of June 30, 2017, Arete had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

Arete files information tax returns in the U.S. and the state of Georgia. Arete is generally no longer subject to U.S. federal and state income tax examinations by tax authorities for the years before 2013.

3. OPERATING LEASE:

Arete leases office space under an operating lease agreement on a month to month basis. Monthly rental payments are \$1,200.

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2017 and 2016

4. **FUNCTIONAL EXPENSES:**

Functional expenses have been allocated as follows:

| | Year Ended June 30, 2017 | | | |
|------------------------------|--------------------------|-------------------------------|--------------|--------------|
| | Program | General and Administrative | Fund raising | Total |
| Scholarship awards | \$ 2,898,626 | \$ - | \$ - | \$ 2,898,626 |
| Private scholarships | 3,000 | - | - | 3,000 |
| Bank fees | - | 8,764 | - | 8,764 |
| Accounting fees | 656 | 38,980 | 264 | 39,900 |
| Outside contract services | - | 1,650 | - | 1,650 |
| Rent, parking, and utilities | 9,766 | 2,591 | 3,939 | 16,296 |
| Books and subscriptions | 2,480 | - | - | 2,480 |
| Postage and mailing | 295 | 78 | 119 | 492 |
| Printing and copying | 734 | 195 | 296 | 1,225 |
| Office supplies | 1,170 | 4,343 | 472 | 5,985 |
| Telephone | 3,865 | 1,025 | 1,559 | 6,449 |
| Advertising | - | 1,411 | - | 1,411 |
| Marketing | 20,604 | 5,332 | 8,179 | 34,115 |
| Insurance | - | 4,562 | - | 4,562 |
| Donor events | - | - | 2,298 | 2,298 |
| Other | 1,924 | 311 | 473 | 2,708 |
| Employee compensation | 150,114 | 39,829 | 60,543 | 250,486 |
| Payroll expenses | 9,661 | 2,563 | 3,896 | 16,120 |
| Employee benefits | 27,579 | 7,317 | 11,123 | 46,019 |
| Travel | 16,907 | 4,486 | 6,819 | 28,212 |
| | \$ 3,147,381 | \$ 123,437 | \$ 99,980 | \$ 3,370,798 |

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2017 and 2016

4. FUNCTIONAL EXPENSES, continued:

| | Year Ended June 30, 2016 | | | |
|------------------------------|--------------------------|-------------------------------|--------------|--------------|
| | Program | General and Administrative | Fund raising | Total |
| Scholarship awards | \$ 1,736,253 | \$ - | \$ - | \$ 1,736,253 |
| Private scholarships | 18,400 | - | - | 18,400 |
| Research and testing | 198 | - | - | 198 |
| Bank fees | - | 6,879 | - | 6,879 |
| Accounting fees | 584 | 39,174 | 236 | 39,994 |
| Outside contract services | - | 600 | - | 600 |
| Rent, parking, and utilities | 9,760 | 2,590 | 3,937 | 16,287 |
| Books and subscriptions | 5,605 | - | - | 5,605 |
| Postage and mailing | 394 | 104 | 159 | 657 |
| Printing and copying | 188 | 50 | 76 | 314 |
| Office supplies | 2,243 | 595 | 904 | 3,742 |
| Telephone | 4,461 | 1,184 | 1,800 | 7,445 |
| Advertising | - | 17,134 | - | 17,134 |
| Marketing | 23,457 | 6,223 | 9,460 | 39,140 |
| Insurance | - | 5,015 | - | 5,015 |
| Lobbying | 18,000 | - | - | 18,000 |
| Donor events | - | - | 29,108 | 29,108 |
| Other | 18,964 | 1,192 | 1,811 | 21,967 |
| Employee compensation | 169,654 | 45,014 | 68,424 | 283,092 |
| Payroll expenses | 12,976 | 3,443 | 5,233 | 21,652 |
| Employee benefits | 27,301 | 7,244 | 11,011 | 45,556 |
| Travel | 18,873 | 5,007 | 7,611 | 31,491 |
| | \$ 2,067,311 | \$ 141,448 | \$ 139,770 | \$ 2,348,529 |

5. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.