

ARETE SCHOLARS LOUISIANA, INC.

Financial Statements
With Independent Auditors' Report

June 30, 2017 and 2016

ARETE SCHOLARS LOUISIANA, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Arete Scholars Louisiana, Inc.
Baton Rouge, Louisiana

We have audited the accompanying financial statements of Arete Scholars Louisiana, 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 audit. We conducted our audit 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 Louisiana, Inc.
Baton Rouge, Louisiana

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arete Scholars Louisiana, 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 LOUISIANA, INC.

Statements of Financial Position

	June 30,	
	<u>2017</u>	<u>2016</u>
ASSETS:		
Cash and cash equivalents:		
Operating	\$ 2,087	\$ 83,925
Temporarily restricted for scholarships	103,422	1,131,529
	<u>105,509</u>	<u>1,215,454</u>
Other assets	-	43,823
	<u>-</u>	<u>43,823</u>
Total Assets	<u>\$ 105,509</u>	<u>\$ 1,259,277</u>
LIABILITIES AND NET ASSETS:		
Accounts payable and accrued expenses	\$ 40,469	\$ 16,348
	<u>40,469</u>	<u>16,348</u>
Net assets:		
Unrestricted and available at board discretion	(38,382)	111,400
Temporarily restricted for scholarships	103,422	1,131,529
	<u>65,040</u>	<u>1,242,929</u>
Total Liabilities and Net Assets	<u>\$ 105,509</u>	<u>\$ 1,259,277</u>

See notes to financial statements

ARETE SCHOLARS LOUISIANA, INC.

Statements of Activities

	Year Ended June 30,					
	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions:						
Private gifts and grants	\$ -	\$ -	\$ -	\$ 7,500	\$ -	\$ 7,500
Special event support	-	-	-	500	-	500
Rebate eligible receipts	-	844,712	844,712	-	1,715,059	1,715,059
Interest income	27	313	340	70	207	277
Total Support and Revenue	27	845,025	845,052	8,070	1,715,266	1,723,336
RECLASSIFICATIONS:						
Satisfaction of purpose restrictions	1,830,896	(1,830,896)	-	842,157	(842,157)	-
Administrative assessments (Note 1)	42,236	(42,236)	-	85,753	(85,753)	-
Total Reclassifications	1,873,132	(1,873,132)	-	927,910	(927,910)	-
EXPENSES:						
Program services	1,922,133	-	1,922,133	939,041	-	939,041
Supporting activities:						
General and administrative	42,142	-	42,142	57,203	-	57,203
Fund raising	58,666	-	58,666	61,026	-	61,026
	100,808	-	100,808	118,229	-	118,229
Total Expenses	2,022,941	-	2,022,941	1,057,270	-	1,057,270
Change in Net Assets	(149,782)	(1,028,107)	(1,177,889)	(121,290)	787,356	666,066
Net Assets, Beginning of Year	111,400	1,131,529	1,242,929	232,690	344,173	576,863
Net Assets, End of Year	\$ (38,382)	\$ 103,422	\$ 65,040	\$ 111,400	\$ 1,131,529	\$ 1,242,929

See notes to financial statements

ARETE SCHOLARS LOUISIANA, INC.

Statements of Cash Flows

	Year Ended June 30,	
	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,177,889)	\$ 666,066
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Change in other assets	43,823	(41,263)
Change in accounts payable and accrued expenses	24,121	15,261
Net Cash (Used) Provided by Operating Activities	<u>(1,109,945)</u>	<u>640,064</u>
Net Change in Cash and Cash Equivalents	(1,109,945)	640,064
Cash and Cash Equivalents, Beginning of Year	<u>1,215,454</u>	<u>575,390</u>
Cash and Cash Equivalents, End of Year	<u>\$ 105,509</u>	<u>\$ 1,215,454</u>

See notes to financial statements

ARETE SCHOLARS LOUISIANA, INC.

Notes to Financial Statements

June 30, 2017 and 2016

1. NATURE OF ORGANIZATION:

Arete Scholars Louisiana, Inc. (Arete) was incorporated in 2013, 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 Louisiana School Tuition Organization (STO). The state of Louisiana has approved the existence of STOs 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 Louisiana. Louisiana tax filers (individuals and corporations) are able to make contributions to STOs and receive a subsequent rebate from the Louisiana Department of Revenue equal to the amount of their donation, less an administrative fee assessed by the STO, expended on student scholarships. The maximum administrative fee that can be assessed by a STO is 5%. 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
Rebate eligible receipts:		
From corporations and individuals	\$ 844,712	\$ 1,715,059
Up to 5% assessment against these receipts	(42,236)	(85,753)
Interest earned on these receipts while deposited	313	207
Amount eligible for scholarships, subject to the assessment and distribution requirements listed above	802,789	1,629,513
Balance temporarily restricted for scholarships, beginning of year	1,131,529	344,173
Amount available for scholarships in the current year	1,934,318	1,973,686
Scholarship awards paid with rebate eligible receipts	(1,830,896)	(842,157)
Balance temporarily restricted for scholarships, end of year	\$ 103,422	\$ 1,131,529

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.

ARETE SCHOLARS LOUISIANA, INC.

Notes to Financial Statements

June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash held in checking and savings 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.

Rebate eligible receipts are described in Note 1.

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. Interest earned on support received for scholarships prior to distribution is also reported as restricted. 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, 80% of total contributions and rebate eligible receipts were provided by four donors. During the year ended June 30, 2016, 65% of total contributions and rebate eligible receipts were provided by two donors. Arete understands the implications of these concentrations.

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.

ARETE SCHOLARS LOUISIANA, INC.

Notes to Financial Statements

June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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 Louisiana. Arete is generally no longer subject to U.S. federal and state income tax examinations by tax authorities for the years before 2013.

3. FUNCTIONAL EXPENSES:

Functional expenses have been allocated as follows:

	Year Ended June 30, 2017			
	Program	General and Administrative	Fund raising	Total
Scholarship awards	\$ 1,830,896	\$ -	\$ -	\$ 1,830,896
Personnel	63,538	11,821	42,852	118,211
Marketing and advertising	9,213	10,102	6,213	25,528
Occupancy	6,047	1,125	4,078	11,250
Professional fees	-	17,224	-	17,224
Travel and meals	4,248	790	2,865	7,903
Testing	4,550	-	-	4,550
Office supplies and other	3,641	1,080	2,658	7,379
	<u>\$ 1,922,133</u>	<u>\$ 42,142</u>	<u>\$ 58,666</u>	<u>\$ 2,022,941</u>

ARETE SCHOLARS LOUISIANA, INC.

Notes to Financial Statements

June 30, 2017 and 2016

3. FUNCTIONAL EXPENSES, continued:

	Year Ended June 30, 2016			
	<u>Program</u>	<u>General and Administrative</u>	<u>Fund raising</u>	<u>Total</u>
Scholarship awards	\$ 842,157	\$ -	\$ -	\$ 842,157
Personnel	62,778	11,680	42,338	116,796
Marketing and advertising	9,875	25,924	6,660	42,459
Occupancy	8,063	1,500	5,438	15,001
Professional fees	-	15,500	-	15,500
Travel and meals	5,845	1,088	3,942	10,875
Testing	623	-	-	623
Office supplies and other	9,700	1,511	2,648	13,859
	<u>\$ 939,041</u>	<u>\$ 57,203</u>	<u>\$ 61,026</u>	<u>\$ 1,057,270</u>

4. 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.