

**ARETE SCHOLARS
LOUISIANA, INC.**

Financial Statements
With Independent Auditors' Report

June 30, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017, 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
December 19, 2018

ARETE SCHOLARS LOUISIANA, INC.

Statements of Financial Position

	June 30,	
	<u>2018</u>	<u>2017</u>
ASSETS:		
Cash and cash equivalents:		
Operating	\$ 36,788	\$ 1,048
Temporarily restricted for scholarships	<u>844,096</u>	<u>104,461</u>
Total Assets	<u>\$ 880,884</u>	<u>\$ 105,509</u>
LIABILITIES AND NET ASSETS:		
Accounts payable and accrued expenses	<u>\$ 58,817</u>	<u>\$ 40,469</u>
	<u>58,817</u>	<u>40,469</u>
Net assets:		
Unrestricted and available at board discretion	(22,029)	(39,421)
Temporarily restricted for scholarships	<u>844,096</u>	<u>104,461</u>
	<u>822,067</u>	<u>65,040</u>
Total Liabilities and Net Assets	<u>\$ 880,884</u>	<u>\$ 105,509</u>

See notes to financial statements

ARETE SCHOLARS LOUISIANA, INC.

Statements of Activities

	Year Ended June 30,					
	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions	\$ -	\$ 3,021,090	\$ 3,021,090	\$ -	\$ 844,712	\$ 844,712
Interest and other income	1,053	-	1,053	27	313	340
Total Support and Revenue	1,053	3,021,090	3,022,143	27	845,025	845,052
RECLASSIFICATIONS:						
Satisfaction of purpose restrictions	2,130,400	(2,130,400)	-	1,829,857	(1,829,857)	-
Administrative assessments (Note 1)	151,055	(151,055)	-	42,236	(42,236)	-
Total Reclassifications	2,281,455	(2,281,455)	-	1,872,093	(1,872,093)	-
EXPENSES:						
Program services	2,196,385	-	2,196,385	1,922,133	-	1,922,133
Supporting activities:						
General and administrative	30,977	-	30,977	42,142	-	42,142
Fund raising	37,754	-	37,754	58,666	-	58,666
	68,731	-	68,731	100,808	-	100,808
Total Expenses	2,265,116	-	2,265,116	2,022,941	-	2,022,941
Change in Net Assets	17,392	739,635	757,027	(150,821)	(1,027,068)	(1,177,889)
Net Assets, Beginning of Year	(39,421)	104,461	65,040	111,400	1,131,529	1,242,929
Net Assets, End of Year	\$ (22,029)	\$ 844,096	\$ 822,067	\$ (39,421)	\$ 104,461	\$ 65,040

See notes to financial statements

ARETE SCHOLARS LOUISIANA, INC.

Statements of Cash Flows

	Year Ended June 30,	
	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 757,027	\$ (1,177,889)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in other assets	-	43,823
Change in accounts payable and accrued expenses	18,348	24,121
Net Cash Provided (Used) by Operating Activities	<u>775,375</u>	<u>(1,109,945)</u>
Net Change in Cash and Cash Equivalents	775,375	(1,109,945)
Cash and Cash Equivalents, Beginning of Year	<u>105,509</u>	<u>1,215,454</u>
Cash and Cash Equivalents, End of Year	<u>\$ 880,884</u>	<u>\$ 105,509</u>

See notes to financial statements

ARETE SCHOLARS LOUISIANA, INC.

Notes to Financial Statements

June 30, 2018 and 2017

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. Prior to December 31, 2017, Louisiana tax filers (individuals and corporations) were 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%. Effective January 1, 2018, based on a change in the statute pertaining to STOs, Louisiana tax filers (individuals and corporations) are able to make contributions to STOs and receive a credit against their Louisiana state tax liability equal to 95% of their contribution, within limits prescribed by the law. STOs can take administrative assessments against these tax credit contributions of up to 5%. As of June 30, 2018 and 2017, Arete was in compliance with these requirements. The following shows this transactional flow:

	Year ended June 30,	
	2018	2017
Contributions:		
Tax credit receipts	\$ 854,459	\$ -
Rebate eligible receipts	2,166,631	844,712
Up to 5% assessment against these receipts	(151,055)	(42,236)
Interest earned on these receipts while deposited	-	313
Amount eligible for scholarships, subject to the assessment and distribution requirements listed above	2,870,035	802,789
Balance temporarily restricted for scholarships, beginning of year	104,461	1,131,529
Amount available for scholarships in the current year	2,974,496	1,934,318
Scholarship awards paid with rebate eligible receipts	(2,130,400)	(1,829,857)
Balance temporarily restricted for scholarships, end of year	\$ 844,096	\$ 104,461

ARETE SCHOLARS LOUISIANA, INC.

Notes to Financial Statements

June 30, 2018 and 2017

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 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, 2018, 87% of total contributions and rebate eligible receipts were provided by twelve donors. During the year ended June 30, 2017, 80% of total contributions and rebate eligible receipts were provided by two donors. Arete understands the implications of these concentrations.

ARETE SCHOLARS LOUISIANA, INC.

Notes to Financial Statements

June 30, 2018 and 2017

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.

3. FUNCTIONAL EXPENSES:

Functional expenses have been allocated as follows:

	Year Ended June 30, 2018			
	Program	General and Administrative	Fund raising	Total
Scholarship awards	\$ 2,130,400	\$ -	\$ -	\$ 2,130,400
Personnel	49,941	9,291	33,681	92,913
Marketing and advertising	679	2,001	458	3,138
Professional fees	-	17,995	-	17,995
Travel and meals	2,267	422	1,531	4,220
Testing	6,900	-	-	6,900
Office supplies and other	6,198	1,268	2,084	9,550
	\$ 2,196,385	\$ 30,977	\$ 37,754	\$ 2,265,116

	Year Ended June 30, 2017			
	Program	General and Administrative	Fund raising	Total
Scholarship awards	\$ 1,829,857	\$ -	\$ -	\$ 1,829,857
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	4,680	1,080	2,658	8,418
	\$ 1,922,133	\$ 42,142	\$ 58,666	\$ 2,022,941

ARETE SCHOLARS LOUISIANA, INC.

Notes to Financial Statements

June 30, 2018 and 2017

4. **SUBSEQUENT EVENTS:**

Subsequent events have been evaluated through December 19, 2018, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.