

G.R.A.C.E. SCHOLARS, INC.

Financial Statements

May 31, 2017 and 2016



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G.R.A.C.E. Scholars, Inc.
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May 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

**Board of Directors
G.R.A.C.E. Scholars, Inc.
Atlanta, Georgia**

We have audited the accompanying financial statements of G.R.A.C.E. Scholars, Inc. (the Organization), which comprise the statements of financial position as of May 31, 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 audits 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 auditors' 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 Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of G.R.A.C.E. Scholars, Inc. as of May 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Caru, Riggs & Ingram, L.L.C.

Atlanta, Georgia
September 7, 2017

G.R.A.C.E. Scholars, Inc.

Statements of Financial Position

| <i>May 31,</i> | 2017 | 2016 |
|---|----------------------|----------------------|
| <hr/> | | |
| Assets | | |
| Cash | \$ 2,016,891 | \$ 270,943 |
| Cash, restricted | 11,437,263 | 9,966,684 |
| Investments, restricted | - | 3,246,367 |
| Other assets | - | 14,948 |
| <hr/> | | |
| Total assets | \$ 13,454,154 | \$ 13,498,942 |
| <hr/> | | |
| Liabilities and net assets | | |
| Liabilities | | |
| Accounts payable | \$ 1,072 | \$ 1,589 |
| Accrued expenses | 19,850 | 17,000 |
| Due to related party | 29,997 | 25,447 |
| Scholarships payable | 11,541,038 | 11,981,593 |
| <hr/> | | |
| Total liabilities | 11,591,957 | 12,025,629 |
| Net assets | | |
| Unrestricted | 643,694 | 406,565 |
| Temporarily restricted | 1,218,503 | 1,066,748 |
| <hr/> | | |
| Total net assets | 1,862,197 | 1,473,313 |
| <hr/> | | |
| Total liabilities and net assets | \$ 13,454,154 | \$ 13,498,942 |
| <hr/> | | |

The accompanying notes are an integral part of these statements.

G.R.A.C.E. Scholars, Inc.

Statement of Activities

Year Ended May 31, 2017

| | Unrestricted | Temporarily Restricted | Total |
|---|-------------------|---------------------------|---------------------|
| Revenues and other support | | | |
| Program revenue - scholarship contributions | \$ - | \$ 3,013,767 | \$ 3,013,767 |
| Administrative | 255,964 | (255,964) | - |
| Investment income | 204,362 | - | 204,362 |
| Realized and unrealized gain on investments | 4,903 | - | 4,903 |
| Net assets released from restrictions | 2,606,048 | (2,606,048) | - |
| Total revenues, gains, and support | 3,071,277 | 151,755 | 3,223,032 |
| Expenses | | | |
| Program expense - scholarship awards | 2,525,646 | - | 2,525,646 |
| General and administrative | 308,502 | - | 308,502 |
| Total expenses | 2,834,148 | - | 2,834,148 |
| Change in net assets | 237,129 | 151,755 | 388,884 |
| Net assets at beginning of year | 406,565 | 1,066,748 | 1,473,313 |
| Net assets at end of year | \$ 643,694 | \$ 1,218,503 | \$ 1,862,197 |

The accompanying notes are an integral part of this statement.

G.R.A.C.E. Scholars, Inc.**Statement of Activities**

| | <i>Year Ended May 31, 2016</i> | | |
|---|--------------------------------|---------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Total |
| Revenues and other support | | | |
| Program revenue - scholarship contributions | \$ - | \$ 3,064,569 | \$ 3,064,569 |
| Administrative | 259,520 | (259,520) | - |
| Investment income | 213,039 | - | 213,039 |
| Realized and unrealized loss on investments | (20,074) | - | (20,074) |
| Net assets released from restrictions | 2,669,574 | (2,669,574) | - |
| Total revenues, gains, and support | 3,122,059 | 135,475 | 3,257,534 |
| Expenses | | | |
| Program expense - scholarship awards | 2,796,928 | - | 2,796,928 |
| General and administrative | 310,190 | - | 310,190 |
| Total expenses | 3,107,118 | - | 3,107,118 |
| Change in net assets | 14,941 | 135,475 | 150,416 |
| Net assets at beginning of year | 391,624 | 931,273 | 1,322,897 |
| Net assets at end of year | \$ 406,565 | \$ 1,066,748 | \$ 1,473,313 |

The accompanying notes are an integral part of this statement.

G.R.A.C.E. Scholars, Inc.

Statements of Cash Flows

| <i>Years Ended May 31,</i> | 2017 | 2016 |
|---|---------------------|-------------------|
| Operating activities | | |
| Change in net assets | \$ 388,884 | \$ 150,416 |
| Adjustments to reconcile change in net assets to cash used in operating activities | | |
| Realized and unrealized (gain) loss on investments | (4,903) | 20,074 |
| Net present value adjustment | (160,614) | 319,087 |
| Changes in assets and liabilities | | |
| Restricted cash | (1,470,579) | (1,057,295) |
| Other assets | 14,948 | 616 |
| Accounts payable | (517) | (1,655) |
| Accrued expenses | 2,850 | - |
| Due to related party | 4,550 | (4,452) |
| Scholarship payable | (279,941) | (212,890) |
| Net cash used in operating activities | (1,505,322) | (786,099) |
| Investing activities | | |
| Purchase of investments | (131,344) | (566,896) |
| Proceeds from sale of investments | 3,382,614 | 1,383,217 |
| Net cash provided by investing activities | 3,251,270 | 816,321 |
| Net increase in cash and cash equivalents | 1,745,948 | 30,222 |
| Cash and cash equivalents, beginning of year | 270,943 | 240,721 |
| Cash and cash equivalents, end of year | \$ 2,016,891 | \$ 270,943 |

The accompanying notes are an integral part of these statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

G.R.A.C.E. Scholars, Inc. (the Organization) was formed on July 7, 2008, as a Georgia nonprofit Student Scholarship Organization (SSO). The mission of the Organization is to provide children from families with financial need throughout the state of Georgia with greater opportunities to secure a quality PK-12 Catholic education. As a qualified SSO, the Organization receives tax-deductible contributions from individuals and businesses and awards scholarships to eligible students. Under the SSO regulations, ninety to ninety-five percent of the scholarship contributions that SSO's receive must be used to fund scholarships, with the remaining percentage available to cover administrative and operating expenses. The required percentage used for scholarships increases as annual revenues increase.

Basis of Reporting

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

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, or permanently restricted net assets based on stipulations made by the donor.

A summary of the significant accounting principles of the Organization applied in the preparation of the accompanying financial statements follows.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all unrestricted, highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Contributions

Unconditional promises to give and contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of donor restrictions on the use of contributions to provide scholarships at the Organization's discretion at participating eligible schools. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (continued)

The Organization reports gifts of cash and other assets as restricted support to the extent that, under Georgia law as amended in 2013, the Organization is required to obligate at least ninety to ninety-five percent of its annual revenue received from donations for scholarship awards or tuition grants. When a scholarship or tuition grant is awarded, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and as net assets released from restrictions.

Other assets acquired by gift are recorded at their fair market value on the date of receipt. A number of volunteers have donated their time to the Organization's programs and supporting services. If donated services received either create or enhance non-financial assets or require specialized skills which would need to be purchased if not donated, the value of those donated services are recorded. There were no donated services for the years ended May 31, 2017 and 2016.

Income Taxes

The Organization is considered to be an integrated auxiliary of the Archdiocese of Atlanta and is, therefore, not required to file federal or state income tax returns. The Internal Revenue Service and State of Georgia have the right to examine the Organization from its inception, but have not indicated any intent to do so. The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. The Organization considers all of its activities to be directly related to its exempt purpose in 2017 and 2016, and does not believe it has any uncertain tax positions through the year ended May 31, 2017.

Advertising and Promotion

Advertising and promotion costs are expensed as incurred.

Investments

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Unrealized gains and losses are recognized as changes in net assets in the periods they occur. Investment income and realized and unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Scholarships Payable

The Organization awards student scholarships based on financial need and the scholarships normally cover multiple years. In accordance with financial accounting standards, scholarship awards are considered to be unconditional promises to give when there are no significant conditions associated with the scholarship awards and there are no provisions preserving a right of return of the scholarship award. As such, the scholarship awards are considered to be unconditional promises to give and are recorded at the cumulative award amount in the year the unconditional promise was made, discounted to the net present value of the future cash flows.

NOTE 2 - CONCENTRATIONS OF CREDIT RISK

Cash consists of demand deposits with financial institutions. Restricted cash consists of funds on deposit with the Archdiocese of Atlanta (Note 7). The Federal Deposit Insurance Company (FDIC) coverage is limited to \$250,000 for all funds in non-interest bearing bank accounts. Funds on deposit with the Archdiocese of Atlanta are not FDIC insured.

NOTE 3 - RESTRICTED CASH AND INVESTMENTS

Georgia law requires that SSO's use at least ninety percent of the scholarship contributions they receive to fund scholarships and that the scholarship funds be maintained in separate accounts from the organization's general operating funds. The Organization deposits into a separate interest bearing investment account, the required percentage of all contributions received plus any additional portion of contributions that the Organization intends to use for scholarship awards. Restricted cash and investment balances at May 31, 2017 and 2016, were \$11,437,263 and \$13,213,051, respectively.

G.R.A.C.E. Scholars, Inc.
Notes to Financial Statements

NOTE 4 - INVESTMENTS

At May 31, 2017 and 2016, investments consisted of the following:

| | 2017 | | 2016 | |
|--|-------------|-------------|---------------------|---------------------|
| | Fair Value | Cost | Fair Value | Cost |
| Short-term investment and money market funds | \$ - | \$ - | \$ 1,064 | \$ 1,064 |
| U.S. government and agency bonds | - | - | 1,871,755 | 1,864,851 |
| Corporate obligations | - | - | 1,373,548 | 1,427,437 |
| | \$ - | \$ - | \$ 3,246,367 | \$ 3,293,352 |

The Organization pays fees for the management of its investments. These fees are netted against investment income and totaled approximately \$6,000 and \$16,000 for the years ended May 31, 2017 and 2016, respectively.

NOTE 5 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets of \$772,800 and \$612,186 at May 31, 2017 and 2016, respectively, were restricted for the net present value adjustment to scholarships payable as described in Note 6.

Temporarily restricted net assets of \$445,703 and \$454,562 at May 31, 2017 and 2016, respectively, are restricted for scholarships to be awarded in the subsequent year.

NOTE 6 - SCHOLARSHIPS PAYABLE

Scholarships payable are reflected in the statements of financial position as of May 31, 2017 and 2016, in the amount of \$11,541,038 and \$11,981,593, respectively.

G.R.A.C.E. Scholars, Inc.
Notes to Financial Statements

NOTE 6 - SCHOLARSHIPS PAYABLE (CONTINUED)

Remaining commitments associated with these scholarships are as follows:

| <i>Year ending May 31,</i> | Scheduled Cash Outlay | Discount Component | Net Present Value |
|----------------------------|--------------------------|-----------------------|----------------------|
| 2018 | \$ 3,009,353 | \$ - | \$ 3,009,353 |
| 2019 | 2,529,140 | 107,241 | 2,421,899 |
| 2020 | 2,086,808 | 131,311 | 1,955,497 |
| 2021 | 1,538,780 | 127,728 | 1,411,052 |
| 2022 | 1,061,712 | 108,993 | 952,719 |
| Thereafter | 2,088,045 | 297,527 | 1,790,518 |
| | \$ 12,313,838 | \$ 772,800 | \$ 11,541,038 |

The schedule below is a reconciliation of scholarships awarded and scholarships payable. The amounts below do not include the discount required to reflect future scholarships payable at net present value.

| | 2017 | 2016 |
|---|----------------------|---------------|
| Scholarships payable, beginning of year | \$ 12,593,779 | \$ 12,806,669 |
| Scholarships awarded | 2,686,260 | 2,477,841 |
| Scholarships payments | (2,966,201) | (2,690,731) |
| Scholarships payable, end of year | \$ 12,313,838 | \$ 12,593,779 |

NOTE 7 - RELATED PARTY TRANSACTIONS

Restricted Cash

A portion of the scholarship funds (Note 3) are invested with the Archdiocese of Atlanta in the Archdiocese Deposit and Loan Fund (an interest-bearing deposit account). The Organization's funds invested in the Deposit and Loan Fund earned interest at the rate of 1.75% (2.25% prior to October 1, 2016). Funds on deposit in the Archdiocese of Atlanta Deposit and Loan Fund total \$11,437,263 and \$9,966,684, at May 31, 2017 and 2016, respectively.

G.R.A.C.E. Scholars, Inc.
Notes to Financial Statements

NOTE 7 - RELATED PARTY TRANSACTIONS (CONTINUED)

Management Services

During the year ended May 31, 2010, the Organization entered into a Management Agreement (the Agreement) with the Archdiocese whereby the Organization will be billed annually by the Archdiocese for the following services:

| | |
|------------------------|------------------|
| Financial reporting | \$ 7,000 |
| Cash management | 3,500 |
| Accounts payable | 3,500 |
| Payroll | 3,500 |
| Office space | 5,400 |
| IT and telephone usage | 1,100 |
| <hr/> | |
| Total | <u>\$ 24,000</u> |

The Agreement covered the twenty-four month period June 1, 2009 through May 31, 2011, and automatically renews for twelve months on June 1 of each succeeding year unless either party wishes to cancel the Agreement by giving notice to the other party.

As part of the Agreement, the Archdiocese hired onto its payroll full-time employees who work one-hundred percent of the time for the Organization. These employees are employed by the Archdiocese and receive all pay and benefits other full-time employees of the Archdiocese in similar positions receive. The Archdiocese processes all payroll and related costs for these employees and charges the Organization one-hundred percent of the actual cost. Payroll and related costs charged to the Organization for the employees are billed on a monthly basis. During the years ended May 31, 2017 and 2016, there were two employees covered under this arrangement.

The amounts due to related party totaled \$29,997 and \$25,447 as of May 31, 2017 and 2016, respectively.

NOTE 8 - CERTIFICATION FOR GEORGIA DEPARTMENT OF REVENUE

For the years ended May 31, 2017 and 2016, the Organization has met all the requirements under Georgia law O.C.G.A. § 20-2A-2, and is a SSO as defined in O.C.G.A. § 20-2A-1. The 2016 and 2015 calendar year reports submitted to the Georgia Department of Revenue pursuant to O.C.G.A. § 20-2A-3 are correct in all material respects.

NOTE 9 - FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be measured at fair value on a recurring basis. For the Organization, assets and liabilities that are adjusted to fair value on a recurring basis are investments and scholarships payable. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 - Valuations based on unadjusted quoted prices for identical instruments in active markets that are available as of the measurement date.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Cash, restricted cash, other assets, accounts payable, accrued expenses, and related party payables - reported at carrying value which approximates fair value based upon the nature of the instruments.

Investments - reported at fair value utilizing Level 1 and 2 inputs utilizing quoted market prices, if available. If quoted prices are not available, fair values are based on observable data that may include dealer quotes, market spreads, cash flows, U.S. Treasury yield curve, credit information and other similar attributes.

Scholarships payable - reported at fair value utilizing Level 3 inputs, based on the present value of expected future cash flows and a discount rate of 2.19% and 1.64% at May 31, 2017 and 2016, respectively. A decrease in the discount rate would increase the scholarships payable obligation. The valuation of the scholarships payable is determined annually by management.

G.R.A.C.E. Scholars, Inc.
Notes to Financial Statements

NOTE 9 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables set forth by level within the fair value hierarchy, the Organization's financial assets and liabilities measured at fair value on a recurring basis as of May 31, 2017 and 2016:

| May 31, 2017 | Total | Level 1 | Level 2 | Level 3 |
|-----------------------------|----------------------|----------------|----------------|----------------------|
| Scholarships payable | \$ 11,541,038 | \$ - | \$ - | \$ 11,541,038 |

| May 31, 2016 | Total | Level 1 | Level 2 | Level 3 |
|--|----------------------|-----------------|---------------------|----------------------|
| Investments | | | | |
| Short-term investment and money market funds | \$ 1,064 | \$ 1,064 | \$ - | \$ - |
| U.S. government and agency bonds | 1,871,755 | - | 1,871,755 | - |
| Corporate obligations | 1,373,548 | - | 1,373,548 | - |
| | \$ 3,246,367 | \$ 1,064 | \$ 3,245,303 | \$ - |
| Scholarships payable | \$ 11,981,593 | \$ - | \$ - | \$ 11,981,593 |

The following is a reconciliation of the change in fair value for the years ended May 31, 2017 and 2016, for Level 3:

| | 2017 | 2016 |
|-------------------------------|----------------------|---------------|
| Beginning of period | \$ 11,981,593 | \$ 11,875,396 |
| Scholarship awards | 2,686,260 | 2,477,841 |
| Scholarship payments | (2,966,201) | (2,690,731) |
| Discount to net present value | (160,614) | 319,087 |
| | \$ 11,541,038 | \$ 11,981,593 |

Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Organization could realize in a current market exchange.

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 7, 2017, which is the date that the financial statements were available to be issued.