

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

## **FINANCIAL STATEMENTS**

**May 31, 2020 and 2019**



**CRI** CARR  
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**G.R.A.C.E. Scholars, Inc.**  
**Table of Contents**  
**May 31, 2020 and 2019**

	<b>Page</b>
<b>REPORT</b>	
Independent Auditors' Report .....	1
<b>FINANCIAL STATEMENTS</b>	
Statements of Financial Position.....	3
Statements of Activities .....	4
Statements of Functional Expenses .....	5
Statements of Cash Flows .....	7
Notes to Financial Statements .....	9



**REPORT**



Carr, Riggs & Ingram, LLC  
4004 Summit Boulevard NE  
Suite 800  
Atlanta, GA 30319

770.394.8000  
770.451.2873 (fax)  
CRIcpa.com

## **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, 2020 and 2019, and the related statements of activities, functional expenses 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, 2020 and 2019, 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.

## Change in Accounting Policy

As discussed in Note 2 to the financial statements, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606); ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*; ASU 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted Cash*; and ASU 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The presentation of these financial statements have been updated accordingly. There was no significant impact to the Organization resulting from the adoption of these accounting policies.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Atlanta, Georgia  
September 25, 2020



## **FINANCIAL STATEMENTS**

**G.R.A.C.E. Scholars, Inc.**  
**Statements of Financial Position**

<i>May 31,</i>	<b>2020</b>	2019
<b>Assets</b>		
Cash	\$ 1,179,207	\$ 471,455
Cash, restricted	5,749,686	5,393,455
Investments, restricted	10,089,586	9,787,568
<b>Total assets</b>	<b>\$ 17,018,479</b>	<b>\$ 15,652,478</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable	\$ 4,275	\$ -
Accrued expenses	22,000	21,383
Due to related party	18,543	23,489
Scholarships payable	14,487,646	12,825,782
<b>Total liabilities</b>	<b>14,532,464</b>	<b>12,870,654</b>
Net assets		
Without donor restrictions		
Undesignated	823,395	1,053,790
Board designated	400,000	-
<b>Total net assets without donor restrictions</b>	<b>1,223,395</b>	<b>1,053,790</b>
With donor restrictions		
Purpose restrictions	939,947	917,436
Time restrictions	322,673	810,598
<b>Total net assets with donor restrictions</b>	<b>1,262,620</b>	<b>1,728,034</b>
<b>Total net assets</b>	<b>2,486,015</b>	<b>2,781,824</b>
<b>Total liabilities and net assets</b>	<b>\$ 17,018,479</b>	<b>\$ 15,652,478</b>

*The accompanying notes are an integral part of these financial statements.*

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

*For the year ended May 31, 2020*

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues and Other Support</b>			
Program revenue - scholarship contributions	\$ -	\$ 5,041,577	\$ 5,041,577
Administrative	332,495	(332,495)	-
Investment income	246,911	-	246,911
Realized and unrealized gain on investments	111,338	-	111,338
Net assets released from restrictions	5,174,496	(5,174,496)	-
<b>Total revenues, gains, and support</b>	<b>5,865,240</b>	<b>(465,414)</b>	<b>5,399,826</b>
<b>Expenses</b>			
Program expense	5,473,160	-	5,473,160
Fundraising	139,370	-	139,370
General and administrative	83,105	-	83,105
<b>Total expenses</b>	<b>5,695,635</b>	<b>-</b>	<b>5,695,635</b>
<b>Change in net assets</b>	<b>169,605</b>	<b>(465,414)</b>	<b>(295,809)</b>
<b>Net assets at beginning of year</b>	<b>1,053,790</b>	<b>1,728,034</b>	<b>2,781,824</b>
<b>Net assets at end of year</b>	<b>\$ 1,223,395</b>	<b>\$ 1,262,620</b>	<b>\$ 2,486,015</b>

*The accompanying notes are an integral part of this financial statement.*

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

*For the year ended May 31, 2019*

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues and Other Support</b>			
Program revenue - scholarship contributions	\$ -	\$ 5,371,950	\$ 5,371,950
Administrative	352,317	(352,317)	-
Investment income	113,071	-	113,071
Realized and unrealized gain on investments	146,239	-	146,239
Other revenue	81	-	81
Net assets released from restrictions	4,863,421	(4,863,421)	-
<b>Total revenues, gains, and support</b>	<b>5,475,129</b>	<b>156,212</b>	<b>5,631,341</b>
<b>Expenses</b>			
Program expense	4,715,695	-	4,715,695
Fundraising	139,139	-	139,139
General and administrative	92,903	-	92,903
<b>Total expenses</b>	<b>4,947,737</b>	<b>-</b>	<b>4,947,737</b>
<b>Change in net assets</b>	<b>527,392</b>	<b>156,212</b>	<b>683,604</b>
<b>Net assets at beginning of year</b>	<b>526,398</b>	<b>1,571,822</b>	<b>2,098,220</b>
<b>Net assets at end of year</b>	<b>\$ 1,053,790</b>	<b>\$ 1,728,034</b>	<b>\$ 2,781,824</b>

*The accompanying notes are an integral part of this financial statement.*

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

*For the year ended May 31, 2020*

	Program	Fundraising	General and Administrative	Total
Scholarship awards	\$ 5,385,543	\$ -	\$ -	\$ 5,385,543
Office expense	-	-	15,980	15,980
Payroll	87,617	58,942	12,744	159,303
Professional services	-	-	47,067	47,067
Marketing and advertising	-	16,096	-	16,096
Other fundraising expenses	-	64,332	-	64,332
Other expenses	-	-	7,314	7,314
<b>Total</b>	<b>\$ 5,473,160</b>	<b>\$ 139,370</b>	<b>\$ 83,105</b>	<b>\$ 5,695,635</b>

*The accompanying notes are an integral part of this financial statement.*

**G.R.A.C.E. Scholars, Inc.**  
**Statement of Functional Expenses (Continued)**

*For the year ended May 31, 2019*

	Program	Fundraising	General and Administrative	Total
Scholarship awards	\$ 4,636,428	\$ -	\$ -	\$ 4,636,428
Office expense	-	-	16,635	16,635
Payroll	79,267	53,325	11,530	144,122
Professional services	-	-	54,233	54,233
Marketing and advertising	-	15,540	-	15,540
Other fundraising expenses	-	70,274	-	70,274
Other expenses	-	-	10,505	10,505
<b>Total</b>	<b>\$ 4,715,695</b>	<b>\$ 139,139</b>	<b>\$ 92,903</b>	<b>\$ 4,947,737</b>

*The accompanying notes are an integral part of this financial statement.*

**G.R.A.C.E. Scholars, Inc.**  
**Statements of Cash Flows**

<i>For the years ended May 31,</i>	<b>2020</b>	<b>2019</b>
<b>Operating activities</b>		
Change in net assets	\$ (295,809)	\$ 683,604
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Realized and unrealized loss (gain) on investments	(111,338)	(146,239)
Net present value adjustment - scholarships payable	487,925	212,774
Changes in assets and liabilities:		
Accounts payable	4,275	(1,008)
Accrued expenses	617	4,883
Due to related party	(4,946)	(10,142)
Scholarships payable	1,173,939	1,321,689
<b>Net cash provided by (used in) operating activities</b>	<b>1,254,663</b>	<b>2,065,561</b>
<b>Investing activities</b>		
Purchase of investments	(8,738,772)	(7,432,367)
Proceeds from sale of investments	8,548,092	7,370,273
<b>Net cash provided by (used in) investing activities</b>	<b>(190,680)</b>	<b>(62,094)</b>
<b>Net change in cash, cash equivalents and restricted cash</b>	<b>1,063,983</b>	<b>2,003,467</b>
<b>Cash, cash equivalents and restricted cash at beginning of year</b>	<b>5,864,910</b>	<b>3,861,443</b>
<b>Cash, cash equivalents and restricted cash at end of year</b>	<b>\$ 6,928,893</b>	<b>\$ 5,864,910</b>
<b>Reconciliation to Statements of Financial Position:</b>		
Cash and cash equivalents	\$ 1,179,207	\$ 471,455
Restricted cash	5,749,686	5,393,455
<b>Cash, cash equivalents and restricted cash at end of year</b>	<b>\$ 6,928,893</b>	<b>\$ 5,864,910</b>

*The accompanying notes are an integral part of these financial statements.*

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

**Note 1: DESCRIPTION OF THE 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 Organization is a two member corporation which includes the individual serving as the Archbishop of the Roman Catholic Archdiocese of Atlanta and the individual serving as the Bishop of the Roman Catholic Diocese of Savannah. 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 Pre-K through 12<sup>th</sup> grade Catholic education. As a qualified SSO, the Organization receives contributions from individuals and businesses and awards scholarships to eligible students. Under the SSO regulations, ninety-two to ninety-four 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.

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Accounting***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the Accounting Standards Codification (ASC) and related Accounting Standards Updates (ASUs).

***Use of Estimates***

The preparation of U.S. GAAP financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near term are related to scholarships payable net present value discount calculation.

***Cash and Cash Equivalents***

Cash and cash equivalents include cash and all highly liquid investments with an original maturity of 90 days or less.

***Restricted Cash***

Restricted cash includes funds on deposit with a related party (Note 10) and is designated for the use of scholarship funding.

***Investments***

The Organization reports 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 included in the change in net assets in the accompanying Statements of Activities. Investment income and gains restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met (either a stipulated time period ends, or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

**Note 2: 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 total award amount in the year the unconditional promise is made, discounted to the net present value of the future cash flows.

***Net Assets***

The Organization reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations. The governing board has designated, from net assets without donor restrictions, net assets for additional scholarships.

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as when a donor stipulates that resources be maintained in perpetuity.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

***Revenue Recognition***

Contributions are recognized when cash, other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met or the donor has explicitly released the restriction. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as net assets without donor restrictions.

The Organization reports gifts of cash and other assets as restricted support to the extent that, under Georgia law as amended, the Organization is required to obligate at least ninety-two to ninety-four percent of its annual revenue received from donations for scholarship awards or tuition grants. When a scholarship or tuition grant is awarded, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Donated Assets***

Donated investments and other noncash donations are recorded as contributions at their fair values at the date of donation.

***Donated Services***

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. No donated services were contributed to the Organization during the years ended May 31, 2020 and 2019.

***Functional Allocation of Expenses***

Directly identifiable expenses are charged to programs and supporting services. Expenses related to payroll are allocated based on actual percentages of time spent in each functional area.

***Income Taxes***

Under section 501(c)(3) of the Internal Revenue Code, the Organization is exempt from taxes on income other than unrelated business income. The Organization is considered to be an integrated auxiliary of a church 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 utilizes the accounting requirements associated with uncertainty in income taxes using the provisions of Financial Accounting Standards Board (FASB) ASC 740, Income Taxes. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the positions will be sustained upon examination by the tax authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of May 31, 2020 and 2019, the Organization has no uncertain tax provisions that qualify for recognition or disclosure in the financial statements.

***Reclassifications***

Certain reclassifications were made to prior year presentation to conform with current year presentation.

***Subsequent Events***

Management has evaluated subsequent events through the date that the financial statements were available to be issued, September 25, 2020, and determined there were no events that occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

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

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Recent Accounting Pronouncements**

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Organization adopted this ASU during the year ended May 31, 2020, and there were no adjustments resulting from the adoption of this accounting policy.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which provides guidance on the presentation of restricted cash in the statement of cash flows. The Organization has adjusted the presentation of these statements accordingly.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*, which addresses certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. The Organization adopted this ASU during the year ended May 31, 2020, and there were no adjustments resulting from the adoption of this accounting policy.

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance specifies that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU and its amendments supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry specific guidance. The Organization adopted this ASU during the year ended May 31, 2020, and there were no adjustments resulting from the adoption of this accounting policy.

**Note 3: FINANCIAL ASSET AVAILABILITY**

The Organization maintains its financial assets primarily in cash and cash equivalents to provide liquidity to ensure funds are available as the Organization's expenditures come due. The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions.

<u>May 31,</u>	<u>2020</u>	<u>2019</u>
Financial assets at year end	<b>\$ 17,018,479</b>	\$ 15,652,478
Less amounts not available for use:		
Cash, restricted	<b>5,749,686</b>	5,393,455
Investments, restricted	<b>10,089,586</b>	9,787,568
	<hr/>	<hr/>
Total amounts not available for use	<b>15,839,272</b>	15,181,023
	<hr/>	<hr/>
Financial assets available to meet cash needs for <u>general expenditures</u>	<b>\$ 1,179,207</b>	\$ 471,455

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

**Note 4: RESTRICTED CASH AND INVESTMENTS**

Georgia law requires that SSO's use at least ninety-two to ninety-four 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 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, 2020 and 2019, were \$15,839,272 and \$15,181,023, respectively.

**Note 5: INVESTMENTS**

Investments in marketable securities consist of the following:

<i>May 31,</i>	<b>2020</b>		2019	
	<b>Cost</b>	<b>Fair Value</b>	Cost	Fair Value
Short-term investment and money market funds	\$ 2,391,494	\$ 2,391,494	\$ 30,321	\$ 30,321
Certificates of deposit	6,086,521	6,181,678	250,000	250,100
Corporate bonds	492,968	507,214	694,887	700,347
U.S. government and agency bonds	996,665	1,009,200	8,739,354	8,806,800
	<b>\$ 9,967,648</b>	<b>\$ 10,089,586</b>	<b>\$ 9,714,562</b>	<b>\$ 9,787,568</b>

The Organization's policy for recording fees paid for the management of its investments is to net the fees against investment income. There were no fees on investments for the years ended May 31, 2020 and 2019.

**Note 6: SCHOLARSHIPS PAYABLE**

Scholarships payable are reflected in the statements of financial position as of May 31, 2020 and 2019, in the amount of \$14,487,646 and \$12,825,782, respectively. Scholarship awards expense in the statements of activities of \$5,385,543 and \$4,636,428, for the years ended May 31, 2020 and 2019, respectively, is the total of scholarships awarded, forfeited and change in discount required to reflect future scholarships payable at net present value (Note 9).

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

<i>For the years ended May 31,</i>	<b>2020</b>	2019
Scholarships payable, beginning of year	<b>\$ 13,636,380</b>	\$ 12,314,691
Scholarships awarded	<b>7,109,246</b>	7,153,218
Scholarships forfeited	<b>(2,211,628)</b>	(2,729,564)
Scholarships payments	<b>(3,723,679)</b>	(3,101,965)
Scholarships payable, end of year	<b>\$ 14,810,319</b>	<b>\$ 13,636,380</b>

**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>For the year ending May 31,</i>	Scheduled Cash Outlay	Discount Component	Net Present Value
2021	\$ 3,753,354	\$ -	\$ 3,753,354
2022	3,119,637	45,053	3,074,584
2023	2,423,365	52,306	2,371,059
2024	1,693,885	48,572	1,645,313
2025	1,172,472	41,874	1,130,598
Thereafter	2,647,606	134,868	2,512,738
	<b>\$ 14,810,319</b>	<b>\$ 322,673</b>	<b>\$ 14,487,646</b>

**Note 7: NET ASSETS**

Board designated net assets without donor restrictions of \$400,000 at May 31, 2020, consists of net assets designated for additional scholarships to be awarded. There were no board designated net assets at May 31, 2019.

Net assets with time restrictions of \$322,673 and \$810,598 at May 31, 2020 and 2019, respectively, are restricted for the net present value discount to scholarships payable as described in Notes 2 and 6.

Net assets with purpose restrictions of \$1,349,640 and \$1,393,133 at May 31, 2020 and 2019, respectively, are restricted for scholarships to be awarded in the subsequent year.

**Note 8: CONTRIBUTIONS**

Contributions are reflected in the statements of activities for the years ended May 31, 2020 and 2019, in the amounts of \$5,041,577 and \$5,371,950, respectively. Contributions consisted of the following:

<i>For the years ended May 31,</i>	2020	2019
General contributions	<b>\$ 4,738,408</b>	\$ 5,178,878
Contributions with no corresponding tax credits	<b>172,379</b>	61,656
Contributions and transfers from other SSOs	<b>130,790</b>	131,416
	<b>\$ 5,041,577</b>	<b>\$ 5,371,950</b>

**Note 9: FAIR VALUE MEASUREMENTS**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

*Level 1:* Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

*Level 2:* Significant other observable inputs other than Level 1 prices, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs, other than quoted prices, that are:
  - observable; or
  - can be corroborated by observable market data.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at May 31, 2020 and 2019.

*Certificates of deposit and corporate bonds:* Valued using pricing models maximizing the use of observable inputs or similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

*Scholarships payable:* Valued at fair value utilizing Level 3 inputs, based on the present value of expected future cash flows and a discount rate of 0.73% and 2.07% at May 31, 2020 and 2019, respectively. A decrease in the discount rate would increase the scholarships payable obligation. The valuation of the scholarships payable is determined annually by management.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in different fair value measurements at the reporting date.

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

**Note 9: FAIR VALUE MEASUREMENTS (Continued)**

Assets and liabilities measured at fair value on a recurring basis, are summarized for the years ended May 31, 2020 and 2019:

<u>May 31, 2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Investments</b>				
Short-term investment and money market funds	\$ 2,391,494	\$ -	\$ -	\$ 2,391,494
Certificates of deposit	-	6,181,678	-	6,181,678
Corporate bonds	-	507,214	-	507,214
U.S. government and agency bonds	1,009,200	-	-	1,009,200
	<u>\$ 3,400,694</u>	<u>\$ 6,688,892</u>	<u>\$ -</u>	<u>\$ 10,089,586</u>

<b>Scholarships payable</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 14,487,646</b>	<b>\$ 14,487,646</b>
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<u>May 31, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Investments</b>				
Short-term investment and money market funds	\$ 30,321	\$ -	\$ -	\$ 30,321
Certificates of deposit	-	250,100	-	250,100
Corporate bonds	-	700,347	-	700,347
U.S. government and agency bonds	8,806,800	-	-	8,806,800
	<u>\$ 8,837,121</u>	<u>\$ 950,447</u>	<u>\$ -</u>	<u>\$ 9,787,568</u>

<b>Scholarships payable</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,825,782</b>	<b>\$ 12,825,782</b>
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The following is a reconciliation of the change in fair value for the years ended May 31, 2020 and 2019, for Level 3:

<u>For the years ended May 31,</u>	<u>2020</u>	<u>2019</u>
Beginning of period	\$ 12,825,782	\$ 11,291,319
Scholarships awarded	7,109,246	7,153,218
Scholarships forfeited	(2,211,628)	(2,729,564)
Scholarship payments	(3,723,679)	(3,101,965)
Change in discount to net present value	487,925	212,774
	<u>\$ 14,487,646</u>	<u>\$ 12,825,782</u>

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 9: FAIR VALUE MEASUREMENTS (Continued)**

***Changes in Fair Value Levels***

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluates the significance of transfer between levels based upon the nature of the financial instrument and size of the transfer relative to total assets. For the years ended May 31, 2020 and 2019, there were no significant transfers in or out of Levels 1, 2 or 3.

**Note 10: CONCENTRATIONS OF CREDIT RISK**

Cash consists of demand deposits with financial institutions. Restricted cash consists of funds on deposit with the AoA Deposit and Loan Fund Trust (Note 12). 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 AoA Deposit and Loan Fund Trust are not FDIC insured. Cash, cash equivalents and restricted cash in excess of federally insured limits totaled approximately \$6,700,000 and \$5,600,000 at May 31, 2020 and 2019, respectively.

**Note 11: RISKS AND UNCERTAINTIES**

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. The economic fallout from the pandemic has the potential to negatively impact future contributions from donors. While the Organization acknowledges this could negatively impact its financial position in the future, the impact cannot be reasonably estimated at this time.

**Note 12: RELATED PARTY TRANSACTIONS**

***Restricted Cash***

A portion of the scholarship funds (Notes 4 and 6) are invested in the AoA Deposit and Loan Fund Trust (an interest-bearing deposit account). The Organization's funds invested in the AoA Deposit and Loan Fund Trust earned interest at the rate of 1.25% (1.75% prior to April 1, 2020) and total \$5,749,686 and \$5,393,455, at May 31, 2020 and 2019, respectively.

***Management Services***

The Organization entered into a Management Agreement (the Agreement) with RCAA Administrative Services, Inc. (Services) effective June 1, 2018. The Agreement extends through June 1, 2028 with incremental annual increases.

**Note 12: RELATED PARTY TRANSACTIONS (Continued)**

***Management Services (continued)***

The annual billing from Services for the year ended May 31, 2020, includes the following services:

Financial reporting	\$	7,854
Cash management		2,550
Accounts payable		4,590
Payroll		2,040
Office space		7,242
IT and telephone usage		1,224
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Total	\$	25,500

As part of the Agreement, Services hired onto its payroll full-time employees who work one-hundred percent of the time for the Organization. These employees are employed by Services and receive all pay and benefits other full-time employees of Services in similar positions receive. Services 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. There were two employees covered under this arrangement and compensation and related benefits totaled approximately \$159,000 and \$144,000, for the years ended May 31, 2020 and 2019, respectively.

The amounts due to related party totaled \$18,543 and \$23,489, as of May 31, 2020 and 2019, respectively.

**Note 13: CERTIFICATION FOR GEORGIA DEPARTMENT OF REVENUE**

For the years ended May 31, 2020 and 2019, 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 2019 and 2018 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.