

ARETE SCHOLARS FUND, INC.

Financial Statements
With Independent Auditors' Report

June 30, 2024 and 2023

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, 2024 and 2023, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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, 2024 and 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Arete Scholars Fund, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Arete Scholars Fund, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Arete Scholars Fund, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Arete Scholars Fund, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Capin Crouse LLP

Lawrenceville, Georgia
October 29, 2024

ARETE SCHOLARS FUND, INC.

Statements of Financial Position

	June 30,	
	2024	2023
ASSETS:		
Cash and cash equivalents:		
Operating	\$ 386,702	\$ 246,973
Restricted for scholarships	2,741,124	2,655,785
	3,127,826	2,902,758
Investments:		
Operating	25,639	-
Restricted for scholarships	7,741,830	7,334,153
	7,767,469	7,334,153
Other assets	1,918	55,322
Total Assets	\$ 10,897,213	\$ 10,292,233
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	\$ 150,367	\$ 8,183
Total liabilities	150,367	8,183
Net assets:		
Without donor restrictions:		
Available at board discretion	263,892	294,112
With donor restrictions:		
Scholarships	10,482,954	9,989,938
Total net assets	10,746,846	10,284,050
Total Liabilities and Net Assets	\$ 10,897,213	\$ 10,292,233

See notes to financial statements

ARETE SCHOLARS FUND, INC.

Statements of Activities

	Year Ended June 30,					
	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Support:						
Contributions	\$ 164,392	\$ -	\$ 164,392	\$ 95,413	\$ -	\$ 95,413
Tax credit contributions	-	5,690,111	5,690,111	-	5,983,701	5,983,701
Other revenue	64,702	-	64,702	-	-	-
Investment income	7,169	506,415	513,584	-	97,847	97,847
Total Support and Revenue	<u>236,263</u>	<u>6,196,526</u>	<u>6,432,789</u>	<u>95,413</u>	<u>6,081,548</u>	<u>6,176,961</u>
RECLASSIFICATIONS:						
Satisfaction of purpose restrictions	5,331,353	(5,331,353)	-	5,075,229	(5,075,229)	-
Administrative assessments (Note 1)	372,157	(372,157)	-	388,952	(388,952)	-
Total Reclassifications	<u>5,703,510</u>	<u>(5,703,510)</u>	<u>-</u>	<u>5,464,181</u>	<u>(5,464,181)</u>	<u>-</u>
EXPENSES:						
Program services:						
Scholarship awards	5,331,353	-	5,331,353	5,075,229	-	5,075,229
Other scholarship related costs	332,172	-	332,172	217,344	-	217,344
	<u>5,663,525</u>	<u>-</u>	<u>5,663,525</u>	<u>5,292,573</u>	<u>-</u>	<u>5,292,573</u>
Supporting activities:						
General and administrative	178,093	-	178,093	121,292	-	121,292
Fundraising	128,375	-	128,375	87,071	-	87,071
	<u>306,468</u>	<u>-</u>	<u>306,468</u>	<u>208,363</u>	<u>-</u>	<u>208,363</u>
Total Expenses	<u>5,969,993</u>	<u>-</u>	<u>5,969,993</u>	<u>5,500,936</u>	<u>-</u>	<u>5,500,936</u>
Change in Net Assets	(30,220)	493,016	462,796	58,658	617,367	676,025
Net Assets, Beginning of Year	<u>294,112</u>	<u>9,989,938</u>	<u>10,284,050</u>	<u>235,454</u>	<u>9,372,571</u>	<u>9,608,025</u>
Net Assets, End of Year	<u>\$ 263,892</u>	<u>\$ 10,482,954</u>	<u>\$ 10,746,846</u>	<u>\$ 294,112</u>	<u>\$ 9,989,938</u>	<u>\$ 10,284,050</u>

See notes to financial statements

ARETE SCHOLARS FUND, INC.

Statements of Cash Flows

	Year Ended June 30,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 462,796	\$ 676,025
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Net unrealized (gain) loss on investments	(131,952)	49,122
Change in other assets	53,404	75,407
Change in accounts payable and accrued expenses	142,184	(11,952)
Net Cash Provided by Operating Activities	526,432	788,602
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	21,902	-
Purchases of investments	(323,266)	(7,383,275)
Net Cash Used by Investing Activities	(301,364)	(7,383,275)
Net Change in Cash and Cash Equivalents	225,068	(6,594,673)
Cash and Cash Equivalents, Beginning of Year	2,902,758	9,497,431
Cash and Cash Equivalents, End of Year	\$ 3,127,826	\$ 2,902,758

See notes to financial statements

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2024 and 2023

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 8% on the first \$1,500,000, (b) up to 6% on the next \$8,500,000, (c) up to 5% on the next \$10,000,000, and (d) up to 4% on all remaining amounts. An approved SSO must designate available amounts to particular students prior to December 31 of the calendar year following the calendar year in which the available amounts were received. In addition, an approved SSO must ensure that distributions to a qualified school for scholarships are compliant with Georgia Department of Revenue rules. As of June 30, 2024 and 2023, Arete was in compliance with these requirements. The following shows this transactional flow:

	Year Ended June 30,	
	2024	2023
Support and revenue received for scholarships:		
Tax credit contributions	\$ 5,690,111	\$ 5,983,701
Investment income*	506,415	97,847
Administrative assessment against tax credit contributions:		
From corporations	(343,966)	(351,519)
From individuals	(28,191)	(37,433)
Amount eligible for scholarships, subject to the assessment and distribution requirements listed above	5,824,369	5,692,596
Balance restricted for scholarships, beginning of year	9,989,938	9,372,571
Amount available for scholarships in the current year	15,814,307	15,065,167
Scholarship expense	(5,331,353)	(5,075,229)
Balance restricted for scholarships, end of year	\$ 10,482,954	\$ 9,989,938

* Effective July 1, 2022, investment income earned on scholarship fund deposits is subject to scholarship obligation.

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2024 and 2023

1. NATURE OF ORGANIZATION, continued:

As of June 30, 2024, Arete had designated obligated revenues for specific student recipients within the timeframe prescribed by the state of Georgia. In addition, as of June 30, 2024, Arete ensured that all distributions to qualified schools and programs of obligated and designated revenues for the funding of multiyear scholarships complied with all applicable Georgia Department of Revenue rules.

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 money market accounts at two financial institutions. 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.

INVESTMENTS

Investments in equity securities, exchange-traded funds, and mutual funds with readily determinable fair values and fixed income securities are recorded at fair value with gains and losses reported in the statements of activities. Donated investments are recorded at fair value at the date of donation and thereafter carried in conformity with the stated policy. Investment income earned on deposits and investments of scholarship funds is included in investment income with donor restrictions based on current law in the state of Georgia for an SSO.

NET ASSETS

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

Without donor restrictions amounts are currently available at the discretion of the board of directors.

With donor restrictions 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.

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2024 and 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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. Conditional promises to give with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met, promises are made, or ownership of other assets is transferred.

Arete reports gifts of cash and other assets as restricted 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, restricted net assets are reclassified to without restrictions net assets and reported in the statements of activities as net assets released from restrictions.

During the year ended June 30, 2024, 71% of total contributions were provided by four donors. During the year ended June 30, 2023, 84% of total contributions were provided by three 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. Allocations are made based on employee time and effort analysis.

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, 2024, 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 2021.

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2024 and 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

LIQUIDITY AND FUNDS AVAILABLE

The following table reflects Arete's financial assets, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year or because the governing board has set aside the funds for specific purposes.

Financial assets available to meet cash needs for general expenditures within one year:

	June 30,	
	2024	2023
Cash and cash equivalents	\$ 3,127,826	\$ 2,902,758
Investments	7,767,469	7,334,153
	<u>\$ 10,895,295</u>	<u>\$ 10,236,911</u>

3. FUNCTIONAL EXPENSES:

Functional expenses have been allocated as follows:

	Year Ended June 30, 2024			
	Program	General and Administrative	Fundraising	Total
Scholarship awards	\$ 5,331,353	\$ -	\$ -	\$ 5,331,353
Bank fees	-	963	-	963
Accounting fees	898	44,340	362	45,600
Outside contract services	10,184	17,469	-	27,653
Rent, parking, and utilities	404	107	163	674
Books and subscriptions	14,215	-	-	14,215
Postage and mailing	799	212	322	1,333
Office supplies	2,282	4,367	920	7,569
Telephone	3,528	936	1,423	5,887
Marketing	3,433	7,630	2,983	14,046
Insurance	-	11,967	-	11,967
Donor events	-	-	2,649	2,649
Employee compensation	220,311	58,454	88,854	367,619
Payroll expenses	11,455	3,039	4,620	19,114
Employee benefits	33,241	8,820	13,407	55,468
Travel and other	31,422	19,789	12,672	63,883
	<u>\$ 5,663,525</u>	<u>\$ 178,093</u>	<u>\$ 128,375</u>	<u>\$ 5,969,993</u>

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2024 and 2023

3. FUNCTIONAL EXPENSES, continued:

	Year Ended June 30, 2023			
	Program	General and Administrative	Fundraising	Total
Scholarship awards	\$ 5,075,229	\$ -	\$ -	\$ 5,075,229
Bank fees	-	467	-	467
Accounting fees	855	41,618	345	42,818
Outside contract services	2,096	10,650	-	12,746
Rent, parking, and utilities	566	150	228	944
Books and subscriptions	7,081	-	-	7,081
Postage and mailing	487	129	196	812
Office supplies	878	907	354	2,139
Telephone	2,140	568	863	3,571
Marketing	2,346	623	946	3,915
Insurance	-	8,527	-	8,527
Donor events	-	-	3,117	3,117
Employee compensation	144,994	38,470	58,478	241,942
Payroll expenses	7,089	1,881	2,859	11,829
Employee benefits	19,191	5,092	7,740	32,023
Travel and other	29,621	12,210	11,945	53,776
	<u>\$ 5,292,573</u>	<u>\$ 121,292</u>	<u>\$ 87,071</u>	<u>\$ 5,500,936</u>

4. INVESTMENTS:

Investments consist of:

	June 30,	
	2024	2023
Held at cost:		
Cash and cash equivalents	\$ 959,597	\$ 162,594
Held at fair value:		
Mutual funds	2,087,913	2,478,153
United States Treasury notes	2,630,781	2,142,819
Corporate debt securities	2,089,178	2,550,587
	<u>6,807,872</u>	<u>7,171,559</u>
	<u>\$ 7,767,469</u>	<u>\$ 7,334,153</u>

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2024 and 2023

4. INVESTMENTS, continued:

The *Fair Value Measurements and Disclosure* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. Arete uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, Arete measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

The fair values of mutual funds are based on quoted market prices or dealer quotes. The fair values of certificates of deposit, United States Treasury notes, and corporate debt securities are based upon yields currently available on comparable securities of issuers with similar credit ratings.

	June 30, 2024		June 30, 2023	
	Level 1	Level 2	Level 1	Level 2
Investments at fair value:				
Mutual funds	\$ 2,087,913	\$ -	\$ 2,478,153	\$ -
Fixed income:				
US Treasuries	-	2,630,781	-	2,142,819
Corporate debt	-	2,089,178	-	2,550,587
	-	4,719,959	-	4,693,406
	<u>\$ 2,087,913</u>	<u>\$ 4,719,959</u>	<u>\$ 2,478,153</u>	<u>\$ 4,693,406</u>
2024 Total		<u>\$ 6,807,872</u>		
2023 Total				<u>\$ 7,171,559</u>

5. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through October 29, 2024, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.