

**ARETE SCHOLARS FUND,
INC.**

Financial Statements
With Independent Auditors' Report

June 30, 2022 and 2021

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, 2022 and 2021, 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, 2022 and 2021, 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
November 10, 2022

ARETE SCHOLARS FUND, INC.

Statements of Financial Position

	June 30,	
	<u>2022</u>	<u>2021</u>
ASSETS:		
Cash and cash equivalents:		
Operating	\$ 124,860	\$ 208,126
Restricted for scholarships	<u>9,372,571</u>	<u>8,203,572</u>
	9,497,431	8,411,698
Other assets	<u>130,729</u>	<u>34,073</u>
Total Assets	<u>\$ 9,628,160</u>	<u>\$ 8,445,771</u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	\$ 20,135	\$ 3,819
Total liabilities	<u>20,135</u>	<u>3,819</u>
Net assets:		
Without donor restrictions:		
Available at board discretion	235,454	238,380
With donor restrictions:		
Scholarships	<u>9,372,571</u>	<u>8,203,572</u>
Total net assets	<u>9,608,025</u>	<u>8,441,952</u>
Total Liabilities and Net Assets	<u>\$ 9,628,160</u>	<u>\$ 8,445,771</u>

See notes to financial statements

ARETE SCHOLARS FUND, INC.

Statements of Activities

	Year Ended June 30,					
	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Support:						
Contributions	\$ 87,200	\$ -	\$ 87,200	\$ 272,965	\$ -	\$ 272,965
Tax credit contributions	-	5,777,723	5,777,723	-	3,983,541	3,983,541
Government grant	-	-	-	-	62,200	62,200
Interest and other revenue	29,825	-	29,825	36,439	-	36,439
Total Support and Revenue	117,025	5,777,723	5,894,748	309,404	4,045,741	4,355,145
RECLASSIFICATIONS:						
Satisfaction of purpose restrictions	4,231,921	(4,231,921)	-	4,039,162	(4,039,162)	-
Government grant	-	-	-	62,200	(62,200)	-
Administrative assessments (Note 1)	376,803	(376,803)	-	269,012	(269,012)	-
Total Reclassifications	4,608,724	(4,608,724)	-	4,370,374	(4,370,374)	-
EXPENSES:						
Program services:						
Scholarship awards	4,231,921	-	4,231,921	4,039,162	-	4,039,162
Other scholarship related costs	229,766	-	229,766	259,132	-	259,132
	4,461,687	-	4,461,687	4,298,294	-	4,298,294
Supporting activities:						
General and administrative	177,848	-	177,848	138,458	-	138,458
Fundraising	89,140	-	89,140	101,810	-	101,810
	266,988	-	266,988	240,268	-	240,268
Total Expenses	4,728,675	-	4,728,675	4,538,562	-	4,538,562
Change in Net Assets	(2,926)	1,168,999	1,166,073	141,216	(324,633)	(183,417)
Net Assets, Beginning of Year	238,380	8,203,572	8,441,952	97,164	8,528,205	8,625,369
Net Assets, End of Year	\$ 235,454	\$ 9,372,571	\$ 9,608,025	\$ 238,380	\$ 8,203,572	\$ 8,441,952

See notes to financial statements

ARETE SCHOLARS FUND, INC.

Statements of Cash Flows

	Year Ended June 30,	
	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,166,073	\$ (183,417)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Non-cash government grant (forgiveness of loan payable)	-	(62,200)
Change in other assets	(96,656)	(30,159)
Change in accounts payable and accrued expenses	16,316	3,819
Net Cash Provided (Used) by Operating Activities	<u>1,085,733</u>	<u>(271,957)</u>
Net Change in Cash and Cash Equivalents	1,085,733	(271,957)
Cash and Cash Equivalents, Beginning of Year	<u>8,411,698</u>	<u>8,683,655</u>
Cash and Cash Equivalents, End of Year	<u>\$ 9,497,431</u>	<u>\$ 8,411,698</u>

See notes to financial statements

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2022 and 2021

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 in which the available amounts were received. As of June 30, 2022 and 2021, Arete was in compliance with these requirements. The following shows this transactional flow:

	Year Ended June 30,	
	2022	2021
Support and revenue received for scholarships:		
Tax credit contributions	\$ 5,777,723	\$ 3,983,541
Administrative assessment against tax credit contributions:		
From corporations	(356,240)	(250,190)
From individuals	(20,563)	(18,822)
Amount eligible for scholarships, subject to the assessment and distribution requirements listed above	5,400,920	3,714,529
Balance restricted for scholarships, beginning of year	8,203,572	8,528,205
Amount available for scholarships in the current year	13,604,492	12,242,734
Scholarship expense	(4,231,921)	(4,039,162)
Balance restricted for scholarships, end of year	\$ 9,372,571	\$ 8,203,572

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2022 and 2021

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 one financial institution. 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:

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.

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.

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, 2022, 84% of total contributions were provided by three donors. During the year ended June 30, 2021, 86% of total contributions were provided by three donors. Arete understands the implications of these concentrations.

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2022 and 2021

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. 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, 2022, 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 2019.

LIQUIDITY AND FUNDS AVAILABLE

The following table reflects Arete's financial assets as of June 30, 2022 and 2021, 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, perpetual endowments and accumulated earnings net of appropriations 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,	
	2022	2021
Cash and cash equivalents	\$ 9,497,431	\$ 8,411,698

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2022 and 2021

3. FUNCTIONAL EXPENSES:

Functional expenses have been allocated as follows:

	Year Ended June 30, 2022			
	Program	General and Administrative	Fundraising	Total
Scholarship awards	\$ 4,231,921	\$ -	\$ -	\$ 4,231,921
Bank fees	-	542	-	542
Accounting fees	795	50,732	320	51,847
Outside contract services	500	48,784	-	49,284
Rent, parking, and utilities	3,433	911	1,385	5,729
Books and subscriptions	8,737	-	-	8,737
Postage and mailing	363	96	146	605
Office supplies	1,312	6,612	529	8,453
Telephone	2,450	650	988	4,088
Marketing	378	100	152	630
Insurance	-	8,963	-	8,963
Donor events	-	-	299	299
Employee compensation	159,686	42,369	64,404	266,459
Payroll expenses	10,624	2,819	4,285	17,728
Employee benefits	16,236	4,308	6,548	27,092
Travel and other	25,252	10,962	10,084	46,298
	<u>\$ 4,461,687</u>	<u>\$ 177,848</u>	<u>\$ 89,140</u>	<u>\$ 4,728,675</u>

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2022 and 2021

3. FUNCTIONAL EXPENSES, continued:

	Year Ended June 30, 2021			
	Program	General and Administrative	Fundraising	Total
Scholarship awards	\$ 4,039,162	\$ -	\$ -	\$ 4,039,162
Bank fees	-	1,085	-	1,085
Accounting fees	755	50,121	305	51,181
Outside contract services	500	10,716	-	11,216
Rent, parking, and utilities	1,714	455	691	2,860
Books and subscriptions	4,541	-	-	4,541
Postage and mailing	198	52	80	330
Office supplies	1,931	512	779	3,222
Telephone	1,994	529	804	3,327
Marketing	789	209	318	1,316
Insurance	-	9,117	-	9,117
Donor events	-	-	-	-
Employee compensation	208,953	55,440	84,273	348,666
Payroll expenses	15,812	4,195	6,377	26,384
Employee benefits	13,414	3,559	5,410	22,383
Travel and other	8,531	2,468	2,773	13,772
	\$ 4,298,294	\$ 138,458	\$ 101,810	\$ 4,538,562

4. RISKS AND UNCERTAINTIES:

In March 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. COVID-19 has caused a severe negative impact on the world economy and has contributed to significant declines and volatility in financial markets. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of Arete for future periods. Management is carefully monitoring the situation and evaluating its options as circumstances evolve.

As part of the response to the impact of COVID-19, Arete applied for a Paycheck Protection Program (PPP) loan, administered by the Small Business Administration (SBA), under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was signed into law in March 2020. Arete was approved for a loan in the amount of \$62,200. Based on the provisions included in the CARES Act, the loan agreement provides for loan forgiveness up to the full amount of the loan provided Arete overcomes (meets) certain loan stipulations. Those stipulations were met during the 2021 fiscal year and the loan forgiveness was recognized in the statement of activities as a government grant.

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2022 and 2021

5. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through November 10, 2022, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.