

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

Financial Statements

Periods Ended

May 31, 2010 and 2009

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

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LANEY
BOTELE &
KILLINGER

Certified Public Accountants

Independent Auditors' Report

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

We have audited the accompanying statements of financial position of G.R.A.C.E. Scholars, Inc. ("the Organization") as of May 31, 2010 and 2009, and the related statements of activities and cash flows for the year ended May 31, 2010 and the period July 7, 2008 (date of inception) to May 31, 2009. These financial statements are the responsibility of the Organization's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, and the changes in its net assets and cash flows for the year ended May 31, 2010 and the period from July 7, 2008 to May 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

Laney, Boteler, Killinger

Atlanta, Georgia
August 2, 2010

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

Statements of Financial Position

Assets

	May 31,	
	2010	2009
Assets		
Cash	\$ 130,723	\$10,991
Restricted cash	2,619,765	-
Other assets	25,000	-
Total assets	\$2,775,488	\$10,991

Liabilities and Net Assets

Liabilities		
Accounts payable	\$ 12,573	\$ 7,025
Accrued expenses	12,000	-
Due to related party	48,546	-
Scholarships payable	2,067,471	-
Total liabilities	2,140,590	7,025
Net assets		
Unrestricted		
Designated for scholarships	469,032	-
Designated for operations	25,000	-
Undesignated	-	1,496
Temporarily restricted	140,866	2,470
Total net assets	634,898	3,966
Total liabilities and net assets	\$2,775,488	\$10,991

See notes to financial statements.

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

Statements of Activities

	Year Ended May 31, 2010			Period Ended May 31, 2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and other support						
Program revenue - scholarship contributions	\$ -	\$ 2,918,904	\$ 2,918,904	\$ -	\$ 98,300	\$ 98,300
Administrative revenue	291,890	(291,890)	-	9,830	(9,830)	-
In-kind contributions	7,500	-	7,500	8,000	-	8,000
Interest income	-	39,839	39,839	-	-	-
Net assets released from restrictions	<u>2,528,457</u>	<u>(2,528,457)</u>	<u>-</u>	<u>86,000</u>	<u>(86,000)</u>	<u>-</u>
Total revenues and other support	<u>2,827,847</u>	<u>138,396</u>	<u>2,966,243</u>	<u>103,830</u>	<u>2,470</u>	<u>106,300</u>
Expenses						
Program expense - scholarship awards	2,251,814	-	2,251,814	86,000	-	86,000
General and administrative expense	<u>83,497</u>	<u>-</u>	<u>83,497</u>	<u>16,334</u>	<u>-</u>	<u>16,334</u>
Total expenses	<u>2,335,311</u>	<u>-</u>	<u>2,335,311</u>	<u>102,334</u>	<u>-</u>	<u>102,334</u>
Change in net assets	492,536	138,396	630,932	1,496	2,470	3,966
Net assets, beginning of period	<u>1,496</u>	<u>2,470</u>	<u>3,966</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets, end of period	<u>\$ 494,032</u>	<u>\$ 140,866</u>	<u>\$ 634,898</u>	<u>\$ 1,496</u>	<u>\$ 2,470</u>	<u>\$ 3,966</u>

See notes to financial statements.

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

Statements of Cash Flows

	Period Ended	
	May 31,	
	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Change in net assets	\$ 630,932	\$ 3,966
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Changes in operating assets and liabilities		
Restricted cash	(2,619,765)	-
Other assets	(25,000)	-
Accounts payable	5,548	7,025
Cash advance from related party	-	25,000
Repayment of cash advance to related party	-	(25,000)
Accrued expenses	12,000	-
Due to related party	48,546	-
Scholarships payable	<u>2,067,471</u>	<u>-</u>
Net cash provided by operating activities	<u>119,732</u>	<u>10,991</u>
Net increase in cash	119,732	10,991
Cash and cash equivalents at beginning of period	<u>10,991</u>	<u>-</u>
Cash and cash equivalents at end of period	<u>\$ 130,723</u>	<u>\$ 10,991</u>

See notes to financial statements.

Notes to Financial Statements
May 31, 2010 and 2009

Note 1 - Organization and 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 percent of the scholarship contributions that SSO’s receive must be used to fund scholarships, with the remaining ten percent available to cover administrative and operating expenses.

Basis of presentation

These statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United State of America.

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.

Cash and cash equivalents

For purposes of the statement 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.

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

Notes to Financial Statements
May 31, 2010 and 2009

Other assets acquired by gift are recorded at their fair market value on the date of receipt. A substantial number of volunteers have donated significant amounts of their time to the Organization's programs and supporting services; however, with the exception of accounting and auditing services, no amounts have been reflected in the financial statements for donated services for the periods ended May 31, 2010 and 2009, respectively. 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.

Use of estimates

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

Tax-exempt status

The Organization is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code, and therefore is also exempt from any state income taxes.

Advertising and promotion

Advertising and promotion costs are expensed as incurred.

Note 2 - In-kind contributions

The Organization received donated accounting services and office space from the Archdiocese of Atlanta, for the period ended May 31, 2009. For the year ended May 31, 2010, the Organization received donated auditing services. In-kind contributions are recorded at estimated fair value. Total in-kind contributions for the periods ended May 31, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Accounting services	\$ -	\$2,500
Auditing services	7,500	-
Office space	-	5,500
	<u>\$7,500</u>	<u>\$8,000</u>

Note 3 - Concentrations of credit risk

Cash consists of demand deposits with financial institutions. The balance in the Organization's bank accounts (as reflected in the bank's records) are insured by the

Notes to Financial Statements
May 31, 2010 and 2009

Federal Deposit Insurance Company (FDIC) up to \$250,000. At times during the periods ended May 31, 2010 and 2009, cash balances exceeded the FDIC limit.

Note 4 - Restricted cash

For the year ended May 31, 2010, the Organization had \$2,619,765 in restricted cash held in an interest-bearing deposit account. These funds are obligated under the provisions of Georgia law relating to the operation of student scholarship organizations under House Bill 1133 (HB 1133). In addition, under HB1133 the Organization is required to maintain two separate accounts for operating and scholarship funds. The Organization obligates a minimum of ninety percent of contributions to their scholarship account, as required under HB 1133.

Note 5 - Related party Transactions

Restricted cash

Scholarship funds are segregated from operating funds, as required by HB 1133 (Note 4). Beginning in the year ended May 31, 2010, the scholarship funds are invested with the Archdiocese of Atlanta in the Archdiocese Deposit and Loan Fund (in an interest-bearing deposit account). The Organization's funds invested in the Deposit and Loan Fund earn interest at the rate of 3.75%.

Funds on deposit in the Archdiocese of Atlanta Deposit and Loan Fund at May 31, 2010, total \$2,619,765, and this amount is reflected in the Statements of Financial Position for the year ended May 31, 2010.

Management services

The Archdiocese provides both the facility and utilities for the Organization's operations. These services were contributed to the Organization by the Archdiocese in the period ended May 31, 2009, in the amount of \$2,500 and \$5,500, for accounting services and office space, respectively. The value of these services are reflected as "in-kind contributions" on the accompanying Statements of Activities for the period ended May 31, 2009.

For 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:

Notes to Financial Statements
May 31, 2010 and 2009

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

The Agreement covers the 24 month period June 1, 2009 through May 31, 2011, and will automatically renew on June 1 of each succeeding year unless either party wishes to cancel the Agreement by giving notice the other party.

As part of the Agreement, the Archdiocese will hire onto its payroll full-time employees who work 100 percent of the time for the Organization. These employees will be employed by the Archdiocese and they will receive all pay and benefits other full-time employees of the Archdiocese in similar positions receive. The Archdiocese will process all payroll and related costs for these employees and charge the Organization 100 percent of the actual cost. Payroll and related costs charged to the Organization for the employees will be billed and paid on a monthly basis. During the year ended May 31, 2010, there was one employee covered under this arrangement.

In addition to the annual management fee, the Archdiocese billed the Organization a one-time fee in the amount of \$25,000, in the year-ended May 31, 2010, to cover the costs associated with the development and installation of a software system that will track donations and a website that will allow donors to submit donations online. The \$25,000 is reflected as an other asset as of May 31, 2010, in the Statements of Financial Position, and will be amortized over a five-year period beginning in the year ending May 31, 2011.

The amounts due to related party for the periods ended May 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Management fee	\$24,000	\$ -
Software/website fee	25,000	-
Miscellaneous expenses due from the Archdiocese	<u>(454)</u>	<u>-</u>
	<u>\$48,546</u>	<u>\$ -</u>

Note 6 - Restrictions on net assets

Temporarily restricted net assets of \$140,866 and \$2,470 at May 31, 2010 and 2009, respectively, are restricted for scholarships.

Notes to Financial Statements
May 31, 2010 and 2009

Note 7 - Scholarships payable

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. These scholarship awards are considered to be unconditional. As such, the scholarship awards were recorded at their discounted values in the year the unconditional promise to give was made.

Scholarships payable are reflected in the Statements of Financial Position as of May 31, 2010 and 2009, in the amount of \$2,067,471 and \$0, respectively.

Remaining commitments associated with these scholarships are as follows:

<u>Year Ending May 31,</u>	<u>Scheduled Cash Outlay</u>	<u>Discount Component</u>	<u>Net Present Value</u>
2011	\$ 505,193	\$ 18,260	\$ 486,933
2012	487,828	34,627	453,201
2013	451,215	47,180	404,035
2014	287,476	39,363	248,113
2015	143,700	24,159	119,541
Thereafter	468,700	113,052	355,648
	<u>\$2,344,112</u>	<u>\$276,641</u>	<u>\$2,067,471</u>

The Organization made conditional promises for scholarships as of May 31, 2010, in the amount of \$269,728. Because these scholarships are only payable upon the satisfaction of certain conditions, they are not recorded as an expense or liability in the accompanying financial statements. There were no conditional promises that existed at May 31, 2009.

Note 8 - Advertising and promotion

Advertising and promotion costs totaled \$9,693 and \$125, for the periods ended May 31, 2010 and 2009, respectively.

Note 9 - Fair value measurements

Financial accounting standards define fair value 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.

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Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Generally accepted accounting principles 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 have the highest priority, and Level 3 inputs have the lowest priority. In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. When this happens, the level in the fair value hierarchy that the asset or liability falls under is based on the lowest input level that is significant to the fair value measurement in its entirety. The framework for measuring fair value is based on independent observable inputs of market data and follows the following hierarchy for valuing inputs into three levels as follows:

Level 1 - Fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date (e.g. prices derived from NYSE, NASDAQ, other similar agencies).

Level 2 - Fair values are based on inputs other than quoted prices included within Level 1 that are observable for valuing the asset or liability, either directly or indirectly (i.e. interest rate and yield curves observable at commonly quoted intervals, default rates, etc.). Observable inputs include quoted prices for similar assets or liabilities in active or non-active markets. Level 2 inputs may also include insignificant adjustments to market observable inputs.

Level 3 - Fair values are based on unobservable inputs used for valuing the asset or liability. Unobservable inputs are those that reflect the Organization's own assumptions about the assumptions that market participants would use in pricing the asset or liability, based on the best information available in the circumstances.

The following is a description of valuation methodologies used for the Organization's assets and liabilities recorded at fair value:

- Cash, restricted cash, other assets, accounts payable and accrued expenses are reported at carrying value which approximates fair value based upon the nature of the instruments.
- Scholarships payable are reported at fair value utilizing Level 3 inputs, based on

Notes to Financial Statements
May 31, 2010 and 2009

- the present value of expected future cash flows and a discount rate of 3.75%. The valuation of the scholarships payable is determined annually by management.

The following table sets 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, 2010 and 2009:

	<u>Total</u>	<u>Level 3</u>
<u>May 31, 2010</u>		
Scholarships payable	<u>\$2,067,471</u>	<u>\$2,067,471</u>
	<u>\$2,067,471</u>	<u>\$2,067,471</u>
<u>May 31, 2009</u>		
Scholarships payable	<u>\$ -</u>	<u>\$ -</u>
	<u>\$ -</u>	<u>\$ -</u>

The following is a reconciliation of the change in fair value of scholarships payable for the periods ended May 31, 2009 and 2010, for Level 3:

	<u>2010</u>	<u>2009</u>
Beginning of period	\$ -	\$ -
Scholarship commitments	2,528,457	86,000
Installment payments	(184,345)	(86,000)
Discount to net present value	<u>(276,641)</u>	<u>-</u>
End of period	<u>\$2,067,471</u>	<u>\$ -</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 10 - Certification for Georgia Department of Revenue

For the year ended May 31, 2010, the Organization has met all the requirements under Georgia law O.C.G.A. § 20-2A-2, and is an SSO as defined in O.C.G.A. § 20-2A-1. The 2009 calendar year report submitted to the Georgia Department of Revenue pursuant to O.C.G.A. § 20-2A-3 is correct in all material respects.

Notes to Financial Statements
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Note 11 - Subsequent events

Management has evaluated subsequent events through August 2, 2010, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended May 31, 2010.