

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

Financial Statements

Years Ended

May 31, 2011 and 2010

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

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LANEY  
BOTELE &  
KILLINGER

Certified Public Accountants

**Independent Auditor's 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, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. 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, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Laney, Boteler, & Killinger*

Atlanta, Georgia  
August 4, 2011

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

	May 31,	
	2011	2010
<b>Assets</b>		
Assets		
Cash	\$ 385,669	\$ 130,723
Restricted cash	5,560,898	2,619,765
Other assets	20,000	25,000
<b>Total assets</b>	<b>\$5,966,567</b>	<b>\$2,775,488</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 3,110	\$ 12,573
Accrued expenses	12,000	12,000
Due to related party	49,250	48,546
Scholarships payable	4,543,067	2,067,471
<b>Total liabilities</b>	<b>4,607,427</b>	<b>2,140,590</b>
<b>Net assets</b>		
Unrestricted		
Designated for scholarships	1,174,837	469,032
Designated for operations	-	25,000
	1,174,837	494,032
Temporarily restricted	184,303	140,866
<b>Total net assets</b>	<b>1,359,140</b>	<b>634,898</b>
<b>Total liabilities and net assets</b>	<b>\$5,966,567</b>	<b>\$2,775,488</b>

See notes to financial statements.

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

Statements of Activities

	Year Ended May 31, 2011			Year Ended May 31, 2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and other support						
Program revenue - scholarship contributions	\$ -	\$ 3,799,739	\$3,799,739	\$ -	\$ 2,918,904	\$2,918,904
Administrative revenue	379,974	(379,974)	-	291,890	(291,890)	-
In-kind contributions	-	-	-	7,500	-	7,500
Interest income	141,133	-	141,133	-	39,839	39,839
Net assets released from restrictions	<u>3,376,328</u>	<u>(3,376,328)</u>	<u>-</u>	<u>2,528,457</u>	<u>(2,528,457)</u>	<u>-</u>
Total revenues and other support	<u>3,897,435</u>	<u>43,437</u>	<u>3,940,872</u>	<u>2,827,847</u>	<u>138,396</u>	<u>2,966,243</u>
Expenses						
Program expense - scholarship awards	2,985,445	-	2,985,445	2,251,814	-	2,251,814
General and administrative expense	<u>231,185</u>	<u>-</u>	<u>231,185</u>	<u>83,497</u>	<u>-</u>	<u>83,497</u>
Total expenses	<u>3,216,630</u>	<u>-</u>	<u>3,216,630</u>	<u>2,335,311</u>	<u>-</u>	<u>2,335,311</u>
Change in net assets	680,805	43,437	724,242	492,536	138,396	630,932
Net assets, beginning 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>
Net assets, end of period	<u>\$1,174,837</u>	<u>\$ 184,303</u>	<u>\$1,359,140</u>	<u>\$ 494,032</u>	<u>\$ 140,866</u>	<u>\$ 634,898</u>

See notes to financial statements.

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

Statements of Cash Flows

	Years Ended	
	May 31,	
	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets	\$ 724,242	\$ 630,932
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Amortization	5,000	-
Changes in operating assets and liabilities		
Restricted cash	(2,941,133)	(2,619,765)
Other assets	-	(25,000)
Accounts payable	(9,463)	5,548
Accrued expenses	-	12,000
Due to related party	704	48,546
Scholarships payable	<u>2,475,596</u>	<u>2,067,471</u>
Net cash provided by operating activities	<u>254,946</u>	<u>119,732</u>
Net increase in cash	254,946	119,732
Cash and cash equivalents at beginning of period	<u>130,723</u>	<u>10,991</u>
Cash and cash equivalents at end of period	<u>\$ 385,669</u>	<u>\$ 130,723</u>

See notes to financial statements.

Notes to Financial Statements  
May 31, 2011 and 2010

**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 revenue received from donations for scholarship awards or tuition grants; however, up to twenty-five percent of this amount may be carried forward for the next fiscal year. 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.

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Other assets acquired by gift are recorded at their fair market value on the date of receipt. A number of volunteers have donated their time to the Organization's programs and supporting services; however, with the exception of auditing services for the year ended May 31, 2010, no amounts have been reflected in the financial statements for donated services for the years ended May 31, 2011 and 2010, 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.

**Income taxes**

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. The Organization considers all of its activities to be directly related to its exempt purpose in 2011 and 2010. The Organization is considered to be an integrated auxiliary of the Archdiocese of Atlanta and is, therefore, not required to file federal or state income tax returns. The Internal Revenue Service and State of Georgia have the right to examine the Organization from its inception, but have not indicated any intent to do so. The Organization does not believe it has any uncertain tax positions through the year ended June 30, 2011.

**Advertising and promotion**

Advertising and promotion costs are expensed as incurred.

**Note 2 - In-kind contributions**

For the year ended May 31, 2010, the Organization received \$7,500 of donated auditing services. In-kind contributions are recorded at estimated fair value.

**Note 3 - Concentrations of credit risk**

Cash consists of demand deposits with financial institutions. Restricted cash consists of funds on deposit with the Archdiocese of Atlanta (Note 5). The balance in the Organization's bank account is insured by the Federal Deposit Insurance Company (FDIC) up to \$250,000. At times during the years ended May 31, 2011 and 2010, cash balances

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exceeded the FDIC limit. Funds on deposit with the Archdiocese of Atlanta are not FDIC insured.

**Note 4 - Restricted cash**

Georgia law requires that SSO's use at least ninety percent of the scholarship contributions they receive to fund scholarships and that the scholarship funds be maintained in a separate account from the organizations general operating funds. G.R.A.C.E. deposits into a separate interest bearing account ninety percent of all contributions received plus any additional portion of contributions that G.R.A.C.E. intends to use for scholarship awards. Restricted cash balances at May 31, 2011 and 2010, were \$5,560,898 and \$ 2,619,765, respectively.

**Note 5 - Related party Transactions**

**Restricted cash**

Scholarship funds (Note 4) are invested with the Archdiocese of Atlanta in the Archdiocese Deposit and Loan Fund (an interest-bearing deposit account). The Organization's funds invested in the Deposit and Loan Fund earn interest at the rate of 3.75%. Funds on deposit in the Archdiocese of Atlanta Deposit and Loan Fund total \$5,560,898 and \$2,619,765, at May 31, 2011 and 2010, respectively.

**Management services**

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

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

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

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As part of the Agreement, the Archdiocese hired onto its payroll full-time employees who work one-hundred percent of the time for the Organization. These employees are employed by the Archdiocese and receive all pay and benefits other full-time employees of the Archdiocese in similar positions receive. The Archdiocese processes all payroll and related costs for these employees and charges the Organization one-hundred percent of the actual cost. Payroll and related costs charged to the Organization for the employees are billed on a monthly basis. During the years ended May 31, 2011 and 2010, there were four and one employees, respectively, 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 fee is reflected as an other asset in the statements of financial position as of May 31, 2011 and 2010, respectively and is being amortized over a five-year period beginning June 1, 2010.

The amounts due to related party as of May 31, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Management fee	\$ 4,017	\$24,000
Software/website fee	-	25,000
Miscellaneous expenses due from the Archdiocese		(454)
Payroll and related expenses due to the Archdiocese	<u>45,233</u>	<u>-</u>
	<u>\$49,250</u>	<u>\$48,546</u>

**Note 6 - Restrictions on net assets**

Temporarily restricted net assets of \$184,303 and \$140,866 at May 31, 2011 and 2010, respectively, are restricted for scholarships.

**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, 2011 and 2010, in the amount of \$4,543,067 and \$2,067,471, respectively.

Notes to Financial Statements  
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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>
2012	\$ 1,020,448	\$ 36,884	\$ 983,564
2013	971,553	68,963	902,590
2014	824,379	86,198	738,181
2015	622,136	85,187	536,949
2016	421,161	70,807	350,354
Thereafter	<u>1,350,916</u>	<u>319,487</u>	<u>1,031,429</u>
	<u>\$ 5,210,593</u>	<u>\$ 667,526</u>	<u>\$4,543,067</u>

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

	<u>Years Ended May 31</u>	
	<u>2011</u>	<u>2010</u>
Scholarships payable, beginning of year	\$2,344,112	\$ -
Scholarships awarded	3,376,328	2,528,457
Scholarship payments	<u>(509,847)</u>	<u>(184,345)</u>
Scholarships payable, end of year	<u>\$5,210,593</u>	<u>\$2,344,112</u>

#### Note 8 - Advertising and promotion

Advertising and promotion costs totaled \$5,400 and \$9,693, for the years ended May 31, 2011 and 2010, respectively.

#### Note 9 - Certification for Georgia Department of Revenue

For the years ended May 31, 2011 and 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 2011 and 2010 calendar year reports submitted to the Georgia Department of Revenue pursuant to O.C.G.A. § 20-2A-3 are correct in all material respects.

#### Note 10 - Subsequent events

Management has evaluated subsequent events through August 4, 2011, which is the date the financial statements were available to be issued.

Notes to Financial Statements  
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**Note 11 - Fair value measurements**

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

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

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

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

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

Scholarships payable - reported at fair value utilizing Level 3 inputs, based on the present value of expected future cash flows and a discount rate of 3.75%. The valuation of the scholarships payable is determined annually by management.

The following tables set forth by level within the fair value hierarchy, the Organization's financial assets and liabilities measured at fair value on a recurring basis as of May 31, 2011 and 2010:

	<u>Fair Value</u>	<u>Level 3</u>
<u>May 31, 2011</u>		
Scholarships payable	<u>\$4,543,067</u>	<u>\$4,543,067</u>
	<u>\$4,543,067</u>	<u>\$4,543,067</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>

Notes to Financial Statements  
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The following is a reconciliation of the change in fair value for the years ended May 31, 2011 and 2010, for Level 3:

	<u>2011</u>	<u>2010</u>
Beginning of period	\$2,067,471	\$ -
Scholarship awards	3,376,328	2,528,457
Scholarship payments	(509,847)	(184,345)
Discount to net present value	<u>(390,885)</u>	<u>(276,641)</u>
End of period	<u>\$4,543,067</u>	<u>\$2,067,471</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.