

ARETE SCHOLARS FUND, INC.

Financial Statements
With Independent Auditors' Report

June 30, 2012

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 statement of financial position of Arete Scholars Fund, Inc. as of June 30, 2012, and the related statements of activities and cash flows for the year 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 audit. The financial statements of Arete Scholars Fund, Inc. as of June 30, 2011, were audited by other auditors, whose report dated October 19, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. 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 audit provides 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 Arete Scholars Fund, Inc. as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Capin Crouse LLP

Lawrenceville, Georgia
October 26, 2012

ARETE SCHOLARS FUND, INC.

Statements of Financial Position

| | June 30, | |
|---|-------------------|---------------------|
| | 2012 | 2011 |
| ASSETS: | | |
| Cash and cash equivalents: | | |
| Operating | \$ 666,105 | \$ 707,718 |
| Board designated for scholarships | 272,419 | 72,427 |
| Temporarily restricted for scholarships | - | 220,795 |
| Total cash and cash equivalents | 938,524 | 1,000,940 |
| Other assets | 1,200 | - |
| Total Assets | \$ 939,724 | \$ 1,000,940 |
| LIABILITIES AND NET ASSETS: | | |
| Accounts payable and accrued expenses | \$ 4,195 | \$ 38,696 |
| Total liabilities | 4,195 | 38,696 |
| Net assets: | | |
| Unrestricted: | | |
| Available at Board discretion | 641,960 | 669,022 |
| Board designated for scholarships | 272,419 | 72,427 |
| Total unrestricted net assets | 914,379 | 741,449 |
| Temporarily restricted for: | | |
| Scholarships | - | 220,795 |
| Research | 21,150 | - |
| | 21,150 | 220,795 |
| Total net assets | 935,529 | 962,244 |
| Total Liabilities and Net Assets | \$ 939,724 | \$ 1,000,940 |

See notes to financial statements

ARETE SCHOLARS FUND, INC.

Statements of Activities

For the Year Ended June 30,

| | 2012 | | | 2011 | | |
|---|-------------------|---------------------------|-------------------|-------------------|---------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| SUPPORT AND REVENUE: | | | | | | |
| Contributions: | | | | | | |
| Private foundation grants | \$ 181,600 | \$ 21,150 | \$ 202,750 | \$ 876,000 | \$ - | \$ 876,000 |
| Tax credit contributions | - | 5,600,207 | 5,600,207 | - | 1,582,500 | 1,582,500 |
| Interest and other income | 3,129 | 3,050 | 6,179 | 3,205 | 1,767 | 4,972 |
| Total Support and Revenue | 184,729 | 5,624,407 | 5,809,136 | 879,205 | 1,584,267 | 2,463,472 |
| RECLASSIFICATIONS: | | | | | | |
| Satisfaction of purpose restrictions | 5,263,726 | (5,263,726) | - | 1,205,045 | (1,205,045) | - |
| Administrative assessments - see Note 3 | 560,326 | (560,326) | - | 158,427 | (158,427) | - |
| Total Reclassifications | 5,824,052 | (5,824,052) | - | 1,363,472 | (1,363,472) | - |
| EXPENSES: | | | | | | |
| Program services: | | | | | | |
| Scholarship awards | 5,344,647 | - | 5,344,647 | 1,205,045 | - | 1,205,045 |
| Other scholarship related costs | 166,087 | - | 166,087 | 130,703 | - | 130,703 |
| | 5,510,734 | - | 5,510,734 | 1,335,748 | - | 1,335,748 |
| Supporting activities: | | | | | | |
| General and administrative | 177,556 | - | 177,556 | 72,826 | - | 72,826 |
| Fund raising | 147,561 | - | 147,561 | 92,654 | - | 92,654 |
| | 325,117 | - | 325,117 | 165,480 | - | 165,480 |
| Total Expenses | 5,835,851 | - | 5,835,851 | 1,501,228 | - | 1,501,228 |
| Change in Net Assets | 172,930 | (199,645) | (26,715) | 741,449 | 220,795 | 962,244 |
| Net Assets, Beginning of Year | 741,449 | 220,795 | 962,244 | - | - | - |
| Net Assets, End of Year | \$ 914,379 | \$ 21,150 | \$ 935,529 | \$ 741,449 | \$ 220,795 | \$ 962,244 |

See notes to financial statements

ARETE SCHOLARS FUND, INC.

Statements of Cash Flows

| | For the Year Ended June 30, | |
|--|-----------------------------|---------------------|
| | 2012 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ (26,715) | \$ 962,244 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Change in other assets | (1,200) | - |
| Change in accounts payable and accrued expenses | (34,501) | 38,696 |
| Net Cash Provided (Used) by Operating Activities | <u>(62,416)</u> | <u>1,000,940</u> |
| Net Change in Cash and Cash Equivalents | (62,416) | 1,000,940 |
| Cash and Cash Equivalents, Beginning of Year | <u>1,000,940</u> | <u>-</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 938,524</u> | <u>\$ 1,000,940</u> |

See notes to financial statements

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2012 and 2011

1. NATURE OF ORGANIZATION:

Arete Scholars Fund, Inc. (Arete) was incorporated in June 2010 for the purpose of discovering unused gifts by advancing educational freedom. 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. As an approved SSO, Arete is permitted to take administrative assessments of 10% against the tax credit contributions received and any interest earned on such funds prior to distribution. Arete must distribute at least 75% of eligible funds received each year for scholarships. The following shows this transactional flow:

| | For the Year Ended June 30, | |
|---|-----------------------------|--------------|
| | 2012 | 2011 |
| Support and revenue received for scholarships: | | |
| Tax credit contributions from corporations and individuals | \$ 5,600,207 | \$ 1,582,500 |
| Interest earned on these contributions prior to distribution | 3,050 | 1,767 |
| | 5,603,257 | 1,584,267 |
| 10% administrative assessment - see Note 3 | (560,326) | (158,427) |
| Amount eligible for scholarships, subject to the 75% minimum distribution requirement | 5,042,931 | 1,425,840 |
| Balance temporarily restricted for scholarships, beginning of year | 220,795 | - |
| Amount available for scholarships | 5,263,726 | 1,425,840 |
| Scholarship expense | (5,344,647) | (1,205,045) |
| | | \$ 220,795 |
| Scholarships paid with unrestricted funds | \$ (80,921) | |

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2012 and 2011

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, savings, and money market accounts. 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:

Unrestricted amounts are currently available at the discretion of or designated for specific purposes by the Board of Directors.

Temporarily restricted 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 support 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

During the year ended June 30, 2012, 79% of total contributions were provided by three donors. During the year ended June 30, 2011, 96% of total contributions were provided by four donors.

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2012 and 2011

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.

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, 2012, Arete had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

RECLASSIFICATIONS

Certain amounts in the prior year financial statements have been reclassified in order to conform to the current year presentation.

3. BOARD DESIGNATED NET ASSETS:

During the years ended June 30, 2012 and 2011, Arete's Board of Directors designated 6% and 5%, respectively, of tax credit contributions in order to make additional funds available for scholarships. This decision has been made in order to eliminate the impact of the administrative assessment against tax credit contributions received from individuals and to reduce the impact of the administrative assessment against tax credit contributions received from corporations.

4. OPERATING LEASE:

Arete leases office space under an operating lease agreement which expires January 31, 2013. Monthly rental payments are \$1,200. Rental expense under this lease agreement for the year ended June 30, 2012 was \$6,000. Future minimum payments under this agreement are as follows:

| | |
|-------------------------------------|-----------------|
| <u>Year ending June 30,</u> 2013 | <u>\$ 8,400</u> |
|-------------------------------------|-----------------|

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2012 and 2011

5. FUNCTIONAL EXPENSES:

Functional expenses have been allocated as follows:

| | For the Year Ended June 30, 2012 | | | |
|------------------------------|----------------------------------|-------------------------------|--------------|--------------|
| | Program | General and Administrative | Fund raising | Total |
| Scholarship awards | \$ 5,344,647 | \$ - | \$ - | \$ 5,344,647 |
| Business registration fees | - | - | - | - |
| Bank fees | - | 4,610 | - | 4,610 |
| Accounting fees | - | 10,595 | - | 10,595 |
| Outside contract services | 22,670 | - | 15,114 | 37,784 |
| Rent, parking, and utilities | - | 12,255 | - | 12,255 |
| Books and subscriptions | 474 | 474 | 2,013 | 2,961 |
| Postage and mailing | 858 | 317 | - | 1,175 |
| Printing and copying | 784 | 784 | 392 | 1,960 |
| Office supplies | 898 | 5,799 | 1,470 | 8,167 |
| Telephone | 2,641 | 2,641 | 1,320 | 6,602 |
| Advertising | 10,680 | - | 3,411 | 14,091 |
| Marketing | 3,948 | 3,948 | 2,632 | 10,528 |
| Insurance | - | 3,181 | - | 3,181 |
| Lobbying | - | 11,000 | 11,000 | 22,000 |
| Donor events | - | - | 2,883 | 2,883 |
| Other | 3,390 | 753 | 3,386 | 7,529 |
| Professional development | - | 2,500 | - | 2,500 |
| Employee compensation | 101,747 | 101,747 | 87,212 | 290,706 |
| Payroll expenses | 7,767 | 7,767 | 6,658 | 22,192 |
| Employee benefits | 9,185 | 9,185 | 7,873 | 26,243 |
| Travel | 1,045 | - | 2,197 | 3,242 |
| | \$ 5,510,734 | \$ 177,556 | \$ 147,561 | \$ 5,835,851 |

ARETE SCHOLARS FUND, INC.

Notes to Financial Statements

June 30, 2012 and 2011

5. FUNCTIONAL EXPENSES, continued:

| | For the Year Ended June 30, 2011 | | | |
|------------------------------|----------------------------------|-------------------------------|--------------|--------------|
| | Program | General and administrative | Fund raising | Total |
| Scholarship awards | \$ 1,205,045 | \$ - | \$ - | \$ 1,205,045 |
| Business registration fees | - | 1,075 | - | 1,075 |
| Bank fees | - | 266 | - | 266 |
| Accounting fees | - | 763 | - | 763 |
| Outside contract services | 67,407 | - | 44,626 | 112,033 |
| Rent, parking, and utilities | - | 14,276 | - | 14,276 |
| Books and subscriptions | 235 | 235 | 959 | 1,429 |
| Postage and mailing | 626 | 226 | - | 852 |
| Printing and copying | 612 | 612 | 306 | 1,530 |
| Office supplies | 470 | 3,087 | 772 | 4,329 |
| Telephone | 497 | 497 | 249 | 1,243 |
| Advertising | - | - | 150 | 150 |
| Insurance | - | 3,249 | - | 3,249 |
| Other | 2,244 | 499 | 2,244 | 4,987 |
| Employee compensation | 42,450 | 41,400 | 35,788 | 119,638 |
| Payroll expenses | 3,247 | 3,167 | 2,738 | 9,152 |
| Employee benefits | 3,474 | 3,474 | 4,472 | 11,420 |
| Travel | 9,441 | - | 350 | 9,791 |
| | \$ 1,335,748 | \$ 72,826 | \$ 92,654 | \$ 1,501,228 |

6. SUBSEQUENT EVENTS:

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