



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

FINANCIAL STATEMENTS

May 31, 2024 and 2023



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REPORT





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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management of
G.R.A.C.E. Scholars, Inc.
Atlanta, Georgia

Opinion

We have audited the accompanying financial statements of G.R.A.C.E. Scholars, Inc. (a nonprofit organization), which comprise the statements of financial position as of May 31, 2024 and 2023, and the related statements of activities, functional expenses, 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 G.R.A.C.E. Scholars, Inc. (the Organization) as of May 31, 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 audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of G.R.A.C.E. Scholars, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Plans for Ceasing Operations

As discussed in Note 1 to the financial statements, during the year ended May 31, 2024, the members decided to cease operations by February 2025. The Organization entered into an agreement with an unrelated student scholarship organization to transfer its scholarship funds and related scholarship liabilities by May 2025. Our opinion is not modified with respect to that matter.

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 the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities 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 auditor's 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 G.R.A.C.E. Scholars, 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 G.R.A.C.E. Scholars, 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.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Atlanta, Georgia
September 25, 2024



FINANCIAL STATEMENTS



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

<i>May 31,</i>	2024	2023
Assets		
Cash and cash equivalents	\$ 227,647	\$ 1,711,204
Restricted cash	6,669,592	6,140,846
Restricted certificates of deposit	1,423,008	4,071,824
Restricted investments in marketable securities	9,608,398	6,788,261
Total assets	\$ 17,928,645	\$ 18,712,135
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ -	\$ 362
Accrued expenses	24,300	22,100
Due to related party	31,087	15,519
Scholarships payable	14,610,486	13,855,024
Total liabilities	14,665,873	13,893,005
Net assets		
Without donor restrictions	2,105,244	1,567,225
With donor restrictions		
Purpose restrictions	1,157,528	1,615,055
Time restrictions	-	1,636,850
Total net assets with donor restrictions	1,157,528	3,251,905
Total net assets	3,262,772	4,819,130
Total liabilities and net assets	\$ 17,928,645	\$ 18,712,135

The accompanying notes are an integral part of these financial statements.

G.R.A.C.E. Scholars, Inc.
Statements of Activities

For the year ended May 31, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support			
Contributions	\$ -	\$ 4,076,020	\$ 4,076,020
Administrative	274,561	(274,561)	-
Investment income, net	528,957	-	528,957
Unrealized and realized gain on investments	71,111	-	71,111
Net assets released from restrictions	5,895,836	(5,895,836)	-
Total revenue and other support	6,770,465	(2,094,377)	4,676,088
Expenses			
Program expense	5,977,514	-	5,977,514
Fundraising	153,852	-	153,852
General and administrative	101,080	-	101,080
Total expenses	6,232,446	-	6,232,446
Change in net assets	538,019	(2,094,377)	(1,556,358)
Net assets at beginning of year	1,567,225	3,251,905	4,819,130
Net assets at end of year	\$ 2,105,244	\$ 1,157,528	\$ 3,262,772

The accompanying notes are an integral part of these financial statements.

G.R.A.C.E. Scholars, Inc.
Statements of Activities (Continued)

For the year ended May 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support			
Contributions	\$ -	\$ 4,545,174	\$ 4,545,174
Administrative	301,210	(301,210)	-
Investment income, net	265,387	-	265,387
Unrealized and realized gain on investments	80,769	-	80,769
Other revenue	41	-	41
Net assets released from restrictions	4,154,392	(4,154,392)	-
Total revenue and other support	4,801,799	89,572	4,891,371
Expenses			
Program expense	4,298,793	-	4,298,793
Fundraising	119,161	-	119,161
General and administrative	87,481	-	87,481
Total expenses	4,505,435	-	4,505,435
Change in net assets	296,364	89,572	385,936
Net assets at beginning of year	1,270,861	3,162,333	4,433,194
Net assets at end of year	\$ 1,567,225	\$ 3,251,905	\$ 4,819,130

The accompanying notes are an integral part of these financial statements.

G.R.A.C.E. Scholars, Inc.
Statements of Functional Expenses

For the year ended May 31, 2024

	Program	Fundraising	General and Administrative	Total
Scholarship awards	\$ 5,836,017	\$ -	\$ -	\$ 5,836,017
Payroll and benefits	103,049	69,324	14,989	187,362
Contract wages	38,448	25,864	5,592	69,904
Professional services	-	-	57,502	57,502
Other fundraising expenses	-	44,003	-	44,003
Marketing and advertising	-	14,661	-	14,661
Other expenses	-	-	13,537	13,537
Office expense	-	-	9,460	9,460
Total	\$ 5,977,514	\$ 153,852	\$ 101,080	\$ 6,232,446

The accompanying notes are an integral part of these financial statements.

G.R.A.C.E. Scholars, Inc.
Statements of Functional Expenses (Continued)

For the year ended May 31, 2023

	Program	Fundraising	General and Administrative	Total
Scholarship awards	\$ 4,205,351	\$ -	\$ -	\$ 4,205,351
Payroll and benefits	93,442	62,860	13,592	169,894
Professional services	-	-	51,190	51,190
Other fundraising expenses	-	49,342	-	49,342
Other expenses	-	-	12,071	12,071
Office expense	-	-	10,628	10,628
Marketing and advertising	-	6,959	-	6,959
Total	\$ 4,298,793	\$ 119,161	\$ 87,481	\$ 4,505,435

The accompanying notes are an integral part of these financial statements.

G.R.A.C.E. Scholars, Inc.
Statements of Cash Flows

<i>For the years ended May 31,</i>	2024	2023
Operating Activities		
Change in net assets	\$ (1,556,358)	\$ 385,936
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Unrealized and realized gain on investments	(71,111)	(80,769)
Net present value adjustment - scholarships payable	1,636,850	(350,525)
Changes in operating assets and liabilities		
Restricted certificates of deposit	2,648,816	(2,827,625)
Other assets	-	688
Accounts payable	(362)	(22,067)
Accrued expenses	2,200	(3,550)
Refundable advance - related party	-	(25,000)
Agency obligation - related party	-	(475,000)
Due to related party	15,568	(2,736)
Scholarships payable	(881,388)	1,333,018
Net cash provided by (used in) operating activities	1,794,215	(2,067,630)
Investing Activities		
Purchase of investments	(12,659,673)	(13,956,559)
Proceeds from sale of investments	9,910,647	14,616,942
Net cash provided by (used in) investing activities	(2,749,026)	660,383
Net change in cash, cash equivalents and restricted cash	(954,811)	(1,407,247)
Cash, cash equivalents and restricted cash at beginning of year	7,852,050	9,259,297
Cash, cash equivalents and restricted cash at end of year	\$ 6,897,239	\$ 7,852,050
Presented on Statements of Financial Position as:		
Cash and cash equivalents	\$ 227,647	\$ 1,711,204
Restricted cash	6,669,592	6,140,846
Cash, cash equivalents, and restricted cash at end of year	\$ 6,897,239	\$ 7,852,050

The accompanying notes are an integral part of these financial statements.

Note 1: DESCRIPTION OF THE ORGANIZATION

G.R.A.C.E. Scholars, Inc. (the Organization) is a Georgia nonprofit Student Scholarship Organization (SSO). The Organization is a two member corporation which includes the individual serving as the Archbishop of the Roman Catholic Archdiocese of Atlanta and the individual serving as the Bishop of the Roman Catholic Diocese of Savannah. 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 Pre-K through 12th grade Catholic education. As a qualified SSO, the Organization receives contributions from individuals and businesses and awards scholarships to eligible students. Under the SSO regulations, ninety-two to ninety-six percent of the scholarship contributions that SSO's receive must be used to fund scholarships, with the remaining percentage available to cover administrative and operating expenses. The required percentage used for scholarships increases as annual revenues increase.

The Organization's program consists of awarding scholarships. The Organization awards scholarships based on financial need to assist with individual student tuition costs.

On May 28, 2024, the members of the Organization signed an agreement with Georgia Goal Scholarship Program, Inc. (GOAL), an unrelated entity, that also qualifies as an SSO. Under the terms of the agreement, the Organization will transfer all scholarship funds for the 2025-2026 school year and beyond to GOAL on or before February 28, 2025. Management interprets all scholarship funds to mean all gross scholarship liabilities along with the assets necessary to fund those liabilities. The Organization will also cease accepting tax credit applications for calendar year 2025 on July 1, 2024. There are no immediate plans for the Organization to continue operations beyond February 2025.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the Accounting Standards Codification (ASC) and related Accounting Standards Updates (ASUs).

Use of Estimates

The preparation of U.S. GAAP financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near term are related to the allocation of functional expenses.

Cash and Cash Equivalents

Cash and cash equivalents include cash and all highly liquid investments with an original maturity of 90 days or less.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash

Restricted cash includes funds on deposit with a related party (Note 11) and is designated for the use of scholarship funding.

Investments in Marketable Securities

The Organization reports investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Investment income and gains restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met (either a stipulated time period ends, or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Scholarships Payable

The Organization awards student scholarships based on financial need and the scholarships normally cover multiple years. 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. As such, the scholarship awards are considered to be unconditional promises to give and are recorded at the total award amount in the year the unconditional promise is made. As of May 31, 2023, scholarships payable were discounted to the net present value of the future cash flows. As of May 31, 2024, scholarships payable are recorded without a net present value adjustment due to the Organization anticipating fulfillment of its scholarships payable liabilities within the upcoming fiscal year (Note 1).

Net Assets

The Organization reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as when a donor stipulates that resources be maintained in perpetuity.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Contributions are recognized when cash, other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met or the donor has explicitly released the restriction.

The Organization reports gifts of cash and other assets as restricted support to the extent that, under Georgia law as amended, the Organization is required to obligate at least ninety-two to ninety-six percent of its annual revenue received from donations for scholarship awards or tuition grants. When a scholarship or tuition grant is awarded, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Administrative Fees

Georgia law allows an administrative fee on current-year contributions based on the amount of cumulative contributions during the year. For the years ending May 31, 2024 and 2023, the Organization has approved administrative fees of approximately 7% which is in line with the allowable legal limit. Administrative fees are recognized in the same manner and period as the related contributions.

Functional Allocation of Expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to payroll and benefits are allocated based on actual percentages of time spent in each functional area.

Income Taxes

Under section 501(c)(3) of the Internal Revenue Code, the Organization is exempt from taxes on income other than unrelated business income. The Organization is considered to be an integrated auxiliary of a church 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 utilizes the accounting requirements associated with uncertainty in income taxes using the provisions of Financial Accounting Standards Board (FASB) ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the positions will be sustained upon examination by the tax authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of May 31, 2024 and 2023, the Organization has no uncertain tax provisions that qualify for recognition or disclosure in the financial statements.

Reclassifications

Certain reclassifications were made to prior year balances to conform with current year presentation.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, September 25, 2024, and determined there were no events that occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 842, *Leases*) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Organization adopted ASC 842 on June 1, 2022. The impact of the adoption was not considered material to the financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments*, which is often referred to as the CECL model, or current expected credit losses. Among other things, the amendments in this ASU require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.

The Organization adopted ASU 2016-13 on June 1, 2023. The impact of the adoption was not considered material to the financial statements.

G.R.A.C.E. Scholars, Inc.
Notes to Financial Statements

Note 3: LIQUIDITY AND FINANCIAL ASSET AVAILABILITY

The Organization maintains its financial assets primarily in cash and investments to provide liquidity to ensure funds are available as the Organization's expenditures come due. The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions.

<i>May 31,</i>	2024	2023
Financial assets at year- end	\$ 17,928,645	\$ 18,712,135
Less those not available for general expenditures within one year, due to contractual or donor-imposed restrictions		
Restricted cash	(6,669,592)	(6,140,846)
Restricted certificates of deposit	(1,423,008)	(4,071,824)
Restricted investments in marketable securities	(9,608,398)	(6,788,261)
Financial assets available to meet cash needs for general expenditures within one year	\$ 227,647	\$ 1,711,204

The Organization is principally supported by the administrative fees it collects for managing and awarding scholarships. The Organization plans on ceasing operations by May 31, 2025 (Note 1), at which point, it plans on awarding scholarships with its remaining assets after liabilities are fully settled.

Note 4: RESTRICTED CASH, CERTIFICATES OF DEPOSIT AND INVESTMENTS

Georgia law requires that SSO's use at least ninety-two to ninety-six percent of the scholarship contributions they receive to fund scholarships and that the scholarship funds be maintained in separate accounts from the organization's general operating funds. The Organization deposits the required percentage of all contributions received plus any additional portion of contributions that the Organization intends to use for scholarship awards into a separate interest-bearing account.

Restricted cash, certificates of deposit and investment balances at May 31, 2024 and 2023, were \$17,700,998 and \$17,000,931, respectively.

Note 5: INVESTMENTS

Investments in marketable securities consist of the following as of May 31, 2024:

<i>May 31, 2024</i>	Cost	Fair Value
Short-term investment and money market funds	\$ 170,245	\$ 170,245
U.S. government and agency bonds	9,249,113	9,438,153
Total investments in marketable securities	\$ 9,419,358	\$ 9,608,398

G.R.A.C.E. Scholars, Inc.
Notes to Financial Statements

Note 5: INVESTMENTS (Continued)

Investments in marketable securities consist of the following as of May 31, 2023:

<u>May 31, 2023</u>	<u>Cost</u>	<u>Fair Value</u>
Short-term investment and money market funds	\$ 695,245	\$ 695,245
U.S. government and agency bonds	6,045,643	6,093,016
Total investments in marketable securities	\$ 6,740,888	\$ 6,788,261

The Organization's policy for recording fees paid for the management of its investments is to net the fees against investment income.

Note 6: SCHOLARSHIPS PAYABLE

Scholarships payable are reflected in the statements of financial position as of May 31, 2024 and 2023, in the amounts of \$14,610,486 and \$13,855,024, respectively. Scholarship awards expense in the statements of activities of \$5,836,017 and \$4,205,351, for the years ended May 31, 2024 and 2023, respectively, is the total of scholarships awarded adjusted for the change in discount required to reflect future scholarships payable at net present value (Note 9). Scholarships awarded of \$5,030,876 for the year ended May 31, 2023, included \$475,000 awarded from Catholic Education of North Georgia, Inc. (CENGI) (Note 11). There were no amounts awarded from CENGI for the year ended May 31, 2024.

During the years ended May 31, 2024 and 2023, scholarship awards totaling \$3,330,689 and \$2,804,495, respectively, were returned by students to the Organization and were reassigned to other qualified students.

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

<u>For the years ended May 31,</u>	<u>2024</u>	<u>2023</u>
Scholarships payable, beginning of year	\$ 15,491,874	\$ 14,158,856
Scholarships awarded	4,199,167	5,030,876
Scholarships payments	(5,080,555)	(3,697,858)
Scholarships payable, end of year	\$ 14,610,486	\$ 15,491,874

Under the terms of the agreement with GOAL (Note 1), scholarships payable totaling \$14,610,486 as of May 31, 2024, along with any scholarships awarded subsequent to year-end, will be transferred to GOAL within the Organization's upcoming fiscal year.

Note 7: NET ASSETS

There were no board designated net assets at May 31, 2024 and 2023.

There were no net assets with time restriction at May 31, 2024. Net assets with time restrictions of \$1,636,850 at May 31, 2023 are restricted for the net present value discount to scholarships payable as described in Notes 2 and 6.

Net assets with purpose restrictions of \$1,157,528 and \$1,615,055 at May 31, 2024 and 2023, respectively, are restricted for scholarships to be awarded in the subsequent year. Releases of purpose restrictions totaled \$4,258,986 and \$4,504,917 for the years ended May 31, 2024 and 2023, respectively.

Note 8: CONTRIBUTIONS

Contributions are reflected in the statements of activities for the years ended May 31, 2024 and 2023, in the amounts of \$4,076,020 and \$4,545,174, respectively. Contributions consisted of the following:

<i>For the years ended May 31,</i>	2024	2023
General contributions	\$ 2,959,892	\$ 3,615,681
Contributions with no corresponding tax credits	645,232	514,058
Contributions and transfers from other SSOs	470,896	415,435
Total	\$ 4,076,020	\$ 4,545,174

Note 9: FAIR VALUE MEASUREMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs, other than quoted prices, that are:
 - observable; or
 - can be corroborated by observable market data.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Note 9: FAIR VALUE MEASUREMENTS (Continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at May 31, 2024 and 2023.

Short-term investment and money market funds: Carrying value approximates fair value based upon the nature of the instrument.

U.S. Government and agency bonds: Valued at the closing price reported on the active market on which the individual securities are traded.

Scholarships payable: Valued at fair value utilizing Level 3 inputs, based on the present value of expected future cash flows and a discount rate of 3.75% at May 31, 2023, respectively. There was no present value discount applied at May 31, 2024, due to the expectation of the liabilities being satisfied through a transfer to another SSO within the upcoming fiscal year (Note 1). A decrease in the discount rate would increase the net scholarships payable obligation. The valuation of the scholarships payable is determined annually by management.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in different fair value measurements at the reporting date.

Assets and liabilities measured at fair value on a recurring basis, consists of the following:

<u>May 31, 2024</u>	Level 1	Level 2	Level 3	Total
Investments				
Short-term investment and money market funds	\$ 170,245	\$ -	\$ -	\$ 170,245
U.S. government and agency bonds	9,438,153	-	-	9,438,153
Total	\$ 9,608,398	\$ -	\$ -	\$ 9,608,398
Scholarships payable	\$ -	\$ -	\$ 14,610,486	\$ 14,610,486
<u>May 31, 2023</u>	Level 1	Level 2	Level 3	Total
Investments				
Short-term investment and money market funds	\$ 695,245	\$ -	\$ -	\$ 695,245
U.S. government and agency bonds	6,093,016	-	-	6,093,016
Total	\$ 6,788,261	\$ -	\$ -	\$ 6,788,261
Scholarships payable	\$ -	\$ -	\$ 13,855,024	\$ 13,855,024

G.R.A.C.E. Scholars, Inc.
Notes to Financial Statements

Note 9: FAIR VALUE MEASUREMENTS (Continued)

The following is a reconciliation of the change in fair value for the years ended May 31, 2024 and 2023 for Level 3, scholarships payable:

<i>For the years ended May 31,</i>	2024	2023
Beginning of period	\$ 13,855,024	\$ 12,872,531
Scholarships awarded	4,199,167	5,030,876
Scholarship payments	(5,080,555)	(3,697,858)
Change in net present value discount	1,636,850	(350,525)
Total	\$ 14,610,486	\$ 13,855,024

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluates the significance of transfer between levels based upon the nature of the financial instrument and size of the transfer relative to total assets. For the years ended May 31, 2024 and 2023, there were no significant transfers in or out of Levels 1, 2 or 3.

Note 10: CONCENTRATIONS OF CREDIT RISK

The Organization maintained cash deposits with financial institutions at May 31, 2023, in excess of federally insured limits of approximately \$1,451,000. Cash deposits with financial institutions at May 31, 2024 were within the federally insured limits. Funds on deposit with the AoA Deposit and Loan Fund Trust (Note 11) are not FDIC insured.

Note 11: RELATED PARTY TRANSACTIONS

Funds on deposit with AoA Deposit and Loan Fund Trust

A portion of the scholarship funds (Notes 4 and 6) are invested in the AoA Deposit and Loan Fund Trust (an interest-bearing deposit account). The Organization's funds invested in the AoA Deposit and Loan Fund Trust earned interest at the rates of 3.00% and 2.25% at May 31, 2024 and 2023, and the total deposit balance was \$6,669,592 and \$6,140,846, at May 31, 2024 and 2023, respectively. Funds on deposit are presented as restricted cash in the statements of financial position.

Advance from Catholic Education of North Georgia, Inc. (CENGI)

During the year ended May 31, 2023, the Organization awarded \$475,000 to students at St. Mary's Academy using funds that were originally advanced from CENGI and, as a result, recognized \$25,000 of administrative fee revenue.

There were no advances from CENGI during the year ended May 31, 2024.

Note 11: RELATED PARTY TRANSACTIONS (Continued)

Management Services

The Organization entered into a Management Agreement (the Agreement) with RCAA Administrative Services, Inc. (Services) effective June 1, 2018. The agreement automatically renews annually on June 1, and will terminate if either party in the agreement gives notice to the other party. Administrative support and financial reporting are among the services provided. The annual billing from Services totaled \$27,602 and \$27,061 as of May 31, 2024 and 2023, respectively.

As part of the Agreement, Services hired onto its payroll full-time employees who work one-hundred percent of the time for the Organization. These employees are employed by Services and receive all pay and benefits other full-time employees of Services in similar positions receive. Services 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. There were two employees covered under this arrangement and compensation and related benefits totaled approximately \$187,000 and \$170,000, for the years ended May 31, 2024 and 2023, respectively.

The amounts due to Services totaled \$31,087 and \$15,519, as of May 31, 2024 and 2023, respectively.

Note 12: CERTIFICATION FOR GEORGIA DEPARTMENT OF REVENUE

For the years ended May 31, 2024 and 2023, the Organization has met all the requirements under Georgia law O.C.G.A. § 20-2A-2, and is a SSO as defined in O.C.G.A. § 20-2A-1. The 2023 and 2022 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.