ARISE!, INC.

ANNUAL FINANCIAL AND COMPLIANCE REPORTS

FOR THE YEAR ENDED AUGUST 31, 2018

ARISE!, INC.

ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2018

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ARISE!, INC.
COUNTY-DISTRICT NO. 057833
FEDERAL EMPLOYER IDENTIFICATION NUMBER: 31-1581048

ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2018

CERTIFICATE OF BOARD OF DIRECTORS

We, the undersigned, certify that the attached Annual Financial and Compliance Report of Arise!, Inc. was reviewed and (check one) ___✓___ approved _____ disapproved for the year ended August 31, 2018, at a meeting of the governing body of said charter holder on the 22nd day of January, 2019.

Signature of Board Secretary

Signature of Board President

NOTE: If the governing body of the charter school does not approve the independent auditors' report, it must forward a written statement discussing the reason(s) for not approving the report.

GREGORY S. DELK

CPA

CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

Unmodified Opinion on Financial Statements

Board of Directors
Arise!, Inc.
Sunnyvale, Texas

Members of the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Arise!, Inc. listed in the table of contents as of and for the year ended August 31, 2018 and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arise!, Inc. as of August 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information (supplementary schedules) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards, we* have also issued our report dated January 10, 2019 on our consideration of Arise!, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide and opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arise! Inc.'s internal control over financial reporting and compliance.

Gregory S. Delk

Gregory S. Delk, CPA
January 10, 2019

GENERAL-PURPOSE FINANCIAL STATEMENTS

Exhibit A-1

ARISE!, INC.
Statement of Financial Position
August 31, 2018

ASSETS

Current Assets	
Cash in Banks and On Hand	$ 1,053,660.99
Due from State	43,597.99
Prepaid Expenses	43,658.97
Total Current Assets	1,140,917.95
Property and Equipment	
Land	417,815.00
Building and Improvements	3,416,130.44
Furniture and Equipment	295,899.21
Furniture and Equipment-Capital Leases	202,807.20
Accumulated Depreciation	(356,552.08)
Total Property and Equipment	3,976,099.77
Other Assets	
Escrowed Account	280,275.00
Total Other Assets	280,275.00
TOTAL ASSETS	$ 5,397,292.72

LIABILITIES AND NET ASSETS

Current Liabilities	
Loans Payable-Current Portion	$ 159,971.83
Capital Lease Payable-Current Portion	71,810.17
Payroll Taxes & Related Payables	40,073.61
Accrued Wages Payable	359,234.74
Other Accrued Expenses	6,998.75
Total Current Liabilities	638,089.10
Long-Term Liabilities	
Notes Payable Less Current Portion	3,681,000.00
Capital Lease Payable Less Current Portion	50,874.12
Total Long-Term Liabilities	3,731,874.12
Net Assets	
Unrestricted Net Assets (Deficiency)	(65,719.03)
Temporarily Restricted Net Assets (Deficiency)	1,093,048.53
Total Net Assets	1,027,329.50
TOTAL LIABILITIES AND NET ASSETS	$ 5,397,292.72

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

Exhibit A-2

ARISE!, INC.
Statement of Activities
For the Year Ended August 31, 2018

	Unrestricted	Temporarily Restricted	Totals
REVENUE AND OTHER SUPPORT			
Local Support--			
Earnings from Investments	$	$ 489.69	$ 489.69
Other Local Revenues		4,135.98	4,135.98
Enterprising Services Revenue		76,509.58	76,509.58
Total Local Support	0.00	81,135.25	81,135.25
State Program Revenues--			
Foundation School Program-Per Capita		94,262.00	94,262.00
Foundation School Program		4,347,342.00	4,347,342.00
Instructional Materials Fund		99,983.00	99,983.00
Total State Program Revenues	0.00	4,541,587.00	4,541,587.00
Federal Program Revenues--			
School Breakfast Matching		101,697.94	101,697.94
Title I, Part A		70,555.00	70,555.00
IDEA-Part B Formula		89,103.00	89,103.00
IDEA-Part B Preschool		1,274.40	1,274.40
Title II, Part A		19,650.00	19,650.00
Title IV, Part A, Subpart 1		10,000.00	10,000.00
Total Federal Program Revenues	0.00	292,280.34	292,280.34
Net Assets Released from Restrictions	4,895,771.76	(4,895,771.76)	0.00
Total Revenue and Other Support	4,895,771.76	19,230.83	4,915,002.59
EXPENSES			
Program Services:			
Instructional and Instructional Related Services	2,638,302.57	-----	2,638,302.57
Instructional and School Leadership	403,946.57	-----	403,946.57
Support Services:			
Administrative Support Services	565,590.93	-----	565,590.93
Support Services-Non-Student Based	860,172.42	-----	860,172.42
Support Services-Student (Pupil)	238,368.60	-----	238,368.60
Community Services	17,471.25	-----	17,471.25
Debt Services	147,236.13	-----	147,236.13
Fund Raising	24,683.29	-----	24,683.29
Total Expenses	4,895,771.76	0.00	4,895,771.76
Change in Net Assets	**0.00**	**19,230.83**	**19,230.83**
Net Assets Beginning of Year	(65,719.03)	1,073,817.70	1,008,098.67
Net Assets End of Year	$ (65,719.03)	$ 1,093,048.53	$ 1,027,329.50

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

Exhibit A-3

ARISE!, INC.
Statement of Cash Flows
For the Year Ended August 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Government Contracts/Grants	$	4,803,038.96
Cash Received from Local Sources		81,135.25
Cash Paid to Suppliers for Goods and Services		(2,199,518.48)
Cash Paid to Employees for Services		(2,399,169.41)
Cash Paid for Income Taxes		0.00
Cash Paid for Interest Expense		(147,236.13)
Net Cash Provided By Operating Activities		138,250.19
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment		(659,791.67)
Net Cash Used By Investing Activities		(659,791.67)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Borrowing to Acquire Property		173,577.32
Payments on Indebtedness		(208,397.28)
Net Cash Used By Investing Activities		(34,819.96)
Net Decrease in Cash		(556,361.44)
Cash at Beginning of Year		1,610,022.43
Cash at End of Year	$	1,053,660.99

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in Net Assets	$	19,230.83
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:		
Depreciation		169,812.43
Loss on Sale of Assets		590.96
(Increase) Decrease in Operating Assets--		
Due from State		(35,004.69)
Due from Federal Agencies		4,176.31
Prepaid Expenses		(8,046.72)
Increase (Decrease) in Operating Liabilities--		
Accounts Payable		(100,361.46)
Payroll Taxes Payable		(20,570.42)
Accrued Wages Payable		104,658.23
Other Accrued Expenses		3,764.72
Net Adjustments		119,019.36
Net Cash Provided By Operating Activities	$	138,250.19

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

NOTES TO
FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Nature of Activities –

Arise!, Inc. d/b/a Education Center International Academy provides an alternative learning environment for students. The School operates under an open enrollment charter granted by the State of Texas Board of Education. This charter was originally issued for a period of five years starting August 2001 and is subject to review and renewal periodically. The organization's charter was renewed until July 31, 2026. The School is part of the public school system of the State of Texas and is therefore entitled to distribution from the State's available school fund. The School does not have the authority to impose ad valorem taxes or to charge tuition. The organization does business as Education Center International Academy and there is not currently any additional financial activity outside of the charter school. The Organization was incorporated in 1997 and has been recognized as an organization exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code.

B. Accounting Policies –

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles. The accounting system is organized under the *Special Supplement to Financial Accounting and Reporting – Nonprofit Charter School Chart of Accounts*, a module of the Texas Education Agency Financial Accountability Resource Guide. The significant accounting policies are as follows:

To insure observance of limitations and restrictions placed on the use of resources available to the School, the accounts are maintained in accordance with the principles of fund accounting during the year. Resources for various purposes are classified into funds according to their nature and purposes. Separate accounts are maintained for each fund; however, the accompanying statements of financial position and of activities focus on the organization as a whole and reports the amounts of its total assets, liabilities, net assets and changes in net assets in accordance with Financial Accounting Standards Board Statement No. 117.

The statement of financial position reports the amounts of each of three classes of net assets: temporarily restricted, unrestricted net assets and permanently restricted net assets (currently zero).

- Temporarily restricted net assets result from contributions and other inflows of assets that are limited by donor imposed stipulations that can be fulfilled and removed by actions of the School pursuant to those stipulations.

  When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

- Unrestricted net assets are the remaining part of the School's net assets that is neither permanently restricted nor temporarily restricted by donor imposed stipulations. Property and equipment are included in unrestricted net assets.

- Permanently restricted net assets result from contributions and other inflows of assets that are required to be maintained in perpetuity with only the income to be used for the School's activities due to donor-imposed restrictions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Cash and Cash Equivalents –

For purposes of the statement of cash flows, cash and cash equivalents are comprised of cash on hand and in banks.

D. Fixed Assets and Depreciation –

All assets acquired with a value of $5,000.00 or greater ($1,500.00 for computers) and an estimated useful life of three years or more are recorded as fixed assets and are valued at cost or estimated cost. Donated assets are reported at the fair market value at the time of acquisition. Depreciation of building improvements and equipment is provided over the estimated useful lives of the assets on a straight line basis. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

E. Revenues –

Revenues from the State of Texas available school fund are earned based on reported attendance. Contributions received are recognized as revenue in the period received and are reported as either restricted or unrestricted support, in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*.

- Contributions with donor imposed restrictions are reported as restricted support. Restricted support increases temporarily restricted net assets.

- Contributions without donor imposed restrictions are reported as unrestricted support. Unrestricted support increases unrestricted net assets.

Government grant contracts that are entered into by the School are recognized as revenue when services are rendered or when expenses in connection with those services are incurred.

F. Donated Goods and Services –

Donated goods and services that can be measured and meet certain other requirements are recorded in the financial statements as in kind contributions and expenses of a like amount.

G. Personal Leave –

All employees earn five days of paid local and five days of paid state personal leave per year. However, unused balances do not accumulate; therefore, there is no liability accrued on the financial statements.

H. Estimates –

In preparation of the financial statements and in conformity with generally accepted accounting principles, management's estimated useful lives of asset classes were used in the calculation of depreciation.

I. Functional Allocation of Expenses –

The expense of the various programs and other activities has been presented on a functional basis in the statement of activities. Accordingly, certain expenses and supporting service costs have been allocated among the various programs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Pension –

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

K. Recent Accounting Pronouncements –

The FASB has issued ASU 2016-14, *Not for Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities* to be effective for fiscal years beginning after December 15, 2017. Under this new standard, there are changes to the methods an Organization classifies its net assets, presents its financial statements and notes on liquidity, financial performance and its cash flows. The new standard is designed to disclose more information on the nature, timing and amounts of donor restrictions on the net assets.

The FASB has issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* to be effective for fiscal years beginning after December 15, 2018. Under this new standard, revenue will be recognized in the amount expected to be entitled to receive for the transfer of promised goods and services to customers. The standard will represent a major change in the methods that most generally accepted accounting principles' previous guidance has accounted for revenue.

The FASB has issued ASU No. 2016-02, *Leases (Topic 842)* to be effective for fiscal years beginning after December 15, 2019. Under this new standard, lessees are required to recognize on the balance sheet a lease asset and a lease liability for all leases with terms exceeding 12 months. In the case of operating leases previously only disclosed in the footnotes, this will represent a major change in presentation in the financial statements.

The Organization is currently evaluating the effect these new accounting pronouncements will have on the financial statements.

2. BUILDING IMPROVEMENTS AND EQUIPMENT

An analysis of property and equipment at August 31, 2018, is presented as follows:

Asset		Cost	Accumulated Depreciation	Net	Straight Line Depr. Rate
Land	$	417,815.00	-0-	417,815.00	N/A
Building and Improvements		3,416,130.44	137,086.35	3,279,044.09	2.5%-6.67%
Furniture & Equipment		295,899.21	168,876.59	127,022.62	14.29%
Furn & Eqmt-Capital Leases		202,807.20	50,589.14	152,218.06	14.29%
Total	$	4,332,651.85	356,552.08	3,976,099.77	

Depreciation expense for the year ended August 31, 2018 was $169,812.43.

3. PENSION PLAN

Plan Description

The Organization participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms. No part of the plan is subject to a collective bargaining agreement.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system. Charter Schools are legally separate entities from the State and each other. Funds contributed by any one Charter School or ISD may be used to satisfy the obligations of all the Charter Schools and ISDs in the System. The unfunded obligations are shared by the other Charter Schools and ISDs. There are no withdrawal penalties for leaving the TRS System.

Detailed information about the Teacher Retirement System is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above.

Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

3. PENSION PLAN (continued)

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2016 as discussed in Note 1 of the TRS 2014 CAFR.

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to:

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors, and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5 percent of the applicable salary.

Statutorily Determined Contribution Rates

	2018	2017
Member	**7.7%**	**7.7%**
Non-Employer Contributing Entity (State)	**6.8%**	**6.8%**
Employers	**6.8%**	**6.8%**

3. PENSION PLAN (continued)

The Organization's FYE 8/31/2018 Contributions to the Plan were $203,853.06 and did not represent more than 5% of the total contributions to the plan.

There have been no changes which would affect the comparison of employer contributions from year to year.

Plan Assets and Obligations

Total Plan assets and obligations for the year 8/31/2018 are as follows:

Total Plan Assets	$ 176,942,453,923
Total Accumulated Benefit Obligations	$ 209,611,328,793
Total Plan Fiduciary Net Position	$ 154,568,901,833

Net Position as a percentage of Total Pension Liability is 73.74%.

Additional Plans

Certain employees of the organization are covered under Federal Social Security and Medicare. Under the provisions of that law, covered employees contribute 6.2% for Social Security and 1.45% for Medicare of their covered annual earnings and the Organization pays the matching Social Security and Medicare amounts.

4. OTHER POST EMPLOYMENT BENEFIT PLAN

Plan Description

The Organization participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). TRS-Care is a cost-sharing multiple-employer defined Other Post Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. TRS-Care is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

Detailed information about the TRS-Care plan is available in the TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Benefits Provided

TRS-Care provides a basic health insurance coverage at low cost (currently $200 per month) to all retirees from public schools, charter schools, regional education service centers, and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional premium.

Plan Assets and Obligations

Total Plan assets and obligations for the year 8/31/2018 are as follows:

Total Plan Assets	$ 1,001,649,953
Total Accumulated Benefit Obligations	$ 50,729,490,103
Total Plan Fiduciary Net Position	$ 798,574,633

Net Position as a percentage of Total OPEB Liability is 1.57%.

5. HEALTH CARE COVERAGE

Employees of the School are covered by a group insurance plan. The School pays $555.00 towards the employee's premium and the employee pays the balance due plus premiums for dependent coverage through payroll deductions. All premiums were paid to licensed insurers.

6. SECTION 125 CAFETERIA PLAN

The organization has adopted a "cafeteria plan" within the meaning of Section 125(a) of the Internal Revenue Code which allows employees to choose among certain "tax free" benefits in lieu of taxable compensation. The choices include medical insurance premium, dental and vision insurance premium, cancer insurance premium. Employees may also select to have payments for unreimbursed medical expenses, unreimbursed orthodontia payments, and dependent care services deducted out of their paycheck each pay period on a pretax basis. The employees' costs to provide any of these benefits are paid by the employees from payroll deductions.

7. DUE FROM STATE

At August 31, 2018, the School was to receive additional State Foundation Program entitlements of $36,761.00 and $5,562.59 in Breakfast Funds and $1,274.40 in IDEA-B Preschool Funds. These amounts will be received from the State during the 2018-2019 school year.

8. OPERATING LEASES

On September 1, 2018 the Organization entered into a lease agreement for office and classroom space at 8200 Schrade Road, Rowlett, Texas at $13,700.00 per month until June 30, 2019. On February 1, 2018 the Organization entered into a lease agreement for office and classroom space at 201 N. Erby Campbell, Royce City, Texas at $13,000.00 per month for the first year plus $3,000.00 annually for maintenance, $14,500.00 per month for the next year plus $3,000.00 annually for maintenance, $15,000.00 per month until July 31, 2023 plus $3,000.00 annually for maintenance.

Future minimum lease payments are as follows:

8/31/2019	$ 306,500.00
8/31/2020	$ 180,500.00
8/31/2021	$ 183,000.00
8/31/2022	$ 183,000.00
8/31/2023	$ 168,000.00
Thereafter	$ 0.00
Total future minimum lease payments	$ 1,021,000.00

9. ESCROWED ACCOUNT

As part of the below described loan for the purchase of the Sunnyvale property the lender requires a reserve account held at the lender bank in the amount of $280,275. The Organization cannot increase or decrease the account until the loan is paid in full.

10. NOTES PAYABLE

The Organization purchased a building at 302 North Town East Blvd., Sunnyvale, Texas for the Sunnyvale school location and Organization's administration offices on August 3, 2017. Previously they were leasing space at this location. The purchase was for $3,100,000.00 plus $860,000.00 renovation costs with a resulting note payable (lien on the building) of $3,960,000.00 payable by varying annual principal payments starting with $134,000.00 plus accrued interest on August 15th, 2018. In between principal payments on each February 15th interest only payments are due. The loan carries interest at an initial rate of 3.53%

10. NOTES PAYABLE (continued)

applicable to August 14th, 2022. Thereafter the interest rate is adjusted every 5 years to 80% of the 5 year Treasury Rate plus 2.5%, but never less than the initial rate of 3.53%.

The future note payments on this note are scheduled as follows (Interest beyond 2022 is assumed to be at 3.53%):

August 31,	Principal	Interest	Total
2019	145,000.00	136,054.94	281,054.94
2020	150,000.00	130,898.66	280,898.66
2021	155,000.00	125,564.56	280,564.56
2022	161,000.00	120,052.66	281,052.66
2023	166,000.00	114,327.40	280,327.40
Thereafter	3,049,000.00	873,973.40	3,922,973.40
Totals	3,826,000.00	1,500,871.62	5,326,871.62

The Organization purchased ground renovations and playground equipment in October 2017 with a resulting note payable of $33,980.12 with quarterly payments of $5,288.24 over 7 quarters including interest at 11.698%. The future note payments on this note are scheduled as follows:

August 31,	Principal	Interest	Total
2019	14,971.83	892.89	15,864.72
Totals	14,971.83	892.89	15,864.72

11. CAPITAL LEASES PAYABLE

The Organization leased 280 Dell Chromebooks 11 from Dell Financial Services at the beginning of the 2016-2017 school year. The lease qualifies as a capital lease and is recorded and presented in the financial statements in accordance with those principles. The Organization leased 240 Dell Chromebooks 11 from Dell Financial Services on June 20, 2017. The lease qualifies as a capital lease and is recorded and presented in the financial statements in accordance with those principles. The Organization leased 60 Dell Chromebooks from Dell Financial Services on September 12, 2017. The lease qualifies as a capital lease and is recorded and presented in the financial statements in accordance with those principles. The Organization leased 60 Dell Latitude Laptops from Dell Financial Services on June 15, 2018. The lease qualifies as a capital lease and is recorded and presented in the financial statements in accordance with those principles.

The future capital lease payments are scheduled as follows:

August 31,	Principal	Interest	Total
2019	71,810.17	3,409.64	75,219.81
2020	31,706.40	530.90	32,237.30
2021	16,414.30	128.90	16,543.20
2022	2,753.42	3.78	2,757.20
Thereafter	0	0	0
Totals	122,684.29	4,073.22	126,757.51

12. COMMITMENTS AND CONTINGENCIES

The School receives funds through state and federal programs which are governed by various rules and regulations of the grantor. Expenses charged to the grant program are subject to audit and adjustment by the grantor agency. In the opinion of management, aside from the temporary restrictions on net assets as explained below, there are no contingent liabilities relating to compliance with rules and regulations

12. COMMITMENTS AND CONTINGENCIES (continued)

governing the grants; therefore, no provision has been made in the accompanying financial statements for such contingencies.

13. ECONOMIC DEPENDENCY

During the year the School received the majority of its revenues from the Texas Education Agency through a Charter Agreement and through federal grants available to charter schools. The loss of this Charter Agreement would have a material effect on the ability of the School to continue to provide the current level of services to its students.

14. CASH DEPOSIT RISK COVERAGE

At August 31, 2018 and throughout the school year, the School's cash in bank accounts was not entirely covered by Federal Deposit Insurance Corporation (FDIC) insurance. The first $250,000.00 of accounts balances are covered by FDIC insurance at each institution and balances reached were in excess of that coverage. However, throughout the entire school year The Organization's custodial bank (Chase Bank) had pledged its own securities to cover the risk of loss of the balances in excess of the FDIC coverage.

15. SUBSEQUENT EVENTS

Management has reviewed subsequent events through January 10, 2019 for the purpose of evaluating the need for their inclusion in these notes. There have been no material subsequent events to note herein.

16. TEMPORARILY RESTRICTED NET ASSETS

At August 31, 2018 the School had temporarily restricted net assets of $1,093,048.53 that consisted of the following:

Local Revenues	$ 45,846.20
State Foundation Program	1,040,103.42
State Instructional Materials	2,746.63
Federal IDEA-B Program	4,352.28
	$ 1,093,048.53

SPECIFIC-PURPOSE FINANCIAL STATEMENTS

EDUCATION CENTER INTERNATIONAL ACADEMY CHARTER SCHOOL
Statement of Financial Position
August 31, 2018

Exhibit B-1

ASSETS

Current Assets	
Cash in Banks and On Hand	$ 1,053,660.99
Due from State	43,597.99
Prepaid Expenses	43,658.97
Total Current Assets	1,140,917.95
Property and Equipment	
Land	417,815.00
Building and Improvements	3,416,130.44
Furniture and Equipment	295,899.21
Furniture and Equipment-Capital Leases	202,807.20
Accumulated Depreciation	(356,552.08)
Total Property and Equipment	3,976,099.77
Other Assets	
Escrowed Account	280,275.00
Total Other Assets	280,275.00
TOTAL ASSETS	$ 5,397,292.72

LIABILITIES AND NET ASSETS

Current Liabilities	
Loans Payable-Current Portion	$ 159,971.83
Capital Lease Payable-Current Portion	71,810.17
Payroll Taxes & Related Payables	40,073.61
Accrued Wages Payable	359,234.74
Other Accrued Expenses	6,998.75
Total Current Liabilities	638,089.10
Long-Term Liabilities	
Notes Payable Less Current Portion	3,681,000.00
Capital Lease Payable Less Current Portion	50,874.12
Total Long-Term Liabilities	3,731,874.12
Net Assets	
Unrestricted Net Assets (Deficiency)	(65,719.03)
Temporarily Restricted Net Assets (Deficiency)	1,093,048.53
Total Net Assets	1,027,329.50
TOTAL LIABILITIES AND NET ASSETS	$ 5,397,292.72

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

EDUCATION CENTER INTERNATIONAL ACADEMY CHARTER SCHOOL
Statement of Activities
For the Year Ended August 31, 2018

Exhibit B-2

	Unrestricted	Temporarily Restricted	Totals
REVENUE AND OTHER SUPPORT			
Local Support--			
5742 Earnings from Investments	$	$ 489.69	$ 489.69
5749 Other Local Revenues		4,135.98	4,135.98
5755 Enterprising Services Revenue		76,509.58	76,509.58
Total Local Support	0.00	81,135.25	81,135.25
State Program Revenues--			
5811 Foundation School Program-Per Capita		94,262.00	94,262.00
5812 Foundation School Program		4,347,342.00	4,347,342.00
5829 Instructional Materials Fund		99,983.00	99,983.00
Total State Program Revenues	0.00	4,541,587.00	4,541,587.00
Federal Program Revenues--			
5921 School Breakfast Matching		101,697.94	101,697.94
5929 Title I, Part A		70,555.00	70,555.00
5929 IDEA-Part B Formula		89,103.00	89,103.00
5929 IDEA-Part B Preschool		1,274.40	1,274.40
5929 Title II, Part A		19,650.00	19,650.00
5929 Title IV, Part A, Subpart 1		10,000.00	10,000.00
Total Federal Program Revenues	0.00	292,280.34	292,280.34
Net Assets Released from Restrictions	4,895,771.76	(4,895,771.76)	0.00
Total Revenue and Other Support	4,895,771.76	19,230.83	4,915,002.59
EXPENSES			
11 Instruction	2,608,339.98	-----	2,608,339.98
12 Instructional Resources & Media Services	137.74	-----	137.74
13 Curriculum Dev. & Instructional Staff Dev.	29,824.85	-----	29,824.85
23 School Leadership	403,946.57	-----	403,946.57
31 Guidance, Counseling and Evaluation Svcs.	23,700.83	-----	23,700.83
33 Health Services	2,033.34	-----	2,033.34
35 Food Services	158,364.87	-----	158,364.87
36 Cocurricular/Extracurricular Activities	54,269.56	-----	54,269.56
41 General Administration	565,590.93	-----	565,590.93
51 Plant Maintenance and Operations	774,672.06	-----	774,672.06
52 Security and Monitoring Services	9,848.56	-----	9,848.56
53 Data Processing Services	75,651.80	-----	75,651.80
61 Community Services	17,471.25	-----	17,471.25
71 Debt Service	147,236.13	-----	147,236.13
81 Fund Raising	24,683.29	-----	24,683.29
Total Expenses	4,895,771.76	0.00	4,895,771.76
Change in Net Assets	0.00	19,230.83	19,230.83
Net Assets Beginning of Year	(65,719.03)	1,073,817.70	1,008,098.67
Net Assets End of Year	$ (65,719.03)	$ 1,093,048.53	$ 1,027,329.50

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

EDUCATION CENTER INTERNATIONAL ACADEMY CHARTER SCHOOL
Statement of Cash Flows
For the Year Ended August 31, 2018

Exhibit B-3

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Government Contracts/Grants	$	4,803,038.96
Cash Received from Local Sources		81,135.25
Cash Paid to Suppliers for Goods and Services		(2,199,518.48)
Cash Paid to Employees for Services		(2,399,169.41)
Cash Paid for Income Taxes		0.00
Cash Paid for Interest Expense		(147,236.13)
Net Cash Provided By Operating Activities		138,250.19
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment		(659,791.67)
Net Cash Used By Investing Activities		(659,791.67)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Borrowing to Acquire Property		173,577.32
Payments on Indebtedness		(208,397.28)
Net Cash Used By Investing Activities		(34,819.96)
Net Decrease in Cash		(556,361.44)
Cash at Beginning of Year		1,610,022.43
Cash at End of Year	$	1,053,660.99
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in Net Assets	$	19,230.83
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:		
Depreciation		169,812.43
Loss on Sale of Assets		590.96
(Increase) Decrease in Operating Assets--		
Due from State		(35,004.69)
Due from Federal Agencies		4,176.31
Prepaid Expenses		(8,046.72)
Increase (Decrease) in Operating Liabilities--		
Accounts Payable		(100,361.46)
Payroll Taxes Payable		(20,570.42)
Accrued Wages Payable		104,658.23
Other Accrued Expenses		3,764.72
Net Adjustments		119,019.36
Net Cash Provided By Operating Activities	$	138,250.19

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

SUPPLEMENTARY SCHEDULES

EDUCATION CENTER INTERNATIONAL ACADEMY CHARTER SCHOOL
Schedule of Expenses
For the Year Ended August 31, 2018

Exhibit C-1

EXPENSES	Totals
6100 Payroll Costs	$ 3,111,085.36
6200 Professional and Contracted Services	914,093.26
6300 Supplies and Materials	456,695.20
6400 Other Operating Costs	266,661.81
6500 Debt Services	147,236.13
Total Expenses and Other Losses	$ 4,895,771.76

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

EDUCATION CENTER INTERNATIONAL ACADEMY CHARTER SCHOOL
Schedule of Capital Assets
August 31, 2018

Exhibit D-1

CAPITAL ASSETS	Ownership Interest			
	Local	State	Federal	Total
1110 Cash	$ 45,846.20	$ 1,003,462.51	$ 4,352.28	$ 1,053,660.99
1510 Land and Improvements		417,815.00		417,815.00
1520 Buildings and Improvements		3,416,130.44		3,416,130.44
1549 Furniture and Equipment	44,280.00	160,058.33	91,560.88	295,899.21
1559 Furniture and Equipment-Capital Leases		202,807.20		202,807.20
Total Capital Assets	$ 90,126.20	$ 5,200,273.48	$ 95,913.16	$ 5,386,312.84

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

EDUCATION CENTER INTERNATIONAL ACADEMY CHARTER SCHOOL
Budgetary Comparison Schedule
For the Year Ended August 31, 2018

Exhibit E-1

	Budgeted Amounts		Actual	Variance from Final
	Original	Final	Amounts	Budget
REVENUE AND OTHER SUPPORT				
Local Support--				
5742 Earnings from Temporary Investments	$	$ 525.00	$ 489.69	$ (35.31)
5749 Other Local Revenues		4,541.00	4,135.98	(405.02)
5755 Enterprising Services Revenue		84,063.58	76,509.58	(7,554.00)
Total Local Support	0.00	89,129.58	81,135.25	(7,994.33)
State Program Revenues--				
5811 Foundation School Program-Per Capita		94,262.00	94,262.00	0.00
5812 Foundation School Program	4,009,534.82	4,312,573.00	4,347,342.00	34,769.00
5829 Instructional Materials Fund		100,066.80	99,983.00	(83.80)
Total State Program Revenues	4,009,534.82	4,506,901.80	4,541,587.00	34,685.20
Federal Program Revenues--				
5921 School Breakfast Matching		113,245.00	101,697.94	(11,547.06)
5929 Title I, Part A	66,755.00	70,555.00	70,555.00	0.00
5929 IDEA-Part B Formula	76,536.00	89,103.00	89,103.00	0.00
5929 IDEA-Part B Preschool	969.00	1,914.00	1,274.40	(639.60)
5929 Title II, Part A	10,168.00	19,650.00	19,650.00	0.00
5929 Title IV, Part A, Subpart 1	10,000.00	10,000.00	10,000.00	0.00
Total Federal Program Revenues	164,428.00	304,467.00	292,280.34	(12,186.66)
Total Revenue and Other Support	4,173,962.82	4,900,498.38	4,915,002.59	14,504.21
EXPENSES				
11 Instruction	2,640,261.99	2,601,086.79	2,608,339.98	(7,253.19)
12 Instructional Resources & Media Services		261.00	137.74	123.26
13 Curriculum Dev. & Instructional Staff Dev.	8,000.00	29,885.00	29,824.85	60.15
23 School Leadership	234,404.00	689,560.00	403,946.57	285,613.43
31 Guidance, Counseling and Evaluation Svcs.	37,500.00	32,938.00	23,700.83	9,237.17
33 Health Services	1,500.00	2,093.00	2,033.34	59.66
35 Food Services	17,500.00	157,642.00	158,364.87	(722.87)
36 Cocurricular/Extracurricular Activities		54,269.56	54,269.56	0.00
41 General Administration	392,639.00	450,328.00	565,590.93	(115,262.93)
51 Plant Maintenance and Operations	501,645.33	809,859.33	774,672.06	35,187.27
52 Security and Monitoring Services	2,400.00	10,833.00	9,848.56	984.44
53 Data Processing Services	47,500.00	81,374.00	75,651.80	5,722.20
61 Community Services		16,542.00	17,471.25	(929.25)
71 Debt Service	279,612.50	308,984.50	147,236.13	161,748.37
81 Fund Raising	5,000.00	27,151.00	24,683.29	2,467.71
Total Expenses	4,167,962.82	5,272,807.18	4,895,771.76	377,035.42
Change in Net Assets	**6,000.00**	**(372,308.80)**	**19,230.83**	**391,539.63**
Net Assets Beginning of Year	1,008,098.67	1,008,098.67	1,008,098.67	0.00
Net Assets End of Year	$ 1,014,098.67	$ 635,789.87	$ 1,027,329.50	$ 391,539.63

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

COMPLIANCE AND INTERNAL CONTROL

GREGORY S. DELK

CPA

CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
With *Government Auditing Standards*

Board of Directors
Arise! Inc.
Sunnyvale, Texas

Members of the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Arise!, Inc. as of and for the year ended August 31, 2018, and the related notes to the financial statements, and have issued our report thereon dated January 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Arise!, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Arise!, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Arise!, Inc. 's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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As part of obtaining reasonable assurance about whether Arise!, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gregory S. Delk

Gregory S. Delk, CPA
January 10, 2019

ARISE!, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2018

SECTION I – SUMMARY OF AUDITOR'S RESULTS **Exhibit F-1**

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	_____ Yes __X__ No
Significant deficiencies identified that are not considered to be material weaknesses?	_____ Yes __X__ No
Noncompliance material to financial statements noted?	_____ Yes __X__ No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	_____ Yes __X__ No
Significant deficiencies identified that are not considered to be material weaknesses?	_____ Yes __X__ No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	_____ Yes __X__ No
Identification of major programs:	None
Dollar threshold used to distinguish between type A and type B programs:	N/A
Auditee qualified as low-risk auditee?	_____ Yes __X__ No

SECTION II – FINANCIAL STATEMENT FINDINGS

None Identified

SECTION III – STATE AND FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None Identified

ARISE!, INC.

STATUS OF PRIOR AUDIT FINDINGS
For the Year Ended August 31, 2018

No Prior Year Findings

ARISE! , INC.

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2018

Exhibit G-1

No Corrective Action Plan Necessary