

**BRAINATION, INC. AND AFFILIATES  
(INSPIRE ACADEMIES AND EDUCATIONAL  
RESOURCE CENTER FOUNDATION)**

**FINANCIAL STATEMENTS WITH COMPLIANCE  
AND SINGLE AUDIT REPORTING**

**August 31, 2018 and 2017**

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**CONSOLIDATED FINANCIAL STATEMENTS WITH COMPLIANCE**  
**AND SINGLE AUDIT REPORTING**  
**August 31, 2018 and 2017**

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**BRAINATION, INC., AND AFFILIATES  
(INSPIRE ACADEMIES AND EDUCATIONAL  
RESOURCE CENTER FOUNDATION)**

Federal Employer Identification Number: 74-2869255

Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Report of the above-named charter holder was reviewed and (check one)  approved  disapproved for the year ended August 31, 2018, at a meeting of the Board of Trustees of such charter holder on the 15<sup>th</sup> day of JANUARY, 2019.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President

If the Board of Trustees disapproved the auditor's report, the reason(s) for disapproving it is (are): (attach list as necessary)

**INDEPENDENT AUDITOR’S REPORT**

To the Board of Trustees  
Braination, Inc. and Affiliates  
San Antonio, Texas

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Braination, Inc. and its affiliates, Inspire Academies and Educational Resource Center Foundation (non-profit organizations), which comprise the consolidated statements of financial position as of August 31, 2018 and 2017, and the related consolidated statements of activities (with comparative totals for 2017), functional expenses (with comparative totals for 2017), and cash flows for the years then ended, 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 these 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 accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 Brination, Inc. and its affiliates as of August 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

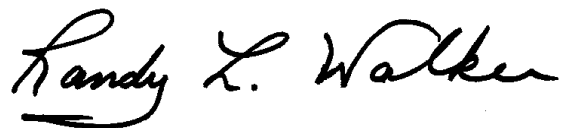
## ***Other Matters***

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The specific purpose financial statements on pages 20-25, the supplementary schedules on pages 26-28, and the accompanying schedule of expenditures of federal and state awards on page 29, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are 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 15, 2019, on pages 31-32 on our consideration of Brination, Inc. and its affiliates' internal control over financial reporting and on our tests of their 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 control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Brination, Inc. and its affiliates' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Randy L. Walker". The signature is written in a cursive style with a prominent underline under the first letter of the last name.

San Antonio, Texas  
January 15, 2019

# **GENERAL-PURPOSE FINANCIAL STATEMENTS**

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**August 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 3,365,502	\$ 2,212,209
Due from State	715,604	704,305
Due from Federal Agencies	2,054,975	1,898,561
Other Receivables	337,999	-
Prepaid Expense	46,128	82,882
Total Current Assets	<b>6,520,208</b>	<b>4,897,957</b>
<b>LONG-TERM ASSETS</b>		
Restricted Cash	821,544	816,278
Property and Equipment, net	17,873,047	18,477,736
Total Long-Term Assets	<b>18,694,591</b>	<b>19,294,014</b>
<b>TOTAL ASSETS</b>	<b>\$ 25,214,799</b>	<b>\$ 24,191,971</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 285,038	\$ 467,292
Accrued Expenses	1,440,554	1,753,575
Deferred Revenue	33,000	-
Bonds Payable - current	170,000	160,000
Total Current Liabilities	<b>1,928,592</b>	<b>2,380,867</b>
<b>LONG-TERM LIABILITIES</b>		
Bonds Payable - long-term, net	8,485,851	8,633,335
Total Long-Term Liabilities	<b>8,485,851</b>	<b>8,633,335</b>
<b>TOTAL LIABILITIES</b>	<b>10,414,443</b>	<b>11,014,202</b>
<b>NET ASSETS</b>		
Without Donor Restrictions	7,163,672	4,841,810
With Donor Restrictions	7,636,684	8,335,959
<b>TOTAL NET ASSETS</b>	<b>14,800,356</b>	<b>13,177,769</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 25,214,799</b>	<b>\$ 24,191,971</b>

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

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**For the Year Ended August 31, 2018**  
**(with comparative totals for 2017)**

	2018		Total	2017 Total
	Without Donor Restrictions	With Donor Restrictions		
<b>OPERATING REVENUES AND OTHER SUPPORT</b>				
Local Support:				
Other Revenue from Local Sources	\$ 5,845,216	\$ -	\$ 5,845,216	\$ 2,686,829
Earnings from Temporary Deposits and Investments	7,185	-	7,185	1,627
Total Local Support	5,852,401	-	5,852,401	2,688,456
State Program Revenues:				
Foundation School Program Act Entitlements	-	10,136,392	10,136,392	9,646,959
Instructional Materials Allotment	-	122,430	122,430	24,146
State Program Revenues Distributed by TEA	-	2,859	2,859	2,557
Total State Program Revenues	-	10,261,681	10,261,681	9,673,662
Federal Program Revenues:				
Title I, Part A - Grants to Local Education Agencies	-	219,396	219,396	302,491
Title I, Part D, Subpart 2 - Prevention and Intervention Programs for Children and Youth Who Are Neglected, Delinquent, or At-Risk	-	534,444	534,444	747,014
IDEA - Part B, Formula	-	248,682	248,682	202,862
National School Breakfast Program	-	184,646	184,646	218,933
National School Lunch Program	-	312,837	312,837	344,786
USDA Donated Food Commodities	-	63,498	63,498	30,544
Title II, Part A - Improving Teacher Quality State Grants	-	21,013	21,013	49,106
Title III ELA	-	3,510	3,510	2,873
School Health and Related Services	-	812,683	812,683	865,920
Total Federal Program Revenues	-	2,400,709	2,400,709	2,764,529
Net Assets Released From Restrictions				
Restrictions Satisfied By Payments	13,361,665	(13,361,665)	-	-
<b>TOTAL OPERATING REVENUES AND OTHER SUPPORT</b>	19,214,066	(699,275)	18,514,791	15,126,647
<b>OPERATING EXPENSES</b>				
Program	14,208,898	-	14,208,898	13,196,331
General and Administrative	2,724,755	-	2,724,755	1,653,579
Fundraising	51,939	-	51,939	-
<b>TOTAL OPERATING EXPENSES</b>	16,985,592	-	16,985,592	14,849,910
<b>CHANGE IN NET ASSETS BEFORE NON-OPERATING ACTIVITY</b>				
	2,228,474	(699,275)	1,529,199	276,737
<b>NON-OPERATING ACTIVITY</b>				
Insurance Proceeds on Roof Damage	93,388	-	93,388	-
Loss on Disposal of Asset	-	-	-	(63,463)
<b>TOTAL NON-OPERATING ACTIVITY</b>	93,388	-	93,388	(63,463)
<b>CHANGE IN NET ASSETS AFTER NON-OPERATING ACTIVITY</b>				
	2,321,862	(699,275)	1,622,587	213,274
<b>NET ASSETS, Beginning of Year</b>	4,841,810	8,335,959	13,177,769	12,964,495
<b>NET ASSETS, End of Year</b>	\$ 7,163,672	\$ 7,636,684	\$ 14,800,356	\$ 13,177,769

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



**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended August 31, 2018**  
**(with comparative totals for 2017)**

	<b>2018</b>				2017 Total
	<b>Program Expenses</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total</b>	
<b>OPERATING EXPENSES</b>					
Salaries	\$ 8,908,243	\$ 1,083,489	\$ -	\$ 9,991,732	\$ 9,153,979
Benefits	1,015,888	142,054	-	1,157,942	895,634
Health Insurance	605,983	85,772	-	691,755	608,642
Total Payroll Expenses	10,530,114	1,311,315	-	11,841,429	10,658,255
Miscellaneous Expenses	909,448	30,636	25,997	966,081	147,126
Depreciation Expense	824,308	45,455	-	869,763	841,850
Interest Expense	-	589,537	-	589,537	596,997
General Supplies	420,838	58,385	12,407	491,630	457,356
Food/Non-Food Expenses	489,139	-	-	489,139	500,131
Utilities	338,787	106,614	-	445,401	427,572
Other Contract Labor	207,122	149,549	13,535	370,206	264,902
Travel Expenses	115,608	59,911	-	175,519	142,051
Insurance and Bonding	53,501	113,772	-	167,273	142,402
Professional Services	150,601	-	-	150,601	204,088
Rental Expense	107,556	28,748	-	136,304	132,561
Maintenance and Repair	5,407	129,509	-	134,916	166,517
Educational Service Center	46,096	16,658	-	62,754	61,667
Accounting Fees	-	30,666	-	30,666	35,607
Bond Amortization Expense	-	22,517	-	22,517	22,515
Supplies for Maintenance and Repairs	1,503	14,596	-	16,099	4,734
Legal Services	-	12,186	-	12,186	21,662
Instructional Materials	8,870	-	-	8,870	19,916
Other Debt Fees	-	4,701	-	4,701	2,001
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 14,208,898</b>	<b>\$ 2,724,755</b>	<b>\$ 51,939</b>	<b>\$ 16,985,592</b>	<b>\$ 14,849,910</b>

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

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended August 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in Net Assets From Operations	\$ 1,622,587	\$ 213,274
Adjustments to Reconcile Net Excess to Net Cash		
Provided by Operations:		
Depreciation and Amortization	892,280	864,365
Loss on Disposal of Asset	-	63,463
(Increase)/Decrease in Assets:		
Due from State	(11,299)	17,145
Due from Federal Agencies	(156,414)	(208,812)
Other Receivables	(337,999)	-
Prepaid Expense	36,754	(68,373)
(Decrease)/Increase in Liabilities:		
Accounts Payable	(182,254)	(101,732)
Accrued Expenses	(313,021)	626,644
Deferred Revenue	33,000	-
	<b>1,583,634</b>	<b>1,405,974</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Property and Equipment	(265,075)	(255,486)
	<b>(265,075)</b>	<b>(255,486)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Bonds Payable	(160,000)	(155,000)
	<b>(160,000)</b>	<b>(155,000)</b>
<b>NET INCREASE IN CASH FLOWS</b>	<b>1,158,559</b>	<b>995,488</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<b>2,212,209</b>	<b>1,216,886</b>
<b>RESTRICTED CASH, Beginning of Year</b>	<b>816,278</b>	<b>816,113</b>
<b>LESS RESTRICTED CASH, End of Year</b>	<b>(821,544)</b>	<b>(816,278)</b>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<b>\$ 3,365,502</b>	<b>\$ 2,212,209</b>
 Supplemental Disclosures:		
Interest	<b>\$ 589,537</b>	<b>\$ 596,997</b>

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

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2018 and 2017**

**Note 1 - Nature of Business and Significant Accounting Policies**

***Reporting Entity***

Braination, Inc. is a not-for-profit 501(c)(3) organization incorporated in the state of Texas in 1998. Braination, Inc. does business as Inspire Academies and the Braination International Schools.

Braination, Inc. is governed by the Board which is comprised of six members. The Board is selected pursuant to the bylaws of Braination, Inc. and has the authority to make decisions, appoint the chief executive officer of Braination, Inc., and significantly influence operations. The Board has the primary accountability for the fiscal affairs of Braination, Inc.

Braination, Inc. is the "sponsoring entity" of an "Open-Enrollment Charter" with the Texas Education Agency called Inspire Academies. Through its open-enrollment charter, Inspire Academies operates residential and community-based school programs. These charter schools are Texas public schools.

Braination, Inc. receives, for purposes of the activity of Inspire Academies, the majority of its funding from TEA based on Inspire Academies' Average Daily Attendance Foundation Formula program. Since Braination, Inc. receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

***Residential Schools***

Beginning in the fall of 1998, Inspire Academies began offering challenging core curriculum with an accelerated academic focus serving primarily at-risk and under-achieving students in residential settings. Inspire Academies has traditionally focused on academic and behavioral intervention in favor of troubled youth. The environment is compatible with therapeutic treatment goals and is technologically and vocationally enriched. Education services are provided in multi-aged, multi-level classrooms for students in kindergarten through 12<sup>th</sup> grade.

As of August 31, 2018, Inspire Academies operates eight residential campuses (Afton Oaks, Granbury, Hays County, Bell County, Legacy Ranch, Meridell, Rockdale, and Williams House) in Bexar, Hood, Hays, Bell, Gonzalez, Williamson, Milam and Lampasas Counties. The campuses are located in Residential Treatment, Juvenile Detention, Foster and Emergency Shelter Centers operated by separate entities. All campuses serve open-enrollment students. Management and support of all campuses are executed at the central office.

***Community-Based Schools***

Also, under its charter school program, Inspire Academies opened a community-based middle, elementary, and high school in August 2014, 2015, and 2016, respectively. The name of the campus is the Anne Frank Inspire Academy. The schools currently serve students from Bexar County in grades K thru 12. This innovative school and instructional program represent a global learning environment coupled with a facilitated, student-led approach to learning.

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2018 and 2017**

**Note 1 - Nature of Business and Significant Accounting Policies (continued)**

***Reporting Entity (continued)***

Students from Bexar County *may* apply for open enrollment on a space-available basis, selected by numerical lottery, to attend a similar accelerated program in a self-contained classroom. The staff to student ratio varies from 6:1 to 10:1 depending on requisite level of care needed.

**Braination International Schools**

Braination, Inc. also operates an educational program for children of undocumented parents who crossed into the United States illegally. The Immigration and Customs Enforcement (ICE) division of Homeland Security operates a 537-bed facility (Karnes County Residential Facility) in Karnes City, Texas for these adults and their children. The residents are mostly from Honduras, El Salvador, and Guatemala. The school operates as a private, non-public school and serves up to 200 children from pre-K through 12<sup>th</sup> grade. All teachers are certified and bilingual, and the school follows state guidelines for instructional content, including special education.

**Partnered Schools**

Beginning with the 2017-2018 school year, Braination, Inc. partnered with the San Antonio Independent School District (the SAISD) to provide educational services to students in 6<sup>th</sup> to 12<sup>th</sup> grade with disabilities. These services are provided at the Brewer Academy, which was opened by the SAISD on the west side of San Antonio, Texas in the fall of 2017.

**Charter Renewal**

As stated in 19 Texas Administrative Code 100.1031(a), "If a Charter holder makes timely and sufficient application for renewal of an open-enrollment charter, the existing open-enrollment charter does not expire until the commissioner of education has finally granted or denied the application." Braination, Inc.'s Open-Enrollment Charter was approved in April 2016 for a ten-year term to begin in August 2016.

**Educational Resource Center Foundation**

Also affiliated with Braination, Inc. is the Educational Resource Center Foundation (the Foundation), a non-profit corporation. The Foundation is organized for the exclusive purpose of serving as a supporting organization for Braination, Inc. The Foundation board is comprised of seven members which includes all six of the Braination, Inc. members.

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2018 and 2017**

**Note 1 - Nature of Business and Significant Accounting Policies (continued)**

***Reporting Entity (continued)***

**Non-Charter Activities**

Expenses related to non-charter activities at Braination, Inc. and its affiliates for the years ended August 31, 2018 and 2017 were \$3,780,006 and \$2,219,977, respectively. The non-charter activities include an agreement with The Geo Group, Inc./Karnes County Civil Detention Center to provide educational services to eligible residential students effective August 1, 2014, the Foundation's operating expenses, and the agreement with the SAISD to provide educational services to students at Brewer Academy.

***Basis of Presentation***

The financial statements of Braination, Inc. and its affiliates have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles. The more significant of Braination, Inc. and its affiliates' accounting policies are described below:

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with GAAP.

Braination, Inc. and its affiliates are required to report information regarding their financial position and activities according to two classes of net assets:

- *Net Assets Without Donor Restrictions* – Net assets available for use in the general operations and not subject to donor restrictions. Assets restricted solely through the actions of the Board of Trustees are reported as net assets without donor restrictions, board-designated.
- *Net Assets With Donor Restrictions* – Net assets subject to donor-imposed restrictions that are more restrictive than Braination, Inc. and its affiliates' mission and purpose. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2018 and 2017**

**Note 1 - Nature of Business and Significant Accounting Policies (continued)**

***Grant Funds***

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require a refund of all or part of the unused amount.

***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Income Taxes***

Braination, Inc. and its affiliates are not-for-profit organizations and are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Braination, Inc. is also exempt from income, sales and hotel taxes in the State of Texas. As of August 31, 2018, the tax years that remain subject to examination by taxing authorities begin with 2015.

***Cash and Cash Equivalents***

Braination, Inc. and its affiliates consider all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents.

***Restricted Cash***

Restricted cash represents remaining proceeds from a bond issuance (see Note 3) that are not available for operating purposes. Under the terms of the note trust indenture, restricted cash is limited as to use for bond-related costs. At August 31, 2018 and 2017, restricted cash totaled \$821,544 and \$816,278, respectively.

***Property and Equipment***

Property and equipment, which include leasehold improvements, are stated at historical cost. Property and equipment are defined as assets with an individual cost of more than \$5,000. 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 at cost.

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2018 and 2017**

**Note 1 - Nature of Business and Significant Accounting Policies (continued)**

***Property and Equipment (continued)***

Depreciation is computed using the straight-line method over the estimated useful lives as follows:

Buildings (permanent)	30 - 40 years
Buildings (temporary)	20 years
Building Improvements	10 years
Furniture and Equipment	5 years
Vehicles	5 - 10 years
Library Assets	3 - 5 years
Infrastructure - Sign	5 years
Technology	3 years

***Contingencies***

Certain conditions may exist as of August 31, 2018, which may result in a loss to Braination, Inc. and its affiliates, but which will only be resolved when one or more future events occur or fail to occur. Braination, Inc. and its affiliates' management and legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against Braination, Inc. or unasserted claims that may result in such proceedings, Braination, Inc. and its affiliates' legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates it is probable a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in Braination, Inc. and its affiliates' financial statements. If the assessment indicates a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability together with an estimate of the range of possible loss, if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

Braination, Inc. receives the majority of its state and federal (as pass-through) revenues from Texas Education Agency (TEA). These funds are governed by various statutes and regulations. State program funding is based primarily on Inspire Academies' student attendance data submitted to TEA and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by Braination, Inc. have complex compliance requirements and, should state or federal auditors discover areas of noncompliance, Braination, Inc.'s funds may be subject to refund if so determined by TEA or the grantor agency.

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2018 and 2017**

**Note 1 - Nature of Business and Significant Accounting Policies (continued)**

***Functional Allocation of Expenses***

The costs of providing the services and other activities of Braination, Inc. and its affiliates have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include payroll expenses which are allocated on the basis of estimates of time and effort, as well as supplies, depreciation, maintenance and repair, and various other expenses which are allocated on square footage or some other reasonable basis.

***New Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting pronouncement regarding revenue recognition effective for reporting periods beginning after December 15, 2018. Management is currently evaluating the effect this new standard will have on its financial position, results of operations and related disclosures.

In February 2016, the FASB issued a new accounting pronouncement regarding lease accounting for reporting periods beginning after December 15, 2019. A lessee will be required to recognize on the statement of financial position the assets and liabilities for leases with terms of more than twelve months. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

***Recently Adopted Accounting Pronouncements***

In August 2016, the FASB issued Accounting Standard Update 2016-14, regarding the reporting and disclosure requirements for not-for-profit organizations, effective for periods beginning after December 15, 2017 with early adoption encouraged. The pronouncement replaces the three classes of net assets with two new classes, requires the reporting of expense by function and natural classification, enhances disclosures on liquidity and availability of resources, and includes several other less significant reporting enhancements. Braination, Inc. and its affiliates have early adopted this new pronouncement effective September 1, 2017, and the prior year presentation is conformed.

***Reclassifications***

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. Reclassifications were made due to the adoption of Accounting Standards Update 2016-14, as discussed above, which requires two classifications of net assets from the previously reported three classes. Net assets, previously classified at August 31, 2017 as “unrestricted” are now classified as “without donor restrictions”. Net assets previously classified as “temporarily restricted” are now classified as “with donor restrictions”. The reclassifications had no effect on the previously reported change in net assets.



**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2018 and 2017**

**Note 1 - Nature of Business and Significant Accounting Policies (continued)**

***Contributions***

Braination, Inc. and its affiliates account for contributions as support without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets with donor restrictions in the reporting period in which the support is recognized. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

**Note 2 - Property and Equipment**

Property and equipment consisted of the following at August 31:

	<u>2018</u>	<u>2017</u>
Building and Improvements	\$ 18,438,097	\$ 18,338,297
Land and Improvements	877,925	877,925
Furniture and Equipment	2,864,336	2,703,212
Vehicles	74,157	74,157
Library Assets	87,103	87,103
Infrastructure - Sign	33,711	29,561
	<u>22,375,329</u>	<u>22,110,255</u>
Less Accumulated Depreciation	<u>(4,502,282)</u>	<u>(3,632,519)</u>
Total	<u>\$ 17,873,047</u>	<u>\$ 18,477,736</u>

Depreciation expense for the years ended August 31, 2018 and 2017 was \$869,763 and \$841,850, respectively.

**Note 3 - Bonds Payable**

Braination, Inc. and its affiliates' obligations under bonds payable consist of Education Revenue Bonds (Series 2013A) issued through Danbury Higher Education Authority, Inc. and dated June 1, 2013. All bonds were closed and funded on July 2, 2013, with proceeds being held by the U.S. Bank National Association. The bonds' proceeds will be used for property acquisition and construction at the Anne Frank Inspire Academy campus and were underwritten by Oppenheimer & Co., Inc. The interest rates on the bonds range from 5.25% to 6.50%, and the terms of the bonds range from ten to thirty years.

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2018 and 2017**

**Note 3 - Bonds Payable (continued)**

As of August 31, bonds payable - long-term consisted of the following:

	<u>2018</u>	<u>2017</u>
Series 2013A	\$ <b>9,215,000</b>	\$ 9,375,000
Less Current Maturities	<b>(170,000)</b>	(160,000)
Less Bond Discount, net	<b>(218,155)</b>	(226,940)
Less Bond Issuance Costs, net	<b>(340,994)</b>	(354,725)
Total	<u><b>\$ 8,485,851</b></u>	<u>\$ 8,633,335</u>

Section 5.9 of the Series 2013A bond covenants establishes a debt service coverage ratio, which stipulates that available revenues (i.e., the amount of excess (deficit) of adjusted revenues over expenses) for each fiscal year must be equal to at least 1.10 times the annual debt service requirements of Braination, Inc. as of the end of the first fiscal year after the date of issuance of the bonds and annually thereafter until the bonds have been paid in full. Expenses include all operating and non-operating expenses or losses incurred during the fiscal year other than (a) interest expense, (b) depreciation and amortization, (c) extraordinary losses and (d) capital expenditures. As of August 31, 2018 and 2017, Braination, Inc. was in compliance with this covenant and all applicable covenants contained in the loan agreement.

Future minimum principal payments on the bonds payable are as follows:

For the Year Ending August 31,	
2019	\$ 170,000
2020	180,000
2021	185,000
2022	195,000
2023	205,000
Thereafter	<u>8,280,000</u>
Total	<u>\$ 9,215,000</u>

Interest expense on bonds payable was \$589,537 and \$596,997 for the years ended August 31, 2018 and 2017, respectively.

**Note 4 - Operating Leases**

Braination, Inc. and its affiliates have various copier and printer leases that expire between July 2019 and August 2022. These lease expenses amounted to \$113,841 and \$88,161 for the years ended August 31, 2018 and 2017, respectively.

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2018 and 2017**

**Note 4 - Operating Leases (continued)**

Braination, Inc. and its affiliates have a lease for internet/telephone services and webhosting that will expire in July 2019. These lease expenses amounted to \$273,154 and \$267,737 for the years ended August 31, 2018 and 2017, respectively.

The following is a schedule of the operating lease obligations subsequent to August 31, 2018:

Year Ending August 31,	
2019	\$ 363,295
2020	128,646
2021	113,550
2022	<u>109,551</u>
Total	<u>\$ 715,042</u>

**Note 5 - Related Party Transactions**

Inspire Academies had a net payable to Braination, Inc. and the Foundation of \$361,183 and \$277,550 for administrative services and miscellaneous purchases as of August 31, 2018 and 2017, respectively. This transaction is eliminated in the consolidated financial statements.

**Note 6 - Fair Value of Financial Instruments**

Braination, Inc. and its affiliates adopted the provisions of ASC 820, “*Fair Value Measurements and Disclosures*” (formerly SFAS 157). ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market, and establishes a framework for measuring fair value in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The adoption of ASC 820 did not affect Braination, Inc. and its affiliates’ financial position or results of operations. The valuation techniques required by ASC 820 are based upon observable and unobservable inputs, and ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities and have the highest priority.
- Level 2 valuations are based on quoted prices in markets that are not active.
- Level 3 valuations are based on inputs that are unobservable and supported by little or no market activity.

Braination, Inc. and its affiliates have no Level 2 or Level 3 assets or liabilities.

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2018 and 2017**

**Note 6 - Fair Value of Financial Instruments (continued)**

Braination, Inc. and its affiliates' financial instruments (Level 1) were as follows at August 31:

	<u>2018</u>		<u>2017</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial Assets:				
Cash and Cash Equivalents	\$ 3,365,502	\$ 3,365,502	\$ 2,212,209	\$ 2,212,209
Due from State	\$ 715,604	\$ 715,604	\$ 704,305	\$ 704,305
Due from Federal Agencies	\$ 2,054,975	\$ 2,054,975	\$ 1,898,561	\$ 1,898,561
Other Receivables	\$ 337,999	\$ 337,999	\$ -	\$ -
Prepaid Expense	\$ 46,128	\$ 46,128	\$ 82,882	\$ 82,882
Financial Liabilities:				
Accounts Payable	\$ 285,038	\$ 285,038	\$ 467,292	\$ 467,292
Accrued Expenses	\$ 1,440,554	\$ 1,440,554	\$ 1,753,575	\$ 1,753,575
Deferred Revenue	\$ 33,000	\$ 33,000	\$ -	\$ -
Bonds Payable - current	\$ 170,000	\$ 170,000	\$ 160,000	\$ 160,000

The carrying amounts reported in the consolidated statements of financial position approximate fair values because of the short maturities of those instruments.

**Note 7 - Regulated Industry**

The majority of Braination, Inc. and its affiliates' activities and revenues are a result of contracts with the Texas Education Agency (TEA). Braination, Inc. and its affiliates' operations are concentrated in the education field. As such, Braination, Inc. and its affiliates operate in a heavily regulated environment. The operations of Braination, Inc. and its affiliates are subject to administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, TEA. Such administrative directives, rules, and regulations are subject to change by an act of Congress, an act of the state legislature, or an administrative change mandated by TEA. Funding may be changed or decreased as a result of the above legislative or administrative changes.

**Note 8 - Health Care Coverage**

During the years ended August 31, 2018 and 2017, employees of Braination, Inc. and its affiliates were covered by a health insurance plan. Braination, Inc. and its affiliates contributed a maximum of \$346 per employee per month to the plan. All premiums were paid to licensed insurers. Braination, Inc. and its affiliates' contributions towards health insurance for the years ended August 31, 2018 and 2017 were \$691,755 and \$608,642, respectively.

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2018 and 2017**

**Note 9 - Pension Plan Obligations**

***Plan Description***

Braination, Inc. and its affiliates contribute to the Teacher Retirement System of Texas (TRS), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan in which all risks and costs are not shared by Braination, Inc. and its affiliates but are the liability of the state of Texas. TRS provides service retirement, disability retirement, and death benefits to plan members and beneficiaries. TRS operates under the authority of provisions contained primarily in Texas Government Code, Title 8, *Public Retirement Systems*, Subtitle C, *Teacher Retirement System of Texas*, which is subject to amendment by the Texas Legislature. TRS's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 877-0123.

The TRS plan differs from a single-employer plan as follows:

- Charter schools are legally separate entities from the state and each other.
- Assets contributed by one charter school or independent school district (ISD) may be used for the benefit of an employee of another ISD or charter school.
- The unfunded obligations get passed along to the other charter schools and ISDs.
- There is no withdrawal penalty for leaving the TRS system.

Total plan assets, accumulated benefit obligations, and % funded are as follows:

Total Plan Assets - \$146,282,044,842  
Accumulated Benefit Obligations - \$181,752,796,715  
The plan is 80.5% funded.

There are no collective-bargaining agreements.

***Funding Policy***

Under provisions in state law, plan members are required to contribute 6.7% of their annual covered salary, and the state of Texas contributes an amount equal to 6.0% of Inspire Academies' covered payroll. Inspire Academies' contributions to TRS for the years ended August 31, 2018 and 2017 were \$296,917 and \$152,049, respectively. There were no Non-OASDI participating surcharges. Inspire Academies' contributions did not represent more than 5% of the total contributions to the plan (i.e., total plan assets). There have been no changes that would affect the comparison of employer contributions from year to year.

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2018 and 2017**

**Note 10 - Net Assets with Donor Restrictions**

As of August 31, net assets with donor restrictions were available for the following purposes:

	<b>2018</b>	<b>2017</b>
Foundation School Program	<b>\$ 7,445,948</b>	\$ 8,128,658
Food Service Program	<b>88,736</b>	103,301
College Scholarships/Fellowship Award	<b>102,000</b>	104,000
Total	<b>\$ 7,636,684</b>	\$ 8,335,959

**Note 11 - Liquidity and Availability of Financial Resources**

Braination, Inc. and its affiliates have approximately \$4,578,000 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure. This consists of cash and cash equivalents of \$3,365,502 and receivables of \$3,108,578, net of current liabilities (excluding deferred revenue) of \$1,895,592 as of year-end. Braination, Inc. and its affiliates have a goal to maintain financial assets on hand to meet at least 90 days of normal operating expenses which are, on average, approximately \$1,341,000 per month, given full programmatic expenditures.

**Note 12 - Subsequent Events**

Braination, Inc. and its affiliates have evaluated subsequent events through January 15, 2019, which is the date the financial statements were available to be issued.

# **SPECIFIC-PURPOSE FINANCIAL STATEMENTS**

**INSPIRE ACADEMIES**  
**STATEMENTS OF FINANCIAL POSITION**  
**August 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 1,608,423	\$ 1,388,930
Due from State	715,604	704,305
Due from Federal Agencies	1,500,975	1,534,361
Due from Related Party	219,538	48,533
Prepaid Expense	42,794	74,465
Total Current Assets	4,087,334	3,750,594
<b>LONG-TERM ASSETS</b>		
Restricted Cash	821,544	816,278
Property and Equipment, net	17,114,829	17,657,517
Total Long-Term Assets	17,936,373	18,473,795
<b>TOTAL ASSETS</b>	<b>\$ 22,023,707</b>	<b>\$ 22,224,389</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 259,673	\$ 413,209
Accrued Expenses	1,010,366	1,342,075
Deferred Revenue	31,223	-
Due to Related Party	580,721	326,083
Bonds Payable - current	170,000	160,000
Total Current Liabilities	2,051,983	2,241,367
<b>LONG-TERM LIABILITIES</b>		
Bonds Payable - long-term, net	8,485,851	8,633,335
Total Long-Term Liabilities	8,485,851	8,633,335
<b>TOTAL LIABILITIES</b>	<b>10,537,834</b>	<b>10,874,702</b>
<b>NET ASSETS</b>		
Without Donor Restrictions	3,951,189	3,117,728
With Donor Restrictions	7,534,684	8,231,959
<b>TOTAL NET ASSETS</b>	<b>11,485,873</b>	<b>11,349,687</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 22,023,707</b>	<b>\$ 22,224,389</b>

See independent auditor's report.



**INSPIRE ACADEMIES**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended August 31, 2018**  
**(with comparative totals for 2017)**

	2018		Total	2017 Total
	Without Donor Restrictions	With Donor Restrictions		
<b>OPERATING REVENUES AND OTHER SUPPORT</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 585,994	\$ -	\$ 585,994	\$ 308,829
Total Local Support	585,994	-	585,994	308,829
State Program Revenues:				
5810 Foundation School Program Act Revenues	-	10,136,392	10,136,392	9,646,959
5820 State Program Revenues Distributed by TEA	-	125,289	125,289	26,703
Total State Program Revenues	-	10,261,681	10,261,681	9,673,662
Federal Program Revenues:				
5920 Federal Revenues Distributed by TEA and USDA	-	1,588,026	1,588,026	1,898,609
5930 Federal Revenues Distributed by Other State of Texas Government Agencies (Other than TEA)	-	812,683	812,683	865,920
Total Federal Program Revenues	-	2,400,709	2,400,709	2,764,529
Net Assets Released From Restrictions				
Restrictions Satisfied By Payments	13,359,665	(13,359,665)	-	-
<b>TOTAL OPERATING REVENUES AND OTHER SUPPORT</b>	<b>13,945,659</b>	<b>(697,275)</b>	<b>13,248,384</b>	<b>12,747,020</b>
<b>OPERATING EXPENSES</b>				
11 Instruction	7,301,227	-	7,301,227	6,827,049
13 Curriculum Development and Instructional Staff Development	79,050	-	79,050	86,311
21 Instructional Leadership	247,678	-	247,678	133,641
23 School Leadership	1,452,491	-	1,452,491	1,493,165
31 Guidance, Counseling, and Evaluation Services	724,047	-	724,047	776,177
33 Health Services	4,129	-	4,129	3,910
34 Student Transportation	19,227	-	19,227	15,911
35 Food Services	578,404	-	578,404	558,638
36 Extracurricular Activities	11,194	-	11,194	-
41 General Administration	1,017,665	-	1,017,665	947,033
51 Plant Maintenance and Operations	661,110	-	661,110	656,658
52 Security and Monitoring	1,608	-	1,608	6,026
53 Data Processing	382,298	-	382,298	410,781
61 Community Services	79,961	-	79,961	66,359
62 School District Administrative Support Services	3,492	-	3,492	2,445
71 Debt Service	616,755	-	616,755	621,513
81 Fundraising	25,250	-	25,250	24,316
<b>TOTAL OPERATING EXPENSES</b>	<b>13,205,586</b>	<b>-</b>	<b>13,205,586</b>	<b>12,629,933</b>
<b>CHANGE IN NET ASSETS BEFORE NON-OPERATING ACTIVITY</b>				
	740,073	(697,275)	42,798	117,087
<b>NON-OPERATING ACTIVITY</b>				
Insurance Proceeds on Roof Damage	93,388	-	93,388	-
Gain on Disposal of Asset	-	-	-	9,924
<b>TOTAL NON-OPERATING ACTIVITY</b>	<b>93,388</b>	<b>-</b>	<b>93,388</b>	<b>9,924</b>
<b>CHANGE IN NET ASSETS AFTER NON-OPERATING ACTIVITY</b>				
	833,461	(697,275)	136,186	127,011
<b>NET ASSETS, Beginning of Year</b>	<b>3,117,728</b>	<b>8,231,959</b>	<b>11,349,687</b>	<b>11,222,676</b>
<b>NET ASSETS, End of Year</b>	<b>\$ 3,951,189</b>	<b>\$ 7,534,684</b>	<b>\$ 11,485,873</b>	<b>\$ 11,349,687</b>

See independent auditor's report.

**INSPIRE ACADEMIES**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended August 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Foundation School Program Payments	\$ 10,199,136	\$ 9,466,397
Grant Payments	2,540,061	2,678,127
Miscellaneous Sources	528,933	308,829
Payments to Vendors for Goods and Services Rendered	(4,598,076)	(2,367,792)
Payments to Charter School Personnel for Services Rendered	(7,430,682)	(8,312,285)
Interest Payments	(589,537)	(599,676)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>649,835</b>	<b>1,173,600</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Property and Equipment	(265,076)	(212,331)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(265,076)</b>	<b>(212,331)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Bonds Payable	(160,000)	(155,000)
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	<b>(160,000)</b>	<b>(155,000)</b>
<b>NET INCREASE IN CASH FLOWS</b>	<b>224,759</b>	<b>806,269</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<b>1,388,930</b>	<b>582,826</b>
<b>RESTRICTED CASH, Beginning of Year</b>	<b>816,278</b>	<b>816,113</b>
<b>LESS RESTRICTED CASH, End of Year</b>	<b>(821,544)</b>	<b>(816,278)</b>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<b>\$ 1,608,423</b>	<b>\$ 1,388,930</b>
 Reconciliation of Change in Net Assets to Net Cash		
Provided by Operations:		
Change in Net Assets	\$ 136,186	\$ 127,011
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operations:		
Depreciation and Amortization	830,280	791,583
Gain on Disposal of Asset	-	(9,924)
(Increase)/Decrease in Assets:		
Due from State	(11,299)	17,145
Due from Federal Agencies	33,386	(310,812)
Due from Related Party	(171,005)	224,898
Prepaid Expense	31,671	(61,147)
(Decrease)/Increase in Liabilities:		
Accounts Payable	(153,536)	(154,946)
Accrued Expenses	(331,709)	374,962
Deferred Revenue	31,223	-
Due to Related Party	254,638	174,830
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 649,835</b>	<b>\$ 1,173,600</b>

See independent auditor's report.

**INSPIRE ACADEMIES**  
**SCHEDULE OF EXPENSES**  
**August 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
6100 Payroll Costs	\$ 8,435,424	\$ 8,684,741
6200 Professional and Contracted Services	1,156,006	1,220,759
6300 Supplies and Materials	950,327	944,181
6400 Other Operating Costs	2,047,074	1,158,739
6500 Debt	616,755	621,513
<b>TOTAL EXPENSES</b>	<b>\$ 13,205,586</b>	<b>\$ 12,629,933</b>

See independent auditor's report.

**INSPIRE ACADEMIES**  
**SCHEDULE OF CAPITAL ASSETS**  
**August 31, 2018**

Capital assets acquired with public funds, which constitute public property pursuant to Chapter 12 of the Texas Education Code, are as follows:

	Local	State	Federal
1110 Cash	\$ -	\$ 1,608,423	\$ -
1510 Land and Improvements	-	877,925	-
1520 Buildings and Improvements	-	17,434,746	-
1530 Furniture and Equipment	-	1,939,509	231,714
1531 Vehicles	-	74,157	-
1550 Capital Leases	-	590,171	-
1560 Library Assets	-	87,103	-
1590 Infrastructure	-	33,711	-
<b>Total Capital Assets</b>	<b>\$ -</b>	<b>\$ 22,645,745</b>	<b>\$ 231,714</b>

Reconciliation of Property and Equipment on Schedule of Capital Assets to Statement of Financial Position:

*Per Schedule of Capital Assets:*

1510 Land and Improvements (State)	\$ 877,925
1520 Buildings and Improvements (State)	17,434,746
1530 Furniture and Equipment (State)	1,939,509
1530 Furniture and Equipment (Federal)	231,714
1531 Vehicles (State)	74,157
1550 Capital Leases (State)	590,171
1560 Library Assets (State)	87,103
1590 Infrastructure (State)	33,711

*Plus Brination, Inc.:*

Property and Equipment, gross	744,913
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*Plus Educational Resource Center Foundation:*

Property and Equipment, gross	361,380
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*Less Accumulated Depreciation:*

Inspire Academies	(4,154,207)
Brination, Inc.	(211,994)
Educational Resource Center Foundation	(136,081)

**Total Property and Equipment per Notes to Financial Statements:** \$ 17,873,047

See independent auditor's report.

**INSPIRE ACADEMIES**  
**BUDGETARY COMPARISON SCHEDULE**  
**Year Ended August 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance From Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES AND OTHER SUPPORT</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 314,277	\$ 514,277	\$ 679,382	\$ 165,105
<b>Total Local Support</b>	<u>314,277</u>	<u>514,277</u>	<u>679,382</u>	<u>165,105</u>
State Program Revenues:				
5810 Foundation School Program Act Revenues	11,672,290	11,072,290	10,136,392	(935,898)
5820 State Program Revenues Distributed by TEA	-	125,287	125,289	2
<b>Total State Program Revenues</b>	<u>11,672,290</u>	<u>11,197,577</u>	<u>10,261,681</u>	<u>(935,896)</u>
Federal Program Revenues:				
5920 Federal Revenues Distributed by TEA	1,543,723	1,547,215	1,588,026	40,811
5930 Federal Revenues Distributed by Other State of Texas Government Agencies	649,041	799,041	812,683	13,642
<b>Total Federal Program Revenues</b>	<u>2,192,764</u>	<u>2,346,256</u>	<u>2,400,709</u>	<u>54,453</u>
<b>TOTAL REVENUES AND OTHER SUPPORT</b>	<u>14,179,331</u>	<u>14,058,110</u>	<u>13,341,772</u>	<u>(716,338)</u>
<b>EXPENSES</b>				
11 Instructional	7,530,020	7,303,020	7,301,227	1,793
13 Curriculum Development and Instructional Staff Development	101,423	101,423	79,050	22,373
21 Instructional Leadership	223,655	243,655	247,678	(4,023)
23 School Leadership	1,752,577	1,713,964	1,452,491	261,473
31 Guidance, Counseling and Evaluation Services	828,187	828,196	724,047	104,149
33 Health Services	11,865	11,865	4,129	7,736
34 Student Transportation	16,758	23,758	19,227	4,531
35 Food Services	465,482	600,982	578,404	22,578
36 Extracurricular Activities	16,815	16,815	11,194	5,621
41 General Administration	1,032,283	1,032,283	1,017,665	14,618
51 Plant Maintenance and Operations	801,898	735,407	661,110	74,297
52 Security and Monitoring Services	5,530	5,530	1,608	3,922
53 Data Processing Services	437,682	504,182	382,298	121,884
61 Community Services	90,800	90,800	79,961	10,839
62 School District Administrative Support Services	-	3,492	3,492	-
71 Debt Service	614,562	614,562	616,755	(2,193)
81 Fundraising	21,600	29,600	25,250	4,350
<b>TOTAL EXPENSES</b>	<u>13,951,137</u>	<u>13,859,534</u>	<u>13,205,586</u>	<u>653,948</u>
<b>CHANGE IN NET ASSETS</b>	228,194	198,576	136,186	(62,390)
<b>NET ASSETS, Beginning of Year</b>	<u>11,349,687</u>	<u>11,349,687</u>	<u>11,349,687</u>	<u>-</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 11,577,881</u>	<u>\$ 11,548,263</u>	<u>\$ 11,485,873</u>	<u>\$ -</u>

See independent auditor's report.

## **SUPPLEMENTARY INFORMATION**

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**August 31, 2018**  
**(with comparative totals for 2017)**

	2018					2017 Total
	Braination, Inc.	Inspire Academies	Educational Resource Center Foundation	Eliminating Entries	Total	
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and Cash Equivalents	\$ 1,656,005	\$ 1,608,423	\$ 101,074	\$ -	\$ 3,365,502	\$ 2,212,209
Due from State	-	715,604	-	-	715,604	704,305
Due from Federal Agencies	554,000	1,500,975	-	-	2,054,975	1,898,561
Due from Related Party	553,309	219,538	-	(772,847)	-	-
Other Receivables	337,999	-	-	-	337,999	-
Prepaid Expense	3,334	42,794	-	-	46,128	82,882
Total Current Assets	<u>3,104,647</u>	<u>4,087,334</u>	<u>101,074</u>	<u>(772,847)</u>	<u>6,520,208</u>	<u>4,897,957</u>
<b>LONG-TERM ASSETS</b>						
Restricted Cash	-	821,544	-	-	821,544	816,278
Property and Equipment, net	532,919	17,114,829	225,299	-	17,873,047	18,477,736
Total Long-Term Assets	<u>532,919</u>	<u>17,936,373</u>	<u>225,299</u>	<u>-</u>	<u>18,694,591</u>	<u>19,294,014</u>
<b>TOTAL ASSETS</b>	<u>\$ 3,637,566</u>	<u>\$ 22,023,707</u>	<u>\$ 326,373</u>	<u>\$ (772,847)</u>	<u>\$ 25,214,799</u>	<u>\$ 24,191,971</u>
<b>LIABILITIES AND NET ASSETS</b>						
<b>CURRENT LIABILITIES</b>						
Accounts Payable	\$ 25,365	\$ 259,673	\$ -	\$ -	\$ 285,038	\$ 467,292
Accrued Expenses	428,364	1,010,366	1,824	-	1,440,554	1,753,575
Deferred Revenue	1,777	31,223	-	-	33,000	-
Due to Related Party	190,326	580,721	1,800	(772,847)	-	-
Bonds Payable - current	-	170,000	-	-	170,000	160,000
Total Current Liabilities	<u>645,832</u>	<u>2,051,983</u>	<u>3,624</u>	<u>(772,847)</u>	<u>1,928,592</u>	<u>2,380,867</u>
<b>LONG-TERM LIABILITIES</b>						
Bonds Payable - long-term, net	-	8,485,851	-	-	8,485,851	8,633,335
Total Long-Term Liabilities	<u>-</u>	<u>8,485,851</u>	<u>-</u>	<u>-</u>	<u>8,485,851</u>	<u>8,633,335</u>
<b>TOTAL LIABILITIES</b>	<u>645,832</u>	<u>10,537,834</u>	<u>3,624</u>	<u>(772,847)</u>	<u>10,414,443</u>	<u>11,014,202</u>
<b>NET ASSETS</b>						
Without Donor Restrictions	2,991,734	3,951,189	220,749	-	7,163,672	4,841,810
With Donor Restrictions	-	7,534,684	102,000	-	7,636,684	8,335,959
<b>TOTAL NET ASSETS</b>	<u>2,991,734</u>	<u>11,485,873</u>	<u>322,749</u>	<u>-</u>	<u>14,800,356</u>	<u>13,177,769</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 3,637,566</u>	<u>\$ 22,023,707</u>	<u>\$ 326,373</u>	<u>\$ (772,847)</u>	<u>\$ 25,214,799</u>	<u>\$ 24,191,971</u>

See independent auditor's report.

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**For the Year Ended August 31, 2018**  
**(with comparative totals for 2017)**

	2018				Total	2017 Total
	Braination, Inc.	Inspire Academies	Educational Resource Center Foundation	Eliminating Entries		
<b>OPERATING REVENUES AND OTHER SUPPORT</b>						
Local Support:						
Other Revenue from Local Sources	\$ 5,266,326	\$ 578,890	\$ -	\$ -	\$ 5,845,216	\$ 2,686,829
Earnings from Temporary Deposits and Investments	81	7,104	-	-	7,185	1,627
Total Local Support	5,266,407	585,994	-	-	5,852,401	2,688,456
State Program Revenues:						
Foundation School Program Act Entitlements	-	10,136,392	-	-	10,136,392	9,646,959
Instructional Materials Allotment	-	122,430	-	-	122,430	24,146
State Program Revenues Distributed by TEA	-	2,859	-	-	2,859	2,557
Total State Program Revenues	-	10,261,681	-	-	10,261,681	9,673,662
Federal Program Revenues:						
Title I, Part A - Grants to Local Education Agencies	-	219,396	-	-	219,396	302,491
Title I, Part D, Subpart 2 - Prevention and Intervention Programs for Children and Youth Who Are Neglected, Delinquent, or At-Risk	-	534,444	-	-	534,444	747,014
IDEA - Part B, Formula	-	248,682	-	-	248,682	202,862
National School Breakfast Program	-	184,646	-	-	184,646	218,933
National School Lunch Program	-	312,837	-	-	312,837	344,786
USDA Donated Food Commodities	-	63,498	-	-	63,498	30,544
Title II, Part A - Improving Teacher Quality State Grants	-	21,013	-	-	21,013	49,106
Title III ELA	-	3,510	-	-	3,510	2,873
School Health and Related Services	-	812,683	-	-	812,683	865,920
Total Federal Program Revenues	-	2,400,709	-	-	2,400,709	2,764,529
<b>TOTAL OPERATING REVENUES AND OTHER SUPPORT</b>	<b>\$ 5,266,407</b>	<b>\$ 13,248,384</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18,514,791</b>	<b>\$ 15,126,647</b>

See independent auditor's report.



**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**For the Year Ended August 31, 2018**  
**(with comparative totals for 2017)**

(continued)

	2018					2017 Total
	Braination, Inc.	Inspire Academies	Educational Resource Center Foundation	Eliminating Entries	Total	
<b>OPERATING EXPENSES</b>						
Salaries	2,892,871	7,098,861	-	-	9,991,732	9,153,979
Payroll Taxes and Benefits	348,136	809,806	-	-	1,157,942	895,634
Miscellaneous Expenses	44,479	920,585	1,017	-	966,081	147,126
Depreciation Expense	49,954	807,763	12,046	-	869,763	841,850
Health Insurance	164,998	526,757	-	-	691,755	608,642
Interest Expense	-	589,537	-	-	589,537	596,997
General Supplies	54,710	436,920	-	-	491,630	457,356
Food/Non-Food Expenses	-	489,139	-	-	489,139	500,131
Utilities	14,775	430,626	-	-	445,401	427,572
Other Contract Labor	138,468	231,738	-	-	370,206	264,902
Travel Expenses	5,831	169,688	-	-	175,519	142,051
Insurance and Bonding	18,235	149,038	-	-	167,273	142,402
Professional Services	8,843	141,758	-	-	150,601	204,088
Rental Expense	17,658	118,646	-	-	136,304	132,561
Maintenance and Repair	-	134,916	-	-	134,916	166,517
Educational Service Center	-	62,754	-	-	62,754	61,667
Accounting Fees	5,500	23,382	1,784	-	30,666	35,607
Bond Amortization Expense	-	22,517	-	-	22,517	22,515
Supplies for Maintenance and Repairs	-	16,099	-	-	16,099	4,734
Legal Services	-	12,186	-	-	12,186	21,662
Instructional Materials	701	8,169	-	-	8,870	19,916
Other Debt Fees	-	4,701	-	-	4,701	2,001
<b>TOTAL OPERATING EXPENSES</b>	<b>3,765,159</b>	<b>13,205,586</b>	<b>14,847</b>	<b>-</b>	<b>16,985,592</b>	<b>14,849,910</b>
<b>CHANGE IN NET ASSETS BEFORE NON-OPERATING ACTIVITY</b>	<b>1,501,248</b>	<b>42,798</b>	<b>(14,847)</b>	<b>-</b>	<b>1,529,199</b>	<b>276,737</b>
<b>NON-OPERATING ACTIVITY</b>						
Insurance Proceeds on Roof Damage	-	93,388	-	-	93,388	-
Loss on Disposal of Asset	-	-	-	-	-	(63,463)
<b>TOTAL NON-OPERATING ACTIVITY</b>	<b>-</b>	<b>93,388</b>	<b>-</b>	<b>-</b>	<b>93,388</b>	<b>(63,463)</b>
<b>CHANGE IN NET ASSETS AFTER NON-OPERATING ACTIVITY</b>	<b>1,501,248</b>	<b>136,186</b>	<b>(14,847)</b>	<b>-</b>	<b>1,622,587</b>	<b>213,274</b>
<b>NET ASSETS, Beginning of Year</b>	<b>1,490,486</b>	<b>11,349,687</b>	<b>337,596</b>	<b>-</b>	<b>13,177,769</b>	<b>12,964,495</b>
<b>NET ASSETS, End of Year</b>	<b>\$ 2,991,734</b>	<b>\$ 11,485,873</b>	<b>\$ 322,749</b>	<b>\$ -</b>	<b>\$ 14,800,356</b>	<b>\$ 13,177,769</b>

See independent auditor's report.

# **SINGLE AUDIT SECTION**

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**August 31, 2018**

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
Passed Through Texas Education Agency:			
Title I, Part A - Grants to Local Educational Agencies, Improving Basic Programs	84.010A	18610101015808	\$ 219,396
Title I, Part D, Subpart 2 - Prevention and Intervention Programs for Children and Youth Who Are Neglected, Delinquent, or At-Risk	84.010A	18610103015808	534,445
Title II, Part A - Improving Teacher Quality State Grants	84.367A	18694501015808	21,013
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	18671001015950 17671001015950	3,479 <u>31</u>
			<u>3,510</u>
IDEA, Part B - Special Education Grants	84.027A	186600010158086600	<u>248,682</u>
<b>Total U.S. Department of Education</b>			<u>1,027,046</u>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
Passed Through Texas Department of Agriculture:			
National Child Nutrition Cluster:			
School Breakfast Program	10.553	71401801	184,647
National School Lunch Program	10.555	71301801	312,837
USDA Commodities - Noncash Award	10.555	N/A	<u>63,498</u>
Total Child Nutrition Cluster			<u>560,982</u>
<b>Total U.S. Department of Agriculture</b>			<u>560,982</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>1,588,028</u>
<b><u>TEXAS EDUCATION AGENCY</u></b>			
School Lunch Matching	N/A	03001801 03001701	2,827 <u>31</u>
			<u>2,858</u>
Instructional Materials Allotment	N/A	N/A	<u>127,279</u>
<b>TOTAL EXPENDITURES OF STATE AWARDS</b>			<u>130,137</u>
<b>TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS</b>			<u><u>\$ 1,718,165</u></u>

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**August 31, 2018**

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal and state awards (the Schedule) summarizes the expenditures of Brination, Inc. and its affiliates, Inspire Academies and Educational Resource Center Foundation, under programs of the federal government for the year ended August 31, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of Brination, Inc. and its affiliates, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Brination, Inc. and its affiliates.

**Note 2 - Summary of Significant Accounting Policies**

Expenditures reflected on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, Cost Principles for Non-Profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3 - Other Disclosures**

There were no loans or loan guarantees outstanding at year end.

Brination, Inc. and its affiliates have not elected to use the 10 percent *de minimis* indirect cost rate for the year ended August 31, 2018.

Brination, Inc. and its affiliates did not pass any awards through to subrecipients for the year ended August 31, 2018.

**INDEPENDENT AUDITOR’S 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***

To the Board of Trustees  
Braination Inc. and Affiliates  
San Antonio, Texas

We have audited, in accordance with the 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 Braination, Inc. and its affiliates, Inspire Academies and Educational Resource Center Foundation, (nonprofit organizations), which comprise the consolidated statement of financial position as of August 31, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 15, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Braination, Inc. and its affiliates’ 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 Braination, Inc. and its affiliates’ internal control. Accordingly, we do not express an opinion on the effectiveness of Braination, Inc. and its affiliates’ 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 a 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.

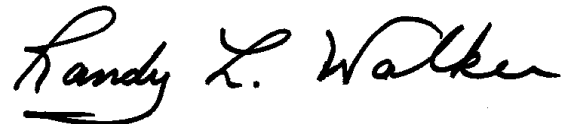
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Braination, Inc. and its affiliates' 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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Braination, Inc. and its affiliates' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Randy L. Walker". The signature is written in a cursive style with a prominent underline for the first letter of the last name.

San Antonio, Texas  
January 15, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees  
Braination, Inc. and Affiliates  
San Antonio, Texas

**Report on Compliance for Each Major Federal Program**

We have audited Braination, Inc. and its affiliates' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Braination, Inc. and its affiliates' major federal programs for the year ended August 31, 2018. Braination, Inc. and its affiliates' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Braination, Inc. and its affiliates' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Braination, Inc. and its affiliates' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Braination, Inc. and its affiliates' compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Braination, Inc. and its affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2018.

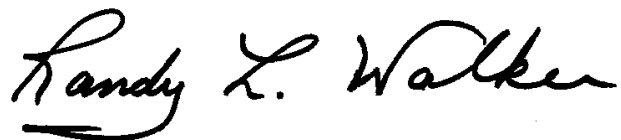
### **Report on Internal Control Over Compliance**

Management of Braination, Inc. and its affiliates are responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Braination, Inc. and its affiliates' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Braination, Inc. and its affiliates' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Randy L. Walker". The signature is written in a cursive style with a prominent underline under the first name.

San Antonio, Texas  
January 15, 2019



**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended August 31, 2018**

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified	None
Significant deficiencies identified that are not considered to be material weakness(es)	None
Noncompliance material to the financial statements	None

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified	None
Significant deficiencies identified that are not considered to be material weakness(es)	None
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance	None

**Major Programs**

**Federal**

84.010A Title I, Part A (Grants to Local Education Agencies, Improving Basic Programs) and Title I, Part D (Prevention and Intervention Programs for Children and Youth Who Are Neglected, Delinquent, or At-Risk)	
10.553/10.555 National School Lunch Program/School Breakfast Program	
Dollar threshold used to distinguish between type A and type B programs	\$750,000
Audit qualified as low-risk auditee	Yes

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended August 31, 2018**

**SUMMARY OF AUDITOR'S RESULTS (continued)**

<b>Findings - Financial Statements Audit</b>	None
<b>Findings and Questioned Costs - Major Federal Award Programs Audit</b>	None

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**For the Year Ended August 31, 2018**

I. PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

- None -

II. PRIOR YEAR FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

- None -