

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

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

August 31, 2017 and 2016

BRAINATION, INC. AND AFFILIATES
(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)
FINANCIAL STATEMENTS WITH COMPLIANCE
AND SINGLE AUDIT REPORTING
August 31, 2017 and 2016

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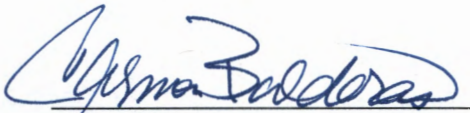
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**BRAINATION, INC., AND AFFILIATES
(INSPIRE ACADEMIES AND EDUCATIONAL
RESOURCE CENTER FOUNDATION)**

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, 2017, at a meeting of the Board of Trustees of such charter holder on the 15 day of December, 2017.



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)

Gonzalez & Walker

**Certified Public Accountants
7800 IH 10 West, Suite 505
San Antonio, Texas 78230
Phone: 210-366-9430
Fax: 210-366-9451**

Rinaldo J. Gonzalez, P.C., CPA

Randy Walker & Co., P.C.

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 statements of financial position as of August 31, 2017 and 2016, the related consolidated statement of activities (with comparative totals for 2016), and the consolidated statements of 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, 2017 and 2016, 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.

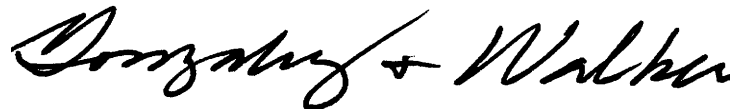
Other Matters

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 18-24, the supplementary schedules on pages 25-28, 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 December 15, 2017, on our consideration of Brination, Inc.'s 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.'s and its affiliates' internal control over financial reporting and compliance.



San Antonio, Texas
December 15, 2017

GENERAL-PURPOSE FINANCIAL STATEMENTS

BRAINATION, INC. AND AFFILIATES
(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
August 31, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,212,209	\$ 1,216,886
Due from State	704,305	721,450
Due from Federal Agencies	1,898,561	1,689,749
Prepaid Expense	82,882	14,509
Total Current Assets	4,897,957	3,642,594
LONG-TERM ASSETS		
Restricted Cash	816,278	816,113
Bond Issuance Costs, net	354,725	368,457
Property and Equipment, net	18,477,736	19,127,561
Total Long-Term Assets	19,648,739	20,312,131
TOTAL ASSETS	\$ 24,546,696	\$ 23,954,725
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 467,292	\$ 569,024
Accrued Expenses	1,753,575	1,126,931
Bonds Payable - current	160,000	155,000
Total Current Liabilities	2,380,867	1,850,955
LONG-TERM LIABILITIES		
Bonds Payable - long-term, net	8,988,060	9,139,275
Total Long-Term Liabilities	8,988,060	9,139,275
TOTAL LIABILITIES	11,368,927	10,990,230
NET ASSETS		
Unrestricted	4,841,810	4,756,149
Temporarily Restricted	8,335,959	8,208,346
TOTAL NET ASSETS	13,177,769	12,964,495
TOTAL LIABILITIES AND NET ASSETS	\$ 24,546,696	\$ 23,954,725

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, 2017
(with comparative totals for 2016)

	2017			2016 Total
	Unrestricted	Temporarily Restricted	Total	
REVENUES AND OTHER SUPPORT				
Local Support:				
Other Revenue from Local Sources	\$ 2,686,829	\$ -	\$ 2,686,829	\$ 3,088,947
Fundraising Revenue	-	-	-	15,589
Earnings from Temporary Deposits and Investments	1,627	-	1,627	864
Total Local Support	2,688,456	-	2,688,456	3,105,400
State Program Revenues:				
Foundation School Program Act Entitlements	-	9,646,959	9,646,959	9,550,590
Instructional Materials Allotment	-	24,146	24,146	167,707
State Program Revenues Distributed by TEA	-	2,557	2,557	1,013
Total State Program Revenues	-	9,673,662	9,673,662	9,719,310
Federal Program Revenues:				
Title I, Part A - Grants to Local Education Agencies	-	302,491	302,491	287,883
Title I, Part D, Subpart 2 - Prevention and Intervention Programs for Children and Youth Who Are Neglected, Delinquent, or At-Risk	-	747,014	747,014	875,922
IDEA - Part B, Formula	-	202,862	202,862	185,500
National School Breakfast Program	-	218,933	218,933	197,556
National School Lunch Program	-	344,786	344,786	312,868
USDA Donated Food Commodities	-	30,544	30,544	31,743
Title II, Part A - Improving Teacher Quality State Grants	-	49,106	49,106	64,691
Title III ELA	-	2,873	2,873	2,789
Title I ESEA	-	-	-	17
School Health and Related Services	-	865,920	865,920	1,324,649
Total Federal Program Revenues	-	2,764,529	2,764,529	3,283,618
Net Assets Released From Restrictions				
Restrictions Satisfied By Payments	12,310,578	(12,310,578)	-	-
TOTAL REVENUES AND OTHER SUPPORT	14,999,034	127,613	15,126,647	16,108,328
EXPENSES				
Program	13,196,331	-	13,196,331	13,640,314
General and Administrative	1,653,579	-	1,653,579	1,736,586
TOTAL EXPENSES	14,849,910	-	14,849,910	15,376,900
CHANGE IN NET ASSETS BEFORE NON-OPERATING ACTIVITY				
	149,124	127,613	276,737	731,428
NON-OPERATING ACTIVITY				
Loss on Disposal of Asset	(63,463)	-	(63,463)	-
CHANGE IN NET ASSETS AFTER NON-OPERATING ACTIVITY				
	85,661	127,613	213,274	731,428
NET ASSETS, Beginning of Year	4,756,149	8,208,346	12,964,495	12,233,067
NET ASSETS, End of Year	\$ 4,841,810	\$ 8,335,959	\$ 13,177,769	\$ 12,964,495

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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets From Operations	\$ 213,274	\$ 731,428
Adjustments to Reconcile Net Excess to Net Cash		
Provided by Operations:		
Depreciation and Amortization	864,365	720,170
Loss on Disposal of Asset	63,463	-
Decrease/(Increase) in Assets:		
Due from State	17,145	(66,850)
Due from Federal Agencies	(208,812)	(1,119,862)
Other Receivables	-	4,110
Prepaid Expense	(68,373)	(5,623)
(Decrease)/Increase in Liabilities:		
Accounts Payable	(101,732)	230,132
Accrued Expenses	626,644	802,534
Deferred Revenue	-	(11,390)
	1,405,974	1,284,649
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(255,486)	(2,297,978)
	(255,486)	(2,297,978)
NET CASH USED BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Bonds Payable	(155,000)	(145,000)
	(155,000)	(145,000)
NET CASH USED BY FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH FLOWS	995,488	(1,158,329)
CASH AND CASH EQUIVALENTS, Beginning of Year	1,216,886	2,375,454
RESTRICTED CASH, Beginning of Year	816,113	815,874
LESS RESTRICTED CASH, End of Year	(816,278)	(816,113)
CASH AND CASH EQUIVALENTS, End of Year	\$ 2,212,209	\$ 1,216,886
 Supplemental Disclosures:		
Interest	\$ 598,998	\$ 608,654

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

BRAINATION, INC. AND AFFILIATES
(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

Note 1 - Nature of Business and Significant Accounting Policies

Reporting Entity

Braination, Inc., formerly Educational Resource Center, 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. 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.

Braination, Inc. is the "sponsoring entity" of an "Open-Enrollment Charter" with the Texas Education Agency. Through its open-enrollment charter, Braination, Inc. operates residential school programs as Inspire Academies (previously known as John H. Wood, Jr. Public Charter District). These charter schools are Texas public schools.

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 12th grade.

As of August 31, 2017, Inspire Academies operates seven residential campuses (Afton Oaks, Granbury, Hays County, Legacy Ranch, Meridell, Rockdale, and Williams House) in Bexar, Hood, Hays, Gonzalez, Williamson, Milam and Lampasas Counties. The campuses are located in both Residential Treatment Centers and Juvenile Detention Centers operated by separate entities. All campuses serve open-enrollment students. Management and support of all campuses are executed at the central office.

BRAINATION, INC. AND AFFILIATES
(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

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

Reporting Entity (continued)

Anne Frank Inspire Academy

Also, under its charter school program, Braination, Inc. 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 1 thru 12. This innovative school and instructional program represent a 21st century learning environment coupled with a facilitated, student-led approach to learning.

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 a federally funded school program for children of undocumented women 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 women and 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 12th grade. All teachers are certified and bilingual, and the school follows state guidelines for instructional content, including special education.

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 FINANCIAL STATEMENTS
August 31, 2017 and 2016

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, 2017 and 2016 were \$2,219,977 and \$2,232,848, 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.

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 the absence or existence and nature of donor-imposed restrictions as follows:

Unrestricted - Unrestricted net assets are net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted - Temporarily restricted net assets are those resources, subject to donor-imposed restrictions, that will be satisfied by the actions of Braination, Inc. and its affiliates or the passage of time.

When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted - Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund annual operations. As of August 31, 2017 and 2016, Braination, Inc. and its affiliates had no permanently restricted net assets.

BRAINATION, INC. AND AFFILIATES
(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

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. As of August 31, 2017, the tax years that remain subject to examination by taxing authorities begin with 2014.

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 construction and bond-related costs for the Inspire Academies campus. At August 31, 2017 and 2016, restricted cash totaled \$816,278 and \$816,113, 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 FINANCIAL STATEMENTS
August 31, 2017 and 2016

Note 1 - Nature of Business and Significant Accounting Policies (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, 2017, 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 FINANCIAL STATEMENTS
August 31, 2017 and 2016

Note 2 - Property and Equipment

Property and equipment consisted of the following at August 31:

	<u>2017</u>	<u>2016</u>
Building and Improvements	\$ 18,338,297	\$ 18,591,343
Land and Improvements	877,925	877,925
Furniture and Equipment	2,703,212	2,294,137
Vehicles	74,157	53,949
Library Assets	87,103	87,103
Infrastructure - Sign	29,561	29,561
Construction in Progress	-	9,201
	<u>22,110,255</u>	<u>21,943,219</u>
Less Accumulated Depreciation	<u>(3,632,519)</u>	<u>(2,815,658)</u>
Total Property and Equipment	<u>\$ 18,477,736</u>	<u>\$ 19,127,561</u>

Depreciation expense for the years ended August 31, 2017 and 2016 was \$841,850 and \$697,654, 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. As of August 31, 2017, bonds payable was \$9,375,000, consisting of bonds payable - current of \$160,000 and bonds payable - long-term of \$8,988,060 (net of a discount of \$263,543 and related accumulated amortization of \$36,603). As of August 31, 2016, bonds payable was \$9,530,000, consisting of bonds payable - current of \$155,000 and bonds payable - long-term of \$9,139,275 (net of a discount of \$263,543 and related accumulated amortization of \$27,818). The original amount of the discount at date of issuance was \$263,543, of which approximately \$64,642 was paid at date of issuance. Amortization expense related to this discount for the years ended August 31, 2017 and 2016 was \$8,785.

Issuance costs paid for these bonds at date of issuance totaled \$411,939. Amortization expense related to these costs for the years ended August 31, 2017 and 2016 was \$13,730 and \$13,731, respectively.

BRAINATION, INC. AND AFFILIATES
(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

Note 3 - Bonds Payable (continued)

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, 2016, Braination, Inc. was not in compliance with the liquidity requirement in the covenant. The noncompliance was not considered to be a material event, and Braination, Inc. performed the necessary corrective action to address the noncompliance. As of August 31, 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,	
2018	\$ 160,000
2019	170,000
2020	180,000
2021	185,000
2022	195,000
Thereafter	<u>8,875,000</u>
Total	<u>\$ 9,375,000</u>

Interest expense on bonds payable was \$598,998 and \$547,570 for the years ended August 31, 2017 and 2016, respectively. Capitalized interest was \$-0- and \$61,084 for the years ended August 31, 2017 and 2016, respectively.

Note 4 - Operating Leases

Braination, Inc. and its affiliates had a consolidated agreement for their copier and printer operating leases that expired in July 2017. They have additional copier and printer leases that expire in July/August 2021 and August 2022. These lease expenses amounted to \$88,161 and \$100,937 for the years ended August 31, 2017 and 2016, respectively.

Braination, Inc. and its affiliates have a lease for internet/telephone services and webhosting that will expire in June 2018. These lease expenses amounted to \$267,737 and \$263,424 for the years ended August 31, 2017 and 2016, respectively.

BRAINATION, INC. AND AFFILIATES
(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

Note 4 - Operating Leases (continued)

The following is a schedule of the operating lease obligations subsequent to August 31, 2017:

Year Ending August 31,	
2018	\$ 387,034
2019	363,295
2020	129,499
2021	112,758
2022	<u>109,551</u>
Total	<u><u>\$1,102,137</u></u>

Note 5 - Subsequent Events

During the year ended August 31, 2017, Braination, Inc. entered into an agreement with the San Antonio Independent School District to open a non-residential campus for the 2017-2018 school year. Additionally, Braination, Inc. opened a residential campus in Crockett, Texas (only operational through September 2017) and a juvenile detention campus in Bell County, Texas for the 2017-2018 school year.

Braination, Inc. and its affiliates have evaluated subsequent events through December 15, 2017, which is the date the financial statements were available to be issued.

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 AFFILIATES
(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

Note 6 - Fair Value of Financial Instruments (continued)

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

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

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and Cash Equivalents	\$ 2,212,209	\$ 2,212,209	\$ 1,216,886	\$ 1,216,886
Due from State	\$ 704,305	\$ 704,305	\$ 721,450	\$ 721,450
Due from Federal Agencies	\$ 1,898,561	\$ 1,898,561	\$ 1,689,749	\$ 1,689,749
Prepaid Expense	\$ 82,882	\$ 82,882	\$ 14,509	\$ 14,509
Financial liabilities:				
Accounts Payable	\$ 467,292	\$ 467,292	\$ 569,024	\$ 569,024
Accrued Expenses	\$ 1,753,575	\$ 1,753,575	\$ 1,126,931	\$ 1,126,931
Bonds Payable - current	\$ 160,000	\$ 160,000	\$ 155,000	\$ 155,000

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 - Related Party Transactions

For the year ended August 31, 2016, Inspire Academies had a lease agreement with Braination, Inc. and the Foundation. The monthly lease payments under the agreement were \$9,167 per month. The lease agreement was no longer in effect for the year ended August 31, 2017. During the years ended August 31, 2017 and 2016, lease expense was \$-0- and \$108,642, respectively.

Inspire Academies received \$-0- and \$76,723 for administrative services performed on behalf of Braination, Inc. for the years ended August 31, 2017 and 2016, respectively.

BRAINATION, INC. AND AFFILIATES
(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

Note 8 - Related Party Transactions (continued)

Inspire Academies had a net payable to and net receivable from Braination, Inc. and the Foundation of \$277,550 and \$122,178 for building rent, administrative services, and miscellaneous purchases as of August 31, 2017 and 2016, respectively. This transaction is eliminated in the consolidated financial statements.

Note 9 - Health Care Coverage

During the years ended August 31, 2017 and 2016, 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, 2017 and 2016 were \$608,642 and \$676,499, respectively.

Note 10 - 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 - \$152,925,647,396
Accumulated Benefit Obligations - \$171,797,150,487
The plan is 78% funded.

BRAINATION, INC. AND AFFILIATES
(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

Note 10 - Pension Plan Obligations (continued)

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, 2017 and 2016 were \$152,049 and \$148,380, 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.

Note 11 - Temporarily Restricted Net Assets

As of August 31, temporarily restricted net assets were available for the following purposes:

	<u>2017</u>	<u>2016</u>
Foundation School Program	\$ 8,128,658	\$ 8,041,598
Food Service Program	103,301	60,338
College Scholarships/Fellowship Award	<u>104,000</u>	<u>106,410</u>
Total Temporarily Restricted Net Assets	<u>\$ 8,335,959</u>	<u>\$ 8,208,346</u>

SPECIFIC-PURPOSE FINANCIAL STATEMENTS

INSPIRE ACADEMIES
STATEMENTS OF FINANCIAL POSITION
August 31, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,388,930	\$ 582,826
Due from State	704,305	721,450
Due from Federal Agencies	1,534,361	1,223,549
Due from Related Party	48,533	273,431
Prepaid Expense	74,465	13,318
Total Current Assets	3,750,594	2,814,574
LONG-TERM ASSETS		
Restricted Cash	816,278	816,113
Bond Issuance Costs, net	354,725	368,457
Property and Equipment, net	17,657,517	18,204,328
Total Long-Term Assets	18,828,520	19,388,898
TOTAL ASSETS	\$ 22,579,114	\$ 22,203,472
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 413,209	\$ 568,155
Accrued Expenses	1,342,075	967,113
Due to Related Party	326,083	151,253
Bonds Payable - current	160,000	155,000
Total Current Liabilities	2,241,367	1,841,521
LONG-TERM LIABILITIES		
Bonds Payable - long-term, net	8,988,060	9,139,275
Total Long-Term Liabilities	8,988,060	9,139,275
TOTAL LIABILITIES	11,229,427	10,980,796
Net Assets		
Unrestricted	3,117,728	3,120,740
Temporarily Restricted	8,231,959	8,101,936
TOTAL NET ASSETS	11,349,687	11,222,676
TOTAL LIABILITIES AND NET ASSETS	\$ 22,579,114	\$ 22,203,472

See independent auditor's report.

INSPIRE ACADEMIES
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2017
(with comparative totals for 2016)

	2017			2016 Total
	Unrestricted	Temporarily Restricted	Total	
REVENUES AND OTHER SUPPORT				
Local Support:				
5740 Other Revenues from Local Sources	\$ 308,829	\$ -	\$ 308,829	\$ 406,030
Total Local Support	308,829	-	308,829	406,030
State Program Revenues:				
5810 Foundation School Program Act Revenues	-	9,646,959	9,646,959	9,550,590
5820 State Program Revenues Distributed by TEA	-	26,703	26,703	168,720
Total State Program Revenues	-	9,673,662	9,673,662	9,719,310
Federal Program Revenues:				
5920 Federal Revenues Distributed by TEA and USDA	-	1,898,609	1,898,609	1,958,969
5930 Federal Revenues Distributed by Other State of Texas Government Agencies (Other than TEA)	-	865,920	865,920	1,324,649
Total Federal Program Revenues	-	2,764,529	2,764,529	3,283,618
Net Assets Released From Restrictions				
Restrictions Satisfied By Payments	12,308,168	(12,308,168)	-	-
TOTAL REVENUES AND OTHER SUPPORT	12,616,997	130,023	12,747,020	13,408,958
EXPENSES				
11 Instruction	6,827,049	-	6,827,049	7,568,086
13 Curriculum Development and Instructional Staff Development	86,311	-	86,311	84,111
21 Instructional Leadership	133,641	-	133,641	132,333
23 School Leadership	1,493,165	-	1,493,165	1,494,248
31 Guidance, Counseling, and Evaluation Services	776,177	-	776,177	869,116
33 Health Services	3,910	-	3,910	26,438
34 Student Transportation	15,911	-	15,911	11,421
35 Food Services	558,638	-	558,638	486,167
41 General Administration	947,033	-	947,033	1,109,574
51 Plant Maintenance and Operations	656,658	-	656,658	520,358
52 Security and Monitoring	6,026	-	6,026	366
53 Data Processing	410,781	-	410,781	406,075
61 Community Services	66,359	-	66,359	48,300
62 School District Administrative Support Services	2,445	-	2,445	2,738
71 Debt Service	621,513	-	621,513	570,086
81 Fundraising	24,316	-	24,316	-
TOTAL EXPENSES	12,629,933	-	12,629,933	13,329,417
CHANGE IN NET ASSETS BEFORE NON-OPERATING ACTIVITY				
	(12,936)	130,023	117,087	79,541
NON-OPERATING ACTIVITY				
Gain on Disposal on Asset	9,924	-	9,924	-
CHANGE IN NET ASSETS AFTER NON-OPERATING ACTIVITY				
	(3,012)	130,023	127,011	79,541
NET ASSETS, Beginning of Year	3,120,740	8,101,936	11,222,676	11,143,135
NET ASSETS, End of Year	\$ 3,117,728	\$ 8,231,959	\$ 11,349,687	\$ 11,222,676

See independent auditor's report.

INSPIRE ACADEMIES
STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2016 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program Payments	\$ 9,466,397	\$ 9,630,551
Grant Payments	2,678,127	2,461,965
Miscellaneous Sources	308,829	257,350
Payments to Vendors for Goods and Services Rendered	(2,367,792)	(2,420,316)
Payments to Charter School Personnel for Services Rendered	(8,312,285)	(8,630,130)
Interest Payments	(599,676)	(547,570)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,173,600	751,850
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(212,331)	(2,230,753)
NET CASH USED BY INVESTING ACTIVITIES	(212,331)	(2,230,753)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Bonds Payable	(155,000)	(145,000)
NET CASH USED BY FINANCING ACTIVITIES	(155,000)	(145,000)
NET DECREASE IN CASH FLOWS	806,269	(1,623,903)
CASH AND CASH EQUIVALENTS, Beginning of Year	582,826	2,206,968
RESTRICTED CASH, Beginning of Year	816,113	815,874
LESS RESTRICTED CASH, End of Year	(816,278)	(816,113)
CASH AND CASH EQUIVALENTS, End of Year	\$ 1,388,930	\$ 582,826
Reconciliation of Change in Net Assets to Net Cash		
Provided by Operations:		
Change in Net Assets	\$ 127,011	\$ 79,541
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operations:		
Depreciation and Amortization	791,583	648,980
Gain on Disposal of Asset	(9,924)	-
Decrease/(Increase) in Assets:		
Due from State	17,145	(66,850)
Due from Federal Agencies	(310,812)	(843,562)
Due from Related Party	224,898	(60,846)
Prepaid Expense	(61,147)	37,530
(Decrease)/Increase in Liabilities:		
Accounts Payable	(154,946)	236,969
Accrued Expenses	374,962	665,437
Deferred Revenue	-	(11,390)
Due to Related Party	174,830	66,041
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,173,600	\$ 751,850

See independent auditor's report.

INSPIRE ACADEMIES
SCHEDULE OF EXPENSES
August 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
6100 Payroll Costs	\$ 8,684,741	\$ 9,397,449
6200 Professional and Contracted Services	1,220,759	1,289,813
6300 Supplies and Materials	944,181	968,071
6400 Other Operating Costs	1,158,739	1,103,998
6500 Debt	621,513	570,086
TOTAL EXPENSES	\$ 12,629,933	\$ 13,329,417

See independent auditor's report.

INSPIRE ACADEMIES
SCHEDULE OF CAPITAL ASSETS
August 31, 2017

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	\$ -	\$ 1,388,930	\$ -
1510 Land and Improvements	-	877,925	-
1520 Buildings and Improvements	-	17,334,946	-
1530 Furniture and Equipment	-	1,798,346	231,714
1531 Vehicles	-	74,157	-
1550 Capital Leases	-	570,210	-
1560 Library Assets	-	87,103	-
1590 Infrastructure	-	29,561	-
Total Capital Assets	\$ -	\$ 22,161,178	\$ 231,714

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)	17,334,946
1530 Furniture and Equipment (State)	1,798,346
1530 Furniture and Equipment (Federal)	231,714
1531 Vehicles (State)	74,157
1550 Capital Leases (State)	570,210
1560 Library Assets (State)	87,103
1590 Infrastructure (State)	29,561

Plus Braination, 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	(3,346,445)
Braination, Inc.	(162,040)
Educational Resource Center Foundation	(124,034)

Total Property and Equipment per Notes to Financial Statements:	\$ 18,477,736
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See independent auditor's report.

INSPIRE ACADEMIES
BUDGETARY COMPARISON SCHEDULE
Year Ended August 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance From Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES AND OTHER SUPPORT				
Local Support:				
5740 Other Revenues from Local Sources	\$ 158,044	\$ 158,044	\$ 308,829	\$ 150,785
Total Local Support	<u>158,044</u>	<u>158,044</u>	<u>308,829</u>	<u>150,785</u>
State Program Revenues:				
5810 Foundation School Program Act Revenues	10,958,469	10,958,469	9,646,959	(1,311,510) (1)
5820 State Program Revenues Distributed by TEA	24,146	24,146	26,703	2,557
Total State Program Revenues	<u>10,982,615</u>	<u>10,982,615</u>	<u>9,673,662</u>	<u>(1,308,953)</u>
Federal Program Revenues:				
5920 Federal Revenues Distributed by TEA	1,803,918	1,803,918	1,898,609	94,691
5930 Federal Revenues Distributed by Other State of Texas Government Agencies	892,211	892,211	865,920	(26,291)
Total Federal Program Revenues	<u>2,696,129</u>	<u>2,696,129</u>	<u>2,764,529</u>	<u>68,400</u>
TOTAL REVENUES AND OTHER SUPPORT	<u>13,836,788</u>	<u>13,836,788</u>	<u>12,747,020</u>	<u>(1,089,768)</u>
EXPENSES				
11 Instructional	6,378,187	6,827,187	6,827,049	138
13 Curriculum Development and Instructional Staff Development	97,281	97,281	86,311	10,970
21 Instructional Leadership	128,384	133,684	133,641	43
23 School Leadership	1,511,881	1,511,881	1,493,165	18,716
31 Guidance, Counseling and Evaluation Services	960,215	874,108	776,177	97,931
33 Health Services	27,944	27,944	3,910	24,034
34 Student Transportation	16,711	16,711	15,911	800
35 Food Services	508,976	564,976	558,638	6,338
41 General Administration	954,627	947,027	947,033	(6)
51 Plant Maintenance and Operations	883,918	656,649	656,658	(9)
52 Security and Monitoring Services	12,978	12,978	6,026	6,952
53 Data Processing Services	408,162	411,162	410,781	381
61 Community Services	56,711	67,711	66,359	1,352
62 School District Administrative Support Services	-	-	2,445	(2,445) (2)
71 Debt Service	773,288	625,964	621,513	4,451
81 Fundraising	-	-	24,316	(24,316) (3)
TOTAL EXPENSES	<u>12,719,263</u>	<u>12,775,263</u>	<u>12,629,933</u>	<u>169,646</u>
CHANGE IN NET ASSETS BEFORE NON- OPERATING ACTIVITY	<u>1,117,525</u>	<u>1,061,525</u>	<u>117,087</u>	<u>(920,122)</u>
NON-OPERATING ACTIVITY				
Gain on Disposal of Asset	-	-	9,924	(9,924) (4)
CHANGE IN NET ASSETS BEFORE NON- OPERATING ACTIVITY	<u>1,117,525</u>	<u>1,061,525</u>	<u>127,011</u>	<u>(930,046)</u>
NET ASSETS, Beginning of Year	<u>11,222,676</u>	<u>11,222,676</u>	<u>11,222,676</u>	<u>-</u>
NET ASSETS, End of Year	<u>\$ 12,340,201</u>	<u>\$ 12,284,201</u>	<u>\$ 11,349,687</u>	<u>\$ (930,046)</u>

See independent auditor's report.

INSPIRE ACADEMIES
NOTES TO BUDGETARY COMPARISON SCHEDULE
For the Year Ended August 31, 2017

- (1) Unfavorable variance due to lower than projected average daily attendance.
- (2) Unfavorable variance due to the shared services agreement with ESC 20 not being budgeted.
- (3) Unfavorable variance due to budget not approved for Fund 461- local expenses.
- (4) Unfavorable variance due to gain on disposal of asset not budgeted for as roof damage was unforeseen event.

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, 2017
(with comparative totals for 2016)

	2017				Total	2016 Total
	Braination, Inc.	Inspire Academies	Educational Resource Center Foundation	Eliminating Entries		
ASSETS						
CURRENT ASSETS						
Cash and Cash Equivalents	\$ 719,279	\$ 1,388,930	\$ 104,000	\$ -	\$ 2,212,209	\$ 1,216,886
Due from State	-	704,305	-	-	704,305	721,450
Due from Federal Agencies	364,200	1,534,361	-	-	1,898,561	1,689,749
Due from Related Party	294,833	48,533	-	(343,366)	-	-
Prepaid Expense	8,417	74,465	-	-	82,882	14,509
Total Current Assets	<u>1,386,729</u>	<u>3,750,594</u>	<u>104,000</u>	<u>(343,366)</u>	<u>4,897,957</u>	<u>3,642,594</u>
LONG-TERM ASSETS						
Restricted Cash	-	816,278	-	-	816,278	816,113
Bond Issuance Costs, net	-	354,725	-	-	354,725	368,457
Property and Equipment, net	582,873	17,657,517	237,346	-	18,477,736	19,127,561
Total Long-Term Assets	<u>582,873</u>	<u>18,828,520</u>	<u>237,346</u>	<u>-</u>	<u>19,648,739</u>	<u>20,312,131</u>
TOTAL ASSETS	<u>\$ 1,969,602</u>	<u>\$ 22,579,114</u>	<u>\$ 341,346</u>	<u>\$ (343,366)</u>	<u>\$ 24,546,696</u>	<u>\$ 23,954,725</u>
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Accounts Payable	\$ 54,083	\$ 413,209	\$ -	\$ -	\$ 467,292	\$ 569,024
Accrued Expenses	409,550	1,342,075	1,950	-	1,753,575	1,126,931
Due to Related Party	15,483	326,083	1,800	(343,366)	-	-
Bonds Payable - current	-	160,000	-	-	160,000	155,000
Total Current Liabilities	<u>479,116</u>	<u>2,241,367</u>	<u>3,750</u>	<u>(343,366)</u>	<u>2,380,867</u>	<u>1,850,955</u>
LONG-TERM LIABILITIES						
Bonds Payable - long-term, net	-	8,988,060	-	-	8,988,060	9,139,275
Total Long-Term Liabilities	<u>-</u>	<u>8,988,060</u>	<u>-</u>	<u>-</u>	<u>8,988,060</u>	<u>9,139,275</u>
TOTAL LIABILITIES	<u>479,116</u>	<u>11,229,427</u>	<u>3,750</u>	<u>(343,366)</u>	<u>11,368,927</u>	<u>10,990,230</u>
Net Assets						
Unrestricted	1,490,486	3,117,728	233,596	-	4,841,810	4,756,149
Temporarily Restricted	-	8,231,959	104,000	-	8,335,959	8,208,346
TOTAL NET ASSETS	<u>1,490,486</u>	<u>11,349,687</u>	<u>337,596</u>	<u>-</u>	<u>13,177,769</u>	<u>12,964,495</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,969,602</u>	<u>\$ 22,579,114</u>	<u>\$ 341,346</u>	<u>\$ (343,366)</u>	<u>\$ 24,546,696</u>	<u>\$ 23,954,725</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, 2017
(with comparative totals for 2016)

	2017				Total	2016 Total
	Braination, Inc.	Inspire Academies	Educational Resource Center Foundation	Eliminating Entries		
REVENUES AND OTHER SUPPORT						
Local Support:						
Other Revenue from Local Sources	\$ 2,379,147	\$ 307,682	\$ -	\$ -	\$ 2,686,829	\$ 3,088,947
Fundraising Revenue	-	-	-	-	-	15,589
Earnings from Temporary Deposits and Investments	480	1,147	-	-	1,627	864
Total Local Support	<u>2,379,627</u>	<u>308,829</u>	<u>-</u>	<u>-</u>	<u>2,688,456</u>	<u>3,105,400</u>
State Program Revenues:						
Foundation School Program Act Entitlements	-	9,646,959	-	-	9,646,959	9,550,590
Instructional Materials Allotment	-	24,146	-	-	24,146	167,707
State Program Revenues Distributed by TEA	-	2,557	-	-	2,557	1,013
Total State Program Revenues	<u>-</u>	<u>9,673,662</u>	<u>-</u>	<u>-</u>	<u>9,673,662</u>	<u>9,719,310</u>
Federal Program Revenues:						
Title I, Part A - Grants to Local Education Agencies	-	302,491	-	-	302,491	287,883
Title I, Part D, Subpart 2 - Prevention and Intervention Programs for Children and Youth Who Are Neglected, Delinquent, or At-Risk	-	747,014	-	-	747,014	875,922
IDEA - Part B, Formula	-	202,862	-	-	202,862	185,500
National School Breakfast Program	-	218,933	-	-	218,933	197,556
National School Lunch Program	-	344,786	-	-	344,786	312,868
USDA Donated Food Commodities	-	30,544	-	-	30,544	31,743
Title II, Part A - Improving Teacher Quality State Gr	-	49,106	-	-	49,106	64,691
Title III ELA	-	2,873	-	-	2,873	2,789
Title I ESEA	-	-	-	-	-	17
School Health and Related Services	-	865,920	-	-	865,920	1,324,649
Total Federal Program Revenues	<u>-</u>	<u>2,764,529</u>	<u>-</u>	<u>-</u>	<u>2,764,529</u>	<u>3,283,618</u>
TOTAL REVENUES AND OTHER SUPPORT	<u>\$ 2,379,627</u>	<u>\$ 12,747,020</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,126,647</u>	<u>\$ 16,108,328</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, 2017
(with comparative totals for 2016)

(continued)

	2017					2016 Total
	Braination, Inc.	Inspire Academies	Educational Resource Center Foundation	Eliminating Entries	Total	
EXPENSES						
Salaries	1,757,516	7,396,463	-	-	9,153,979	8,847,418
Payroll Taxes and Benefits	128,313	767,321	-	-	895,634	1,761,226
Depreciation Expense	59,603	769,068	13,179	-	841,850	697,654
Health Insurance	87,685	520,957	-	-	608,642	676,499
Interest Expense	-	598,998	-	-	598,998	547,570
Food/Non-Food Expenses	-	500,131	-	-	500,131	463,481
General Supplies	36,917	420,439	-	-	457,356	521,127
Utilities	15,217	412,355	-	-	427,572	346,233
Professional Services	-	204,088	-	-	204,088	276,928
Other Contract Labor	60,667	139,340	-	-	200,007	187,456
Maintenance and Repair	-	166,517	-	-	166,517	132,959
Miscellaneous Expenses	25,321	121,654	151	-	147,126	240,536
Insurance and Bonding	9,345	133,057	-	-	142,402	164,768
Travel Expenses	7,091	134,960	-	-	142,051	162,849
Rental Expense	10,686	121,875	-	-	132,561	83,081
Marketing	-	64,895	-	-	64,895	48,000
Educational Service Center	-	61,667	-	-	61,667	64,790
Accounting Fees	5,247	30,150	210	-	35,607	60,597
Bond Amortization Expense	-	22,515	-	-	22,515	22,516
Legal Services	-	19,872	1,790	-	21,662	29,897
Instructional Materials	1,039	18,877	-	-	19,916	39,659
Supplies for Maintenance and Repairs	-	4,734	-	-	4,734	1,656
TOTAL EXPENSES	2,204,647	12,629,933	15,330	-	14,849,910	15,376,900
CHANGE IN NET ASSETS BEFORE NON-OPERATING ACTIVITY	174,980	117,087	(15,330)	-	276,737	731,428
NON-OPERATING ACTIVITY						
(Loss) Gain on Disposal of Asset	(46,029)	9,924	(27,358)	-	(63,463)	-
CHANGE IN NET ASSETS AFTER NON-OPERATING ACTIVITY	128,951	127,011	(42,688)	-	213,274	731,428
NET ASSETS, Beginning of Year	1,361,535	11,222,676	380,284	-	12,964,495	12,233,067
NET ASSETS, End of Year	\$ 1,490,486	\$ 11,349,687	\$ 337,596	\$ -	\$ 13,177,769	\$ 12,964,495

See independent auditor's report.

BRAINATION, INC. AND AFFILIATES
(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended August 31, 2017
(with comparative totals for 2016)

	2017			2016 Total
	Program Expenses	General and Administrative	Total	
Salaries	\$ 8,970,899	\$ 183,080	\$ 9,153,979	\$ 8,847,418
Benefits	877,721	17,913	895,634	1,761,226
Health Insurance	596,469	12,173	608,642	676,499
Total Payroll Expenses	10,445,089	213,166	10,658,255	11,285,143
Depreciation Expense	766,083	75,767	841,850	697,654
Interest Expense	-	598,998	598,998	547,570
Food/Non-Food Expenses	395,103	105,028	500,131	463,481
General Supplies	361,311	96,045	457,356	521,127
Utilities	389,091	38,481	427,572	346,233
Other Contract Labor	198,676	66,226	264,902	187,456
Professional Services	142,862	61,226	204,088	276,928
Maintenance and Repair	131,548	34,969	166,517	132,959
Miscellaneous Expenses	41,195	105,931	147,126	240,536
Insurance and Bonding	-	142,402	142,402	164,768
Travel Expenses	90,913	51,138	142,051	162,849
Rental Expense	120,631	11,930	132,561	83,081
Educational Service Center	54,267	7,400	61,667	64,790
Accounting Fees	24,925	10,682	35,607	60,597
Bond Amortization Expense	-	22,515	22,515	22,516
Legal Services	15,163	6,499	21,662	29,897
Instructional Materials	15,734	4,182	19,916	39,659
Supplies for Maintenance and Repairs	3,740	994	4,734	1,656
Marketing	-	-	-	48,000
TOTAL EXPENSES	\$ 13,196,331	\$ 1,653,579	\$ 14,849,910	\$ 15,376,900

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, 2017

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through Texas Education Agency:			
Title I, Part A - Grants to Local Educational Agencies, Improving Basic Programs	84.010A	17610101015808	\$ 302,491
Title I, Part D, Subpart 2 - Prevention and Intervention Programs for Children and Youth Who Are Neglected, Delinquent, or At-Risk	84.010A	17610103015808	747,014
Title II, Part A - Improving Teacher Quality State Grants	84.367A	17694501015808	49,106
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	N/A	2,873
IDEA, Part B - Special Education Grants	84.027A	176600010158086600	<u>202,862</u>
Total U.S. Department of Education			<u>1,304,346</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through Texas Department of Agriculture:			
School Breakfast Program	10.553	71401501	218,933
National School Lunch Program	10.555	71301501	<u>344,786</u>
Total U.S. Department of Agriculture			<u>563,719</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>1,868,065</u>
<u>TEXAS EDUCATION AGENCY</u>			
School Lunch Matching	N/A	03001701	2,557
Instructional Materials Allotment	N/A	N/A	<u>24,146</u>
TOTAL EXPENDITURES OF STATE AWARDS			<u>26,703</u>
TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS			<u><u>\$ 1,894,768</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, 2017

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, 2017. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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 and changes in net assets of Brination, Inc. and its affiliates.

The Schedule is presented using the basis of accounting described in Note 1 of the financial statements.

Note 2 - Indirect Cost Rate

Brination, Inc. and its affiliates, Inspire Academies and Educational Resource Center Foundation, have not elected to use the 10 percent *de minimis* indirect cost rate for the year ended August 31, 2017.

Gonzalez & Walker

Certified Public Accountants
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San Antonio, Texas 78230
Phone: 210-366-9430
Fax: 210-366-9451

Rinaldo J. Gonzalez, P.C., CPA

Randy Walker & Co., P.C.

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, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2017.

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.

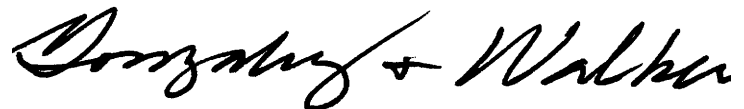
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

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San Antonio, Texas
December 15, 2017

Gonzalez & Walker

**Certified Public Accountants
7800 IH 10 West, Suite 505
San Antonio, Texas 78230
Phone: 210-366-9430
Fax: 210-366-9451**

Rinaldo J. Gonzalez, P.C., CPA

Randy Walker & Co., P.C.

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, 2017. 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, 2017.

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. However, material weaknesses may exist that have not been identified.

Braination, Inc.
Uniform Guidance Compliance Report

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, appearing to read "Douglas & Walker". The signature is written in a cursive, flowing style.

San Antonio, Texas
December 15, 2017

BRAINATION, INC. AND AFFILIATES
(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2017

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	
84.027A IDEA, Part B, Special Education Grants	
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, 2017

SUMMARY OF AUDITOR'S RESULTS (continued)

Findings - Financial Statements Audit	None
Findings and Questioned Costs - Major Federal Award Programs Audit	None

BRAINATION, INC. AND AFFILIATES
(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended August 31, 2017

I. PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

- None -

II. PRIOR YEAR FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

- None -