

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

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

**August 31, 2020 and 2019**

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**CONSOLIDATED FINANCIAL STATEMENTS WITH COMPLIANCE**  
**AND SINGLE AUDIT REPORTING**  
**August 31, 2020 and 2019**

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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, 2020, at a meeting of the Board of Trustees of such charter holder on the 19 day of January, 2021.

*nm*  
Alan Holder (Jan 21, 2021 15:52 EST)

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

*Carmen Balderas*  
Carmen Balderas (Jan 21, 2021 09:39 CST)

\_\_\_\_\_  
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, 2020 and 2019, and the related consolidated statements of activities (with comparative totals for 2019), functional expenses (with comparative totals for 2019), and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brination, Inc. and its affiliates as of August 31, 2020 and 2019, 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 consolidated financial statements as a whole. The specific purpose financial statements on pages 21-26, the supplementary schedules on pages 27-29, and the accompanying schedule of expenditures of federal and state awards on page 30, 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 19, 2021, on pages 32-33 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.

*Randy Walker & Co.*

San Antonio, Texas  
January 19, 2021

# **GENERAL-PURPOSE FINANCIAL STATEMENTS**

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**August 31, 2020 and 2019**

	2020	2019
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 7,135,067	\$ 5,417,292
Due from State	557,954	695,054
Due from Federal Agencies	1,177,186	1,041,647
Other Receivables	137,813	155,199
Prepaid Expense	90,201	156,001
Total Current Assets	9,098,221	7,465,193
<b>LONG-TERM ASSETS</b>		
Restricted Cash	55,394	833,740
Deferred Charges on Refunding, net	1,862,953	-
Property and Equipment, net	17,024,002	17,526,092
Total Long-Term Assets	18,942,349	18,359,832
<b>TOTAL ASSETS</b>	<b>\$ 28,040,570</b>	<b>\$ 25,825,025</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 94,695	\$ 127,377
Accrued Expenses	905,228	1,456,534
Deferred Revenue	-	44,655
PPP Loan Payable - current	378,783	-
Bonds Payable - current	365,000	180,000
Total Current Liabilities	1,743,706	1,808,566
<b>LONG-TERM LIABILITIES</b>		
PPP Loan Payable - long-term	303,027	-
Bonds Payable - long-term, net	9,748,771	8,328,366
Total Long-Term Liabilities	10,051,798	8,328,366
<b>TOTAL LIABILITIES</b>	<b>11,795,504</b>	<b>10,136,932</b>
<b>NET ASSETS</b>		
Without Donor Restrictions	7,755,426	8,408,004
With Donor Restrictions	8,489,640	7,280,089
<b>TOTAL NET ASSETS</b>	<b>16,245,066</b>	<b>15,688,093</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 28,040,570</b>	<b>\$ 25,825,025</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, 2020**  
**(with comparative totals for 2019)**

	2020		2019 Total	
	Without Donor Restrictions	With Donor Restrictions		Total
<b>OPERATING REVENUES AND OTHER SUPPORT</b>				
Local Support:				
Other Revenue from Local Sources	\$ 4,838,783	\$ -	\$ 4,838,783	\$ 5,425,674
Earnings from Temporary Deposits and Investments	6,597	-	6,597	16,028
Total Local Support	4,845,380	-	4,845,380	5,441,702
State Program Revenues:				
Foundation School Program Act Entitlements	-	10,855,303	10,855,303	10,182,808
Instructional Materials Allotment	-	54,490	54,490	77,295
Total State Program Revenues	-	10,909,793	10,909,793	10,260,103
Federal Program Revenues:				
Title I, Part A - Grants to Local Education Agencies	-	395,100	395,100	435,154
Title I, Part D, Subpart 2 - Prevention and Intervention Programs for Children and Youth Who Are Neglected, Delinquent, or At-Risk	-	574,896	574,896	682,226
IDEA - Part B, Formula	-	241,359	241,359	305,203
National School Breakfast Program	-	166,751	166,751	171,597
National School Lunch Program	-	298,447	298,447	308,747
USDA Donated Food Commodities	-	4,669	4,669	38,019
Title II, Part A - Improving Teacher Quality State Grants	-	11,451	11,451	32,882
Title III ELA	-	946	946	922
Title I, Part C - Migrant	-	38	38	1,671
Title IV, Part A - SSAEP	-	25,702	25,702	19,318
IDEA - Part B, Discretionary Evaluation Capacity	-	-	-	7,000
School Health and Related Services	-	652,559	652,559	854,708
Total Federal Program Revenues	-	2,371,918	2,371,918	2,857,447
Net Assets Released From Restrictions				
Restrictions Satisfied By Payments	12,072,160	(12,072,160)	-	-
<b>TOTAL OPERATING REVENUES AND OTHER SUPPORT</b>	<b>16,917,540</b>	<b>1,209,551</b>	<b>18,127,091</b>	<b>18,559,252</b>
<b>OPERATING EXPENSES</b>				
Program	14,463,542	-	14,463,542	14,632,059
General and Administrative	3,174,184	-	3,174,184	3,005,932
Fundraising	29,892	-	29,892	33,524
<b>TOTAL OPERATING EXPENSES</b>	<b>17,667,618</b>	<b>-</b>	<b>17,667,618</b>	<b>17,671,515</b>
<b>CHANGE IN NET ASSETS BEFORE NON-OPERATING ACTIVITY</b>	<b>(750,078)</b>	<b>1,209,551</b>	<b>459,473</b>	<b>887,737</b>
<b>NON-OPERATING ACTIVITY</b>				
Insurance Proceeds on Roof Damage	97,500	-	97,500	-
<b>TOTAL NON-OPERATING ACTIVITY</b>	<b>97,500</b>	<b>-</b>	<b>97,500</b>	<b>-</b>
<b>CHANGE IN NET ASSETS AFTER NON-OPERATING ACTIVITY</b>	<b>(652,578)</b>	<b>1,209,551</b>	<b>556,973</b>	<b>887,737</b>
<b>NET ASSETS, Beginning of Year</b>	<b>8,408,004</b>	<b>7,280,089</b>	<b>15,688,093</b>	<b>14,800,356</b>
<b>NET ASSETS, End of Year</b>	<b>\$ 7,755,426</b>	<b>\$ 8,489,640</b>	<b>\$ 16,245,066</b>	<b>\$ 15,688,093</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 FUNCTIONAL EXPENSES**  
**For the Year Ended August 31, 2020**  
**(with comparative totals for 2019)**

	<b>2020</b>				2019 Total
	<b>Program</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total</b>	
<b>OPERATING EXPENSES</b>					
Salaries	\$ 9,292,580	\$ 1,148,521	\$ -	\$ 10,441,101	\$ 10,884,340
Benefits	1,240,672	169,182	-	1,409,854	1,268,103
Health Insurance	626,212	85,393	-	711,605	743,979
Total Payroll Expenses	11,159,464	1,403,096	-	12,562,560	12,896,422
Depreciation Expense	845,567	44,504	-	890,071	829,195
Rental Expense	561,383	149,228	-	710,611	236,236
Bond Amortization Expense	-	542,185	-	542,185	22,515
Other Contract Labor	261,715	186,939	18,694	467,348	425,964
General Supplies	391,617	54,195	9,033	454,845	613,794
Utilities	300,869	95,011	-	395,880	464,101
Food/Non-Food Expenses	384,953	-	-	384,953	444,955
Interest Expense	-	319,421	-	319,421	582,044
Professional Services	256,393	-	-	256,393	195,579
Maintenance and Repair	8,410	159,781	-	168,191	263,630
Insurance and Bonding	37,500	79,687	-	117,187	163,272
Miscellaneous Expenses	88,208	4,880	2,165	95,253	210,526
Educational Service Center	63,059	23,323	-	86,382	58,451
Travel Expenses	56,886	29,305	-	86,191	190,804
Legal Services	11,209	33,627	-	44,836	16,524
Accounting Fees	7,288	21,863	-	29,151	18,921
Supplies for Maintenance and Repairs	274	27,139	-	27,413	27,770
Tuition and Related Expenses	22,844	-	-	22,844	3,300
Instructional Materials	5,903	-	-	5,903	7,512
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 14,463,542</b>	<b>\$ 3,174,184</b>	<b>\$ 29,892</b>	<b>\$ 17,667,618</b>	<b>\$ 17,671,515</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, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in Net Assets From Operations	\$ 556,973	\$ 887,737
Adjustments to Reconcile Net Excess to Net Cash		
Provided by Operations:		
Depreciation and Amortization	1,432,256	851,710
Decrease (Increase) in Assets:		
Due from State	137,100	20,550
Due from Federal Agencies	(135,539)	1,013,328
Other Receivables	17,386	182,800
Prepaid Expense	65,800	(109,873)
(Decrease) Increase in Liabilities:		
Accounts Payable	(32,682)	(157,661)
Accrued Expenses	(551,306)	15,980
Deferred Revenue	(44,655)	11,655
	<b>1,445,333</b>	<b>2,716,226</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Property and Equipment	(387,981)	(482,240)
	<b>(387,981)</b>	<b>(482,240)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings on PPP Loan	681,810	-
Deferred Charges on Refunding	(1,862,953)	-
Disposal of Refunded Bonds	(9,050,551)	-
Proceeds from Refunding Bonds	10,921,453	-
Payment of Bond Issue Costs	(767,682)	-
Payments on Bonds Payable	(40,000)	(170,000)
	<b>(117,923)</b>	<b>(170,000)</b>
<b>NET INCREASE IN CASH FLOWS</b>	<b>939,429</b>	<b>2,063,986</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<b>5,417,292</b>	<b>3,365,502</b>
<b>RESTRICTED CASH, Beginning of Year</b>	<b>833,740</b>	<b>821,544</b>
<b>LESS RESTRICTED CASH, End of Year</b>	<b>(55,394)</b>	<b>(833,740)</b>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<b>\$ 7,135,067</b>	<b>\$ 5,417,292</b>
 Supplemental Disclosures:		
Interest	<b>\$ 319,421</b>	<b>\$ 582,044</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, 2020 and 2019**

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

***Reporting Entity***

Braination, Inc. is a 501(c)(3) not-for-profit 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 of Trustees (the Board) which is comprised of four members. The Board is selected pursuant to the bylaws of Braination, Inc. and has the authority to make decisions, appoint the chief executive officer and superintendent 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, 2020, Inspire Academies operates seven residential campuses (Afton Oaks, Hays County, Bell County, Legacy Ranch, Meridell, Rockdale, and Williams House) in Bexar, Hays, Bell, Gonzales, 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.

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

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

***Reporting Entity (continued)***

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

***Braination Newcomers School***

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 from countries all over the world excluding Mexico. 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 primarily behavioral disabilities. The intent of the partnership was to rebuild Pickett Academy. It was reopened as Brewer Academy and relocated on the west side of San Antonio, Texas in the fall of 2017.

***Braination Private School***

In the fall of 2019, Braination opened a K-5 tuition-based, private school called the International Academy of San Antonio which would later be named The Global Village. The school is located in Bexar County. Similar to the Anne Frank Inspire Academy, the learning model is inquiry based. Its curriculum includes an innovative international framework. As with other Braination schools, the student to teacher ratio is small.

***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 that began in August 2016.

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

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

***Reporting Entity (continued)***

**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's Board of Trustees is comprised of five members which includes all four of the Braination, Inc. members.

**Non-Charter Activities**

Expenses related to non-charter activities at Braination, Inc. and its affiliates for the years ended August 31, 2020 and 2019 were \$4,841,561 and \$5,474,632, 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 consolidated 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 consolidated 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, 2020 and 2019**

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

***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.

***Principles of Consolidation***

The accompanying consolidated financial statements as of August 31, 2020 and 2019, include the financial statements of Braination, Inc., Inspire Academies, and Educational Resource Center Foundation. Intercompany transactions and balances have been eliminated in the consolidation.

***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 consolidated 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 consolidated 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, 2020, the tax years that remain subject to examination by taxing authorities begin with 2017.

***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, 2020 and 2019, restricted cash totaled \$55,394 and \$833,740, respectively.

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

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

***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.

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, 2020, 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 consolidated financial statements. If the assessment indicates a potentially material loss contingency that 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.

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

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

***Contingencies (continued)***

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.

***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 the basis of 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, 2019. 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, 2021. 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 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, effective for periods beginning after December 15, 2018. This pronouncement clarifies and improves the scope and the accounting guidance for contributions received and contributions made in order to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) subject to other guidance and (2) determining whether a contribution is conditional. Braination, Inc. and its affiliates have adopted this new pronouncement effective September 1, 2019. The change was applied retrospectively, but there was no cumulative effect on beginning net assets as of this date.



**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

**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:

	2020	2019
Building and Improvements	\$ 18,562,101	\$ 18,538,975
Land and Improvements	877,925	877,925
Furniture and Equipment	3,537,982	3,238,768
Vehicles	74,157	74,157
Library Assets	87,103	87,103
Infrastructure - Sign	106,280	40,636
	23,245,548	22,857,564
Less Accumulated Depreciation	(6,221,546)	(5,331,472)
Total	\$ 17,024,002	\$ 17,526,092

Depreciation expense for the years ended August 31, 2020 and 2019 was \$890,071 and \$829,195, respectively. Fixed asset additions are included in net assets released from restrictions on the consolidated statement of activities.

**Note 3 - Bonds Payable**

Braination, Inc. and its affiliates' obligations under bonds payable consist of \$10,920,000 in Taxable Education Revenue Refunding Bonds (Series 2020) issued through Pottsboro Higher Education Authority and dated June 24, 2020. All bonds were closed and funded on July 2, 2020, with proceeds being held by The Bank of New York Mellon Trust Company. 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 1.07% to 3.47%, and the terms of the bonds range from one to twenty-three years.

The Series 2020 bonds were issued to provide resources to defease the Series 2013A bonds on the call date of August 15, 2023. The refunding resulted in an economic gain of \$983,210 and a reduction of \$2,302,710 in future debt payments. Additionally, \$1,862,953 in deferred charges was reported in the consolidated statements of financial position at August 31 2020.

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

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

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

	<u>2020</u>
Series 2020	\$ 10,880,000
Less Current Maturities	(365,000)
Less Bond Discount, net	(65,210)
Less Bond Issuance Costs, net	<u>(701,019)</u>
Total	<u>\$ 9,748,771</u>
	<u>2019</u>
Series 2013A	\$ 9,045,000
Less Current Maturities	(180,000)
Less Bond Discount, net	(209,371)
Less Bond Issuance Costs, net	<u>(327,263)</u>
Total	<u>\$ 8,328,366</u>

Series 2020 bond covenants include a debt service coverage ratio requirement, 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 Brination, 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, 2020 and 2019, Brination, 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,	
2021	\$ 365,000
2022	370,000
2023	375,000
2024	385,000
2025	385,000
Thereafter	<u>9,000,000</u>
Total	<u>\$ 10,880,000</u>

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

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

Interest expense on bonds payable was \$319,421 and \$580,394 for the years ended August 31, 2020 and 2019, respectively.

**Note 4 - Operating Leases**

Braination, Inc. and its affiliates have various copier and printer leases that expire between July 2021 and August 2022. These lease expenses amounted to \$113,841 for the years ended August 31, 2020 and 2019.

Braination, Inc. and its affiliates have leases for internet/telephone services and webhosting that will expire between June 2022 and June 2023. These lease expenses amounted to \$152,089 and \$267,497 for the years ended August 31, 2020 and 2019, respectively.

In July 2019, Braination, Inc. and its affiliates entered into a lease for a campus building that will expire in June 2024. This lease expense amounted to \$525,000 and \$87,500 for the years ended August 31, 2020 and 2019, respectively.

The following is a schedule of the operating lease obligations subsequent to August 31, 2020:

For the Year Ending August 31,	
2021	\$ 704,651
2022	691,613
2023	554,393
2024	<u>437,500</u>
Total	<u>\$ 2,388,157</u>

**Note 5 - Related Party Transactions**

Intercompany transactions related to receivables and payables between Braination Inc. and its affiliates were \$1,997,878 and \$736,117 for the years ended August 31, 2020 and 2019, respectively. These transactions were for administrative services and miscellaneous purchases. All related party transactions are eliminated in the consolidated financial statements.

**Note 6 - Health Care Coverage**

During the years ended August 31, 2020 and 2019, 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, 2020 and 2019 were \$711,605 and \$743,979, respectively.

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

**Note 7 - 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’ current assets and liabilities as presented in the consolidated statements of financial position are Level 1. Braination, Inc. and its affiliates have no Level 2 or Level 3 assets or liabilities. The carrying amounts reported in the consolidated statements of financial position approximate fair values because of the short maturities of those instruments.

**Note 8 - Regulated Industry**

The majority of Braination, Inc. and its affiliates’ activities and revenues are a result of contracts with 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.

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

**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 - \$184,361,871,000  
Accumulated Benefit Obligations - \$209,719,687,047  
The plan is 76.9% funded.

There are no collective-bargaining agreements.

***Funding Policy***

Under provisions in state law, plan members are required to contribute 7.7% of their annual covered salary, and the state of Texas contributes an amount equal to 7.5% of Braination, Inc. and its affiliates covered payroll. Braination, Inc. and its affiliates' contributions to TRS for the years ended August 31, 2020 and 2019 were \$469,962 and \$324,981, respectively. Non-OASDI participating surcharges for the years ended August 31, 2020 and 2019 were \$124,158 and \$-0-, respectively. Braination, Inc. and its affiliates' 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, 2020 and 2019**

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

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

	<u>2020</u>	<u>2019</u>
Foundation School Program	\$ 8,387,640	\$ 7,094,262
Food Service Program	-	83,827
College Scholarships/Fellowship Award	<u>102,000</u>	<u>102,000</u>
Total	<u>\$ 8,489,640</u>	<u>\$ 7,280,089</u>

Net assets released from restrictions are reflected in the consolidated statement of activities and include amounts capitalized as fixed assets.

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

The following reflects Braination, Inc. and its affiliates' financial assets as of the consolidated statement of financial position date, reduced by amounts not available for general use because of donor-stipulated restrictions.

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 7,135,067	\$ 5,417,292
Due from State	557,954	695,054
Due from Federal Agencies	1,177,186	1,041,647
Other Receivables	<u>137,813</u>	<u>155,199</u>
Total Financial Assets	<u>9,008,020</u>	7,309,192
Donor Restrictions (net of Foundation School Program)	<u>(102,000)</u>	<u>(185,827)</u>
Financial Assets Available to Meet Cash Needs for Expenditures Within One Year	<u>\$ 8,906,020</u>	<u>\$ 7,123,365</u>

Braination, Inc. and its affiliates' primary sources of cash flows are state and federal program revenues. Braination, Inc. and its affiliates have a consistent inflow of cash throughout the year to cover normal operating expenses.

**Note 12 - Subsequent Events**

Braination, Inc. and its affiliates have not experienced a significant decline in enrollment in fiscal year 2021 as a result of the ongoing COVID-19 pandemic. However, Braination, Inc. and its affiliates continue to evaluate current economic conditions, and any potential financial impact cannot be reasonably estimated at this time.

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

**Note 12 - Subsequent Events (continued)**

Braination, Inc. and its affiliates have evaluated subsequent events through January 19, 2021, which is the date the financial statements were available to be issued.

**Note 13 - Paycheck Protection Program Loan**

During the year ended August 31, 2020, Braination, Inc. and its affiliates received a Paycheck Protection Program (PPP) loan of \$681,180 from the Small Business Administration as part of the CARES Act passed during the year to assist small businesses and non-profits affected by measures instituted in response to the COVID-19 pandemic. The loan is payable in monthly installments of approximately \$38,400, bears interest of 1%, and matures in April 2022, at which time all unpaid principal and interest are payable in full. The loan is subject to forgiveness provided Braination, Inc. and its affiliates expend the funds in accordance with the time and purpose restrictions defined by the PPP.

Future scheduled maturities of the loan payable are as follows:

For the Year Ending August 31,	
2021	\$ 378,783
2022	<u>303,027</u>
Total	<u>\$ 681,810</u>

# **SPECIFIC-PURPOSE FINANCIAL STATEMENTS**



**INSPIRE ACADEMIES**  
**STATEMENTS OF FINANCIAL POSITION**  
**August 31, 2020 and 2019**

	2020	2019
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 4,369,141	\$ 2,973,109
Due from State	557,954	695,054
Due from Federal Agencies	677,186	791,647
Due from Related Party	1,448,488	256,430
Other Receivables	640	15,396
Prepaid Expense	32,958	38,981
Total Current Assets	7,086,367	4,770,617
<b>LONG-TERM ASSETS</b>		
Restricted Cash	55,394	833,740
Deferred Charges on Refunding	1,862,953	-
Property and Equipment, net	16,160,041	16,719,191
Total Long-Term Assets	18,078,388	17,552,931
<b>TOTAL ASSETS</b>	\$ 25,164,755	\$ 22,323,548
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 90,285	\$ 104,896
Accrued Expenses	714,308	1,037,935
Deferred Revenue	-	31,223
Due to Related Party	789,909	535,803
Bonds Payable - current	365,000	180,000
Total Current Liabilities	1,959,502	1,889,857
<b>LONG-TERM LIABILITIES</b>		
Bonds Payable - long-term, net	9,748,771	8,328,366
Total Long-Term Liabilities	9,748,771	8,328,366
<b>TOTAL LIABILITIES</b>	11,708,273	10,218,223
<b>NET ASSETS</b>		
Without Donor Restrictions	5,068,842	4,927,236
With Donor Restrictions	8,387,640	7,178,089
<b>TOTAL NET ASSETS</b>	13,456,482	12,105,325
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 25,164,755	\$ 22,323,548

See independent auditor's report.

**INSPIRE ACADEMIES**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended August 31, 2020**  
**(with comparative totals for 2019)**

	2020		Total	2019 Total
	Without Donor Restrictions	With Donor Restrictions		
<b>OPERATING REVENUES AND OTHER SUPPORT</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 713,951	\$ -	\$ 713,951	\$ 843,807
5750 Food Service	37,016	-	37,016	1,751
Total Local Support	750,967	-	750,967	845,558
State Program Revenues:				
5810 Foundation School Program Act Revenues	-	10,823,503	10,823,503	10,182,808
5820 State Program Revenues Distributed by TEA	-	54,490	54,490	77,295
5830 State Revenues from State of Texas Government Agencies (Other than TEA)	-	31,800	31,800	-
Total State Program Revenues	-	10,909,793	10,909,793	10,260,103
Federal Program Revenues:				
5920 Federal Revenues Distributed by TEA and USDA	-	1,719,359	1,719,359	2,002,739
5930 Federal Revenues Distributed by Other State of Texas Government Agencies (Other than TEA)	-	652,559	652,559	854,708
Total Federal Program Revenues	-	2,371,918	2,371,918	2,857,447
Net Assets Released From Restrictions				
Restrictions Satisfied By Payments	12,072,160	(12,072,160)	-	-
<b>TOTAL OPERATING REVENUES AND OTHER SUPPORT</b>	<b>12,823,127</b>	<b>1,209,551</b>	<b>14,032,678</b>	<b>13,963,108</b>
<b>OPERATING EXPENSES</b>				
11 Instruction	6,214,572	-	6,214,572	6,773,116
13 Curriculum Development and Instructional Staff Development	97,194	-	97,194	124,388
21 Instructional Leadership	228,992	-	228,992	249,241
23 School Leadership	1,531,422	-	1,531,422	1,625,737
31 Guidance, Counseling, and Evaluation Services	872,803	-	872,803	786,115
33 Health Services	5,382	-	5,382	2,550
34 Student Transportation	-	-	-	782
35 Food Services	623,710	-	623,710	566,738
36 Extracurricular Activities	19,794	-	19,794	16,970
41 General Administration	1,121,715	-	1,121,715	1,155,772
51 Plant Maintenance and Operations	598,161	-	598,161	895,195
52 Security and Monitoring	36,111	-	36,111	26,657
53 Data Processing	559,824	-	559,824	486,803
61 Community Services	2,320	-	2,320	3,958
62 School District Administrative Support Services	-	-	-	-
71 Debt Service	862,156	-	862,156	604,559
81 Fundraising	4,865	-	4,865	25,075
<b>TOTAL OPERATING EXPENSES</b>	<b>12,779,021</b>	<b>-</b>	<b>12,779,021</b>	<b>13,343,656</b>
<b>CHANGE IN NET ASSETS BEFORE NON- OPERATING ACTIVITY</b>	<b>44,106</b>	<b>1,209,551</b>	<b>1,253,657</b>	<b>619,452</b>
<b>NON-OPERATING ACTIVITY</b>				
Insurance Proceeds on Roof Damage	97,500	-	97,500	-
<b>TOTAL NON-OPERATING ACTIVITY</b>	<b>97,500</b>	<b>-</b>	<b>97,500</b>	<b>-</b>
<b>CHANGE IN NET ASSETS AFTER NON- OPERATING ACTIVITY</b>	<b>141,606</b>	<b>1,209,551</b>	<b>1,351,157</b>	<b>619,452</b>
<b>NET ASSETS, Beginning of Year</b>	<b>4,927,236</b>	<b>7,178,089</b>	<b>12,105,325</b>	<b>11,485,873</b>
<b>NET ASSETS, End of Year</b>	<b>\$ 5,068,842</b>	<b>\$ 8,387,640</b>	<b>\$ 13,456,482</b>	<b>\$ 12,105,325</b>

See independent auditor's report.

**INSPIRE ACADEMIES**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended August 31, 2020 and 2019**

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Foundation School Program Payments	\$ 10,897,113	\$ 10,316,108
Grant Payments	2,679,283	3,520,653
Miscellaneous Sources	848,690	845,558
Payments to Vendors for Goods and Services Rendered	(4,805,303)	(4,553,597)
Payments to Charter School Personnel for Services Rendered	(7,620,141)	(7,620,390)
Interest Payments	(328,628)	(582,788)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,671,014</b>	1,925,544
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Property and Equipment	(237,697)	(378,662)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(237,697)</b>	(378,662)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of Bond Issuance Costs	(775,631)	-
Payments on Bonds Payable	(40,000)	(170,000)
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	<b>(815,631)</b>	(170,000)
<b>NET INCREASE IN CASH FLOWS</b>	<b>617,686</b>	1,376,882
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<b>2,973,109</b>	1,608,423
<b>RESTRICTED CASH, Beginning of Year</b>	<b>833,740</b>	821,544
<b>LESS RESTRICTED CASH, End of Year</b>	<b>(55,394)</b>	(833,740)
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<b>\$ 4,369,141</b>	\$ 2,973,109
Reconciliation of Change in Net Assets to Net Cash		
Provided by Operations:		
Change in Net Assets	\$ 1,351,157	\$ 619,452
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operations:		
Depreciation and Amortization	1,341,032	796,815
Decrease (Increase) in Assets:		
Due from State	137,100	20,550
Due from Federal Agencies	114,461	709,328
Due from Related Party	(1,192,058)	(36,892)
Other Receivables	14,756	(15,396)
Prepaid Expense	6,023	3,813
(Decrease) Increase in Liabilities:		
Accounts Payable	(14,611)	(154,777)
Accrued Expenses	(309,729)	27,569
Deferred Revenue	(31,223)	-
Due to Related Party	254,106	(44,918)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 1,671,014</b>	\$ 1,925,544

See independent auditor's report.

**INSPIRE ACADEMIES**  
**SCHEDULE OF EXPENSES**  
**For the Years Ended August 31, 2020 and 2019**

<b>EXPENSES</b>	<u>2020</u>	<u>2019</u>
6100 Payroll Costs	\$ 8,852,630	\$ 9,131,723
6200 Professional and Contracted Services	1,210,449	1,395,324
6300 Supplies and Materials	795,197	975,785
6400 Other Operating Costs	1,058,589	1,236,265
6500 Debt	862,156	604,559
<b>TOTAL EXPENSES</b>	<b>\$ 12,779,021</b>	<b>\$ 13,343,656</b>

See independent auditor's report.

**INSPIRE ACADEMIES**  
**SCHEDULE OF CAPITAL ASSETS**  
**August 31, 2020**

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

	<b>Ownership Interest</b>		
	<b>Local</b>	<b>State</b>	<b>Federal</b>
1110 Cash	\$ -	\$ 4,369,141	\$ -
1510 Land and Improvements	-	877,925	-
1520 Buildings and Improvements	-	17,502,089	-
1530 Furniture and Equipment	-	2,483,600	231,714
1531 Vehicles	-	74,157	-
1550 Capital Leases	-	590,171	-
1560 Library Assets	-	87,103	-
1590 Infrastructure	-	40,636	-
<b>Total Capital Assets</b>	<b>\$ -</b>	<b>\$ 26,024,822</b>	<b>\$ 231,714</b>

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

*Per Schedule of Capital Assets:*

1510 Land and Improvements (State)	\$ 877,925
1520 Buildings and Improvements (State)	17,502,089
1530 Furniture and Equipment (State)	2,483,600
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)	40,636

*Plus Brination, Inc.:*

Property and Equipment, gross	996,773
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*Plus Educational Resource Center Foundation:*

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

Inspire Academies	(5,727,354)
Brination, Inc.	(334,020)
Educational Resource Center Foundation	(160,172)

**Total Property and Equipment per Statements of Financial Position:** \$ 17,024,002

See independent auditor's report.

**INSPIRE ACADEMIES**  
**BUDGETARY COMPARISON SCHEDULE**  
**For the Year Ended August 31, 2020**

	<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	\$ 708,578	\$ 773,598	\$ 811,451	\$ 37,853
5750 Food Service	140,760	35,760	37,016	1,256
<b>Total Local Support</b>	<u>849,338</u>	<u>809,358</u>	<u>848,467</u>	<u>39,109</u>
State Program Revenues:				
5810 Foundation School Program Act Revenues	10,502,380	10,502,380	10,823,503	321,123
5820 State Program Revenues Distributed by TEA	-	54,490	54,490	-
5830 State Revenue from State of Texas Government Agencies (Other than TEA)	-	31,800	31,800	-
<b>Total State Program Revenues</b>	<u>10,502,380</u>	<u>10,588,670</u>	<u>10,909,793</u>	<u>321,123</u>
Federal Program Revenues:				
5920 Federal Revenues Distributed by TEA	1,896,851	1,796,851	1,719,359	(77,492)
5930 Federal Revenues Distributed by Other State of Texas Government Agencies	700,000	700,000	652,559	(47,441)
<b>Total Federal Program Revenues</b>	<u>2,596,851</u>	<u>2,496,851</u>	<u>2,371,918</u>	<u>(124,933)</u>
<b>TOTAL REVENUES AND OTHER SUPPORT</b>	<u>13,948,569</u>	<u>13,894,879</u>	<u>14,130,178</u>	<u>235,299</u>
<b>EXPENSES</b>				
11 Instructional	7,222,069	6,222,069	6,214,572	7,497
13 Curriculum Development and Instructional Staff Development	128,269	103,269	97,194	6,075
21 Instructional Leadership	185,393	225,393	228,992	(3,599)
23 School Leadership	1,709,779	1,659,779	1,531,422	128,357
31 Guidance, Counseling and Evaluation Services	564,884	864,884	872,803	(7,919)
33 Health Services	13,605	5,605	5,382	223
35 Food Services	750,569	650,569	623,710	26,859
36 Extracurricular Activities	34,920	19,920	19,794	126
41 General Administration	755,539	1,105,539	1,121,715	(16,176)
51 Plant Maintenance and Operations	891,177	601,177	598,161	3,016
52 Security and Monitoring Services	61,633	36,633	36,111	522
53 Data Processing Services	542,874	542,874	559,824	(16,950)
61 Community Services	3,644	2,344	2,320	24
71 Debt Service	596,733	596,733	862,156	(265,423) (1)
81 Fundraising	24,750	4,950	4,865	85
<b>TOTAL EXPENSES</b>	<u>13,485,838</u>	<u>12,641,738</u>	<u>12,779,021</u>	<u>(137,283)</u>
<b>CHANGE IN NET ASSETS</b>	462,731	1,253,141	1,351,157	98,016
<b>NET ASSETS, Beginning of Year</b>	12,105,325	12,105,325	12,105,325	-
<b>NET ASSETS, End of Year</b>	<u>\$ 12,568,056</u>	<u>\$ 13,358,466</u>	<u>\$ 13,456,482</u>	<u>\$ -</u>

(1) Unfavorable variance is due to the final budget not including the expense of remaining unamortized costs related to the defeasance of Series 2013A refunded bonds.

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, 2020**  
**(with comparative totals for 2019)**

	2020					2019 Total
	Braination, Inc.	Inspire Academies	Educational Resource Center Foundation	Eliminating Entries	Total	
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and Cash Equivalents	\$ 2,669,204	\$ 4,369,141	\$ 96,722	\$ -	\$ 7,135,067	\$ 5,417,292
Due from State	-	557,954	-	-	557,954	695,054
Due from Federal Agencies	500,000	677,186	-	-	1,177,186	1,041,647
Due from Related Party	549,390	1,448,488	-	(1,997,878)	-	-
Other Receivables	137,173	640	-	-	137,813	155,199
Prepaid Expense	57,243	32,958	-	-	90,201	156,001
Total Current Assets	<u>3,913,010</u>	<u>7,086,367</u>	<u>96,722</u>	<u>(1,997,878)</u>	<u>9,098,221</u>	<u>7,465,193</u>
<b>LONG-TERM ASSETS</b>						
Restricted Cash	-	55,394	-	-	55,394	833,740
Deferred Charges on Refunding	-	1,862,953	-	-	1,862,953	-
Property and Equipment, net	662,753	16,160,041	201,208	-	17,024,002	17,526,092
Total Long-Term Assets	<u>662,753</u>	<u>18,078,388</u>	<u>201,208</u>	<u>-</u>	<u>18,942,349</u>	<u>18,359,832</u>
<b>TOTAL ASSETS</b>	<u>\$ 4,575,763</u>	<u>\$ 25,164,755</u>	<u>\$ 297,930</u>	<u>\$ (1,997,878)</u>	<u>\$ 28,040,570</u>	<u>\$ 25,825,025</u>
<b>LIABILITIES AND NET ASSETS</b>						
<b>CURRENT LIABILITIES</b>						
Accounts Payable	\$ 4,410	\$ 90,285	\$ -	\$ -	\$ 94,695	\$ 127,377
Accrued Expenses	190,920	714,308	-	-	905,228	1,456,534
Deferred Revenue	-	-	-	-	-	44,655
Due to Related Party	1,204,319	789,909	3,650	(1,997,878)	-	-
PPP Loan Payable - current	378,783	-	-	-	378,783	-
Bonds Payable - current	-	365,000	-	-	365,000	180,000
Total Current Liabilities	<u>1,778,432</u>	<u>1,959,502</u>	<u>3,650</u>	<u>(1,997,878)</u>	<u>1,743,706</u>	<u>1,808,566</u>
<b>LONG-TERM LIABILITIES</b>						
PPP Loan Payable - long-term	303,027	-	-	-	303,027	-
Bonds Payable - long-term, net	-	9,748,771	-	-	9,748,771	8,328,366
Total Long-Term Liabilities	<u>303,027</u>	<u>9,748,771</u>	<u>-</u>	<u>-</u>	<u>10,051,798</u>	<u>8,328,366</u>
<b>TOTAL LIABILITIES</b>	<u>2,081,459</u>	<u>11,708,273</u>	<u>3,650</u>	<u>(1,997,878)</u>	<u>11,795,504</u>	<u>10,136,932</u>
<b>NET ASSETS</b>						
Without Donor Restrictions	2,494,304	5,068,842	192,280	-	7,755,426	8,408,004
With Donor Restrictions	-	8,387,640	102,000	-	8,489,640	7,280,089
<b>TOTAL NET ASSETS</b>	<u>2,494,304</u>	<u>13,456,482</u>	<u>294,280</u>	<u>-</u>	<u>16,245,066</u>	<u>15,688,093</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 4,575,763</u>	<u>\$ 25,164,755</u>	<u>\$ 297,930</u>	<u>\$ (1,997,878)</u>	<u>\$ 28,040,570</u>	<u>\$ 25,825,025</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, 2020**  
**(with comparative totals for 2019)**

	2020					2019 Total
	Braination, Inc.	Inspire Academies	Educational Resource Center Foundation	Eliminating Entries	Total	
<b>OPERATING REVENUES AND OTHER SUPPORT</b>						
Local Support:						
Other Revenue from Local Sources	\$ 4,680,448	\$ 744,370	\$ -	\$ (586,035)	\$ 4,838,783	\$ 5,425,674
Earnings from Temporary Deposits and Investments	-	6,597	-	-	6,597	16,028
Total Local Support	4,680,448	750,967	-	(586,035)	4,845,380	5,441,702
State Program Revenues:						
Foundation School Program Act Entitlements	-	10,855,303	-	-	10,855,303	10,182,808
Instructional Materials Allotment	-	54,490	-	-	54,490	77,295
Total State Program Revenues	-	10,909,793	-	-	10,909,793	10,260,103
Federal Program Revenues:						
Title I, Part A - Grants to Local Education Agencies	-	395,100	-	-	395,100	435,154
Title I, Part D, Subpart 2 - Prevention and Intervention Programs for Children and Youth Who Are Neglected, Delinquent, or At-Risk	-	574,896	-	-	574,896	682,226
IDEA - Part B, Formula	-	241,359	-	-	241,359	305,203
National School Breakfast Program	-	166,751	-	-	166,751	171,597
National School Lunch Program	-	298,447	-	-	298,447	308,747
USDA Donated Food Commodities	-	4,669	-	-	4,669	38,019
Title II, Part A - Improving Teacher Quality State Grants	-	11,451	-	-	11,451	32,882
Title III ELA	-	946	-	-	946	922
Title I, Part C - Migrant	-	38	-	-	38	1,671
Title IV, Part A - SSAEP	-	25,702	-	-	25,702	19,318
IDEA - Part B, Discretionary Evaluation Capacity	-	-	-	-	-	7,000
School Health and Related Services	-	652,559	-	-	652,559	854,708
Total Federal Program Revenues	-	2,371,918	-	-	2,371,918	2,857,447
<b>TOTAL OPERATING REVENUES AND OTHER SUPPORT</b>	<b>\$ 4,680,448</b>	<b>\$ 14,032,678</b>	<b>\$ -</b>	<b>\$ (586,035)</b>	<b>\$ 18,127,091</b>	<b>\$ 18,559,252</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, 2020**  
**(with comparative totals for 2019)**

(continued)

	2020					2019 Total
	Braination, Inc.	Inspire Academies	Educational Resource Center Foundation	Eliminating Entries	Total	
<b>OPERATING EXPENSES</b>						
Salaries	\$ 3,115,511	\$ 7,325,590	\$ -	\$ -	\$ 10,441,101	\$ 10,884,340
Payroll Taxes and Benefits	403,217	1,006,637	-	-	1,409,854	1,268,103
Depreciation Expense	79,178	798,847	12,046	-	890,071	829,195
Health Insurance	191,202	520,403	-	-	711,605	743,979
Rental Expense	593,136	117,475	-	-	710,611	236,236
Bond Amortization Expense	-	542,185	-	-	542,185	22,515
Other Contract Labor	243,978	223,370	-	-	467,348	425,964
General Supplies	77,849	376,996	-	-	454,845	613,794
Utilities	132,932	262,948	-	-	395,880	464,101
Food/Non-Food Expenses	-	384,953	-	-	384,953	444,955
Interest Expense	-	319,421	-	-	319,421	582,044
Professional Services	308	256,085	-	-	256,393	195,579
Maintenance and Repair	-	168,191	-	-	168,191	263,630
Insurance and Bonding	16,883	100,304	-	-	117,187	163,272
Miscellaneous Expenses	596,757	84,531	-	(586,035)	95,253	210,526
Educational Service Center	-	86,382	-	-	86,382	58,451
Travel Expenses	9,995	76,196	-	-	86,191	190,804
Legal Services	-	44,836	-	-	44,836	16,524
Accounting Fees	-	27,580	1,571	-	29,151	18,921
Supplies for Maintenance and Repairs	-	27,413	-	-	27,413	27,770
Tuition and Related Expenses	-	22,844	-	-	22,844	3,300
Instructional Materials	69	5,834	-	-	5,903	7,512
<b>TOTAL OPERATING EXPENSES</b>	<u>5,461,015</u>	<u>12,779,021</u>	<u>13,617</u>	<u>(586,035)</u>	<u>17,667,618</u>	<u>17,671,515</u>
<b>CHANGE IN NET ASSETS BEFORE NON-OPERATING ACTIVITY</b>	<u>(780,567)</u>	<u>1,253,657</u>	<u>(13,617)</u>	<u>-</u>	<u>459,473</u>	<u>887,737</u>
<b>NON-OPERATING ACTIVITY</b>						
Insurance Proceeds on Roof Damage	-	97,500	-	-	97,500	-
<b>TOTAL NON-OPERATING ACTIVITY</b>	<u>-</u>	<u>97,500</u>	<u>-</u>	<u>-</u>	<u>97,500</u>	<u>-</u>
<b>CHANGE IN NET ASSETS AFTER NON-OPERATING ACTIVITY</b>	<u>(780,567)</u>	<u>1,351,157</u>	<u>(13,617)</u>	<u>-</u>	<u>556,973</u>	<u>887,737</u>
<b>NET ASSETS, Beginning of Year</b>	<u>3,274,871</u>	<u>12,105,325</u>	<u>307,897</u>	<u>-</u>	<u>15,688,093</u>	<u>14,800,356</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 2,494,304</u>	<u>\$ 13,456,482</u>	<u>\$ 294,280</u>	<u>\$ -</u>	<u>\$ 16,245,066</u>	<u>\$ 15,688,093</u>

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, 2020**

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 Grants to Local Educational Agencies	84.010A	20610101015808	\$ 395,100
Title I Grants to Local Educational Agencies	84.010A	20610103015808	574,896
			<u>969,996</u>
Supporting Effective Instruction State Grants	84.367A	20694501015808	11,451
English Language Acquisition State Grants	84.365A	20671001015950	828
English Language Acquisition State Grants	84.365A	19671001015950	118
			<u>946</u>
Student Support and Academic Enrichment Program	84.424A	20680101015808	25,702
Migrant Education State Grant Program	84.011A	19615001015950	38
Special Education Grants to States	84.027A	206600010158086600	237,718
Special Education Grants to States	84.027A	216600010158086600	3,641
			<u>241,359</u>
<b>Total U.S. Department of Education</b>			<u>1,249,492</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	166,751
National School Lunch Program	10.555	71301801	298,447
USDA Commodities – Noncash Award	10.555	N/A	4,669
Total Child Nutrition Cluster			<u>469,867</u>
<b>Total U.S. Department of Agriculture</b>			<u>469,867</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>1,719,359</u>
<b><u>TEXAS EDUCATION AGENCY</u></b>			
School Safety and Security Grant	N/A	19055301015808	11,650
School Lunch Matching	N/A	030019	2,001
Instructional Materials Allotment	N/A	N/A	40,839
<b>TOTAL EXPENDITURES OF STATE AWARDS</b>			<u>54,490</u>
<b>TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS</b>			<u><u>\$ 1,773,849</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, 2020**

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal and state awards (the Schedule) summarizes the expenditures of Braination, Inc. and its affiliates, Inspire Academies and Educational Resource Center Foundation, under programs of the federal government for the year ended August 31, 2020. 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 Braination, Inc. and its affiliates, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Braination, 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 - Noncash Assistance-Food Donation**

Commodities represent the amount of donated food received during the 2019-2020 fiscal year. Commodities are valued at fair value, as determined at the time of donation at an amount of \$4,669.

**Note 4 - Non-Profit Charter School Chart of Accounts**

For all federal programs, Braination, Inc. and its affiliates used the net asset classes and codes specified by Texas Education Agency (TEA) in the Special Supplement of Financial Accounting and Reporting, Non-Profit Charter School Chart of Accounts. Net assets with donor restrictions codes are used to account for resources restricted or designated for specific purposes by the grantor. Federal and state financial assistance is generally accounted for in net assets with donor restrictions codes.

**Note 5 - Other Disclosures**

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

Braination, Inc. and its affiliates have not elected to use the 10 percent *de minimis* indirect cost rate for the year ended August 31, 2020.

Braination, Inc. and its affiliates did not pass any awards through to subrecipients for the year ended August 31, 2020.

**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 consolidated 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, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 19, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated 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 consolidated 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 consolidated 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' consolidated 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 consolidated 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.

*Randy Walker & Co.*

San Antonio, Texas  
January 19, 2021

**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, 2020. 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, 2020.

### **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.

*Randy Walker & Co.*

San Antonio, Texas  
January 19, 2021

**BRAINATION, INC. AND AFFILIATES**  
**(INSPIRE ACADEMIES AND EDUCATIONAL RESOURCE CENTER FOUNDATION)**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended August 31, 2020**

**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 Grants to Local Educational Agencies	
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, 2020**

**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, 2020**

I. PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

- None -

II. PRIOR YEAR FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

- None -