The Institute for Excellence in Education

Financial Statements

June 30, 2019 and 2018

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Independent Auditors' Report

Management and the Board of Directors
The Institute for Excellence in Education
Mt. Pleasant, Michigan

We have audited the accompanying financial statements of The Institute for Excellence in Education which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Institute for Excellence in Education as of June 30, 2019 and 2018, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, The Institute for Excellence in Education changed its method of accounting for net assets and functional expenses in 2019 as required by the provisions of FASB Accounting Standards Update 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities.* Our opinion is not modified with respect to that matter.

Yeo & Yeo, P.C.

Alma, Michigan
August 21, 2019

The Institute for Excellence in Education
Statement of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash	$ 373,460	$ 431,313
Accounts receivable, net of allowance	941,875	348,570
Accounts receivable - related party		
Central Michigan University	90,910	90,910
The Center for Charter Schools	25,881	14,544
Inventory	66,766	36,562
Prepaid expenses	152,605	68,283
Total current assets	1,651,497	990,182
Property and equipment, net	41,253	41,027
Intangible assets, net	2,151,598	2,059,622
Goodwill, net	548,177	685,221
Total assets	$ 4,392,525	$ 3,776,052
Liabilities and net assets		
Current liabilities		
Accounts payable	$ 336,507	$ 143,604
Note payable, current portion	148,323	141,486
Accrued liabilities	321,307	307,292
Compensated absences	123,221	113,268
Deferred revenue	122,272	85,929
Total current liabilities	1,051,630	791,579
Note payable, net of current portion	294,224	442,224
Total liabilities	1,345,854	1,233,803
Net assets		
Without donor restrictions	3,046,671	2,542,249
Total liabilities and net assets	$ 4,392,525	$ 3,776,052

See Accompanying Notes to the Financial Statements

The Institute for Excellence in Education
Statement of Activities
For the Years Ended June 30, 2019 and 2018

	2019	2018
Operating revenue and other support		
State appropriation - related party		
Central Michigan University	$ 500,000	$ 500,000
Service revenue	6,266,127	4,914,606
Federal grants	208,365	-
Contributions	318,061	356,601
Book revenue, net of cost of goods sold	27,320	3,980
Other revenue	5,848	45,292
Gain on disposal of property and equipment	1,183	-
Total operating revenue and other support	7,326,904	5,820,479
Expenses		
Program service	5,961,654	4,940,823
Management and general	860,828	810,173
Total expenses	6,822,482	5,750,996
Change in net assets	504,422	69,483
Net assets - beginning of period	2,542,249	2,472,766
Net assets - end of period	$ 3,046,671	$ 2,542,249

See Accompanying Notes to the Financial Statements

The Institute for Excellence in Education
Statement of Functional Expenses
For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Program Service	Management and General	Total	Program Service	Management and General	Total
Compensation	$ 3,415,886	$ 369,955	$ 3,785,841	$ 2,855,371	$ 352,678	$ 3,208,049
Benefits	541,215	121,147	662,362	491,138	117,481	608,619
Payroll taxes	208,839	34,050	242,889	187,059	32,636	219,695
Interest	-	25,362	25,362	-	32,774	32,774
Occupancy	94,723	12,309	107,032	87,680	9,097	96,777
Legal	3,696	-	3,696	23,237	12,635	35,872
Accounting	-	14,500	14,500	-	14,500	14,500
Services and fees	226,944	20,933	247,877	117,034	7,553	124,587
Supplies and other	199,282	26,334	225,616	171,228	17,094	188,322
Telephone	22,921	2,978	25,899	23,073	2,394	25,467
Marketing	67,692	8,796	76,488	69,022	7,161	76,183
Travel	445,652	65,109	510,761	334,685	48,562	383,247
Bad debt	18,387	2,389	20,776	-	-	-
Inventory writedowns	1,647	214	1,861	-	-	-
Depreciation and amortization	714,770	156,752	871,522	581,296	155,608	736,904
Total	$ 5,961,654	$ 860,828	$ 6,822,482	$ 4,940,823	$ 810,173	$ 5,750,996

The Institute for Excellence in Education
Statement of Cash Flows
For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	$ 504,422	$ 69,483
Items not requiring cash		
Depreciation and amortization	871,522	736,904
Bad debt expense	20,776	-
Gain on disposal of property and equipment	(1,183)	-
Inventory writedowns	1,861	-
Changes in operating assets and liabilities		
Accounts receivable	(614,081)	265,880
Accounts receivable - related party		
The Center for Charter Schools	(11,337)	1,606
Inventory	(32,065)	(5,340)
Prepaid expenses	(84,322)	41,845
Accounts payable	192,903	(158,799)
Accrued liabilities	14,015	(18,528)
Compensated absences	9,953	14,151
Deferred revenue	36,343	(6,592)
Net cash provided by operating activities	908,807	940,610
Cash flows from investing activities		
Purchases of property and equipment	(25,523)	(2,393)
Proceeds from disposal of property and equipment	2,000	-
Purchases of intangible assets	(801,974)	(749,725)
Net cash used by investing activities	(825,497)	(752,118)
Cash flows from financing activities		
Repayment of note payable	(141,163)	(133,723)
Net change in cash	(57,853)	54,769
Cash - beginning of period	431,313	376,544
Cash - end of period	$ 373,460	$ 431,313
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 25,789	$ 33,229

See Accompanying Notes to the Financial Statements

Note 1 - Summary of Accounting Policies

The Institute for Excellence in Education ("Institute"), is a Michigan nonprofit corporation that has an affiliation with Central Michigan University through shared board governance.

The Institute is dedicated to inspiring hearts and minds and delivering world class programs, tools and services that help people win for kids. The Institute provides coaching, consulting, professional development, training, technical assistance, publications and software services to a variety of educational organizations across the nation.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. 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. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash

The Institute maintains cash at financial institutions, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain amounts. The actual bank balances amounted to $532,945. Of these balances, $32,945 was uninsured by the FDIC.

Accounts Receivable

Accounts receivable are stated at the outstanding principal balance adjusted for any charge-offs and the allowance for doubtful accounts. Management determines the allowance for doubtful accounts based on an evaluation of receivables, past and recent experience, current economic conditions, and other pertinent factors. The allowance for doubtful accounts is increased by the provision charged to operations and reduced by charge-offs. The Institute recorded an allowance of $22,060 and $6,034 for the years ending June 30, 2019 and 2018, respectively.

Inventory

Inventory, which consists of books and other media, is stated at the lower of cost or net realizable value, determined by the first-in, first-out (FIFO) method.

Property and Equipment
Property and equipment is stated at cost when purchased or fair value when donated. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. The Institute's capitalization policy is $1,000. Depreciation is computed using the straight-line method over the related assets' estimated useful lives, which are as follows.

Furniture	7 years
Equipment	3 – 10 years

Intangible Assets
Intangible assets are recorded at the cost to acquire the assets and are amortized over the defined life of the assets once the Institute has received the copyright on the assets. The defined life is between three and forty years.

Goodwill
The Institute purchased Corporate Computer, Inc. on February 29, 2012 for an amount in excess of the fair market value of its assets. This resulted in goodwill being recorded in the amount of $1,370,442. Each year management analyzes goodwill to make sure that it has not been impaired since goodwill is not amortized. Impairment losses, if any, are recorded in the year the impairment is determined. There was no impairment loss for the years ended June 30, 2019 and 2018. Effective July 1, 2013, the Institute has adopted and early implemented Financial Accounting Standards Board *Accounting Standards Update No. 2014-20, Intangibles – Goodwill and Other: Accounting for Goodwill.* As a result, goodwill will be amortized over a life of ten years.

Revenue and Deferred Revenue Recognition
Contributions are recognized as revenue in the period received. Contributions of assets other than cash are recorded at their estimated fair value when received.

Administrative guidelines are recognized generally as resources are expended. 75% of resources are expended on the first draft of the manual, 88% after changes to the first draft have been made and reviewed, with 100% being expended after shipping of the final manual.

For Board Policy Services, 50% of the contract price is received upon execution of the agreement and the remaining 50% is billed after services are completed. Revenue is recognized when the client's board policy manual is entered into a software program and sent electronically to the client.

Income Taxes
The Institute is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and comparable state and local taxes. The organization has been classified as a publicly supported organization that is not a private foundation under Section 509(a) of the Code. The organization files information returns in the U.S. federal jurisdiction.

Functional Expenses
The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

Compensation, benefits, payroll taxes, occupancy, services and fees, supplies and other, telephone, marketing, bad debt and inventory writedowns are allocated based on time and effort.

Concentrations
Central Michigan University passes through $500,000 in annual appropriation from the State of Michigan to the Institute. The Institute continues developing new revenue streams so that the impact of the presence or absence of the appropriation would be minimized; however, if the appropriation were to be eliminated at this time, the impact would be material to the Institute.

The total revenue attributable to services provided to one client for the year ended June 30, 2019 was $442,321. The total revenue attributable to one client for the year ended June 30, 2018 was $462,430. These represented a significant portion of the Institute's total revenue.

Subsequent Events

Management has evaluated subsequent events through August 21, 2019, which is the date the financial statements were available to be issued.

Change in Accounting Principle

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities.* The update addressed the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash	$ 373,460
Accounts receivable, net of allowance	941,875
Accounts receivable - related party	116,791
	$1,432,126

The Organization does not have a policy in place to manage liquidity. Informally, management's goal is to maintain enough liquid assets to cover the following month's expenses. The Organization does have a $750,000 line of credit available to meet cash flow needs.

Note 3 - Property and Equipment

Property and equipment consists of the following:

	2019	2018
Furniture	$ 93,840	$ 93,840
Equipment	115,604	115,998
	209,444	209,838
Less: accumulated depreciation	(168,191)	(168,811)
Property and equipment, net	$ 41,253	$ 41,027

Note 4 - Intangible Assets and Goodwill

Intangible assets consist of the following:

	2019	2018
Board policies & administrative guidelines	$ 151,473	$ 151,473
E-commerce site	-	1,100
CSBU book development	8,035	8,035
CSBU 2nd edition book development	6,149	6,149
The Seven Outs book development	16,171	16,171
Governing for Greatness book development	10,000	-
Virtual Board Policy Web page system	138,074	138,074
Board policies & administrative guidelines improvements	55,431	55,431
Board calendar	23,350	23,350
Websites	29,290	11,290
Epicenter	4,467,411	3,890,611
Board policy program	41,983	34,454
Other developed software and miscellaneous	308,500	305,500
Intangible asset in process	381,855	195,209
	5,637,722	4,836,847
Less accumulated amortization	(3,486,124)	(2,777,225)
Intangible assets, net	$ 2,151,598	$ 2,059,622

Epicenter is a web-based tool for schools, boards, authorizers, service providers, and associations. A 24/7/365 software system, Epicenter positions teams to view and share information, automate workflow and reporting, monitor compliance, make informed decisions, and demonstrate results.

The estimated future amortization expense is as follows:

Year Ending June 30,	
2020	$ 620,625
2021	462,513
2022	359,379
2023	212,771
2024	49,253
Thereafter	447,057
	$ 2,151,598

Goodwill consists of the following:

	2019	2018
Goodwill	$ 1,370,442	$ 1,370,442
Less: accumulated amortization	(822,265)	(685,221)
Goodwill, net	$ 548,177	$ 685,221

The estimated future amortization expense is as follows:

Year Ending June 30,	
2020	$ 137,044
2021	137,044
2022	137,044
2023	137,045
	$ 548,177

Amortization expense is as follows:

	2019	2018
Intangible assets	$ 709,998	$ 576,600
Goodwill	137,044	137,044
Total amortization expense	$ 847,042	$ 713,644

Note 5 - Line of Credit

On October 5, 2017, the Institute executed an agreement with the bank which provided for secured borrowings of up to $750,000 through October 5, 2018, upon which the agreement was renewed for another year, expiring October 5, 2019. The line of credit is secured by all assets of the Institute. The line of credit has an interest rate of 5.50%. For the years ended June 30, 2019 and 2018, the outstanding balance was $0.

Note 6 - Note Payable

On February 29, 2012, the Institute borrowed $1,280,000 to finance the purchase of Corporate Computer, Inc. The note is secured by all assets of the Institute. The agreement was amended on November 17, 2014 to change the interest rate to 5% and the monthly payment amount to $13,913. The maturity date is April 5, 2022.

The principal due each year is as follows:

Year Ending June 30,	
2020	$ 148,323
2021	155,958
2022	138,266
	$ 442,547

Amounts shown in the statement of financial position are as follows:

	2019	2018
Note payable, current portion	$ 148,323	$ 141,486
Note payable, net of current portion	294,224	442,224
	$ 442,547	$ 583,710

Note 7 - Leases

The Institute entered into a lease for office space for the period of August 1, 2012 to June 30, 2017, whereby rent for the period covered under the sublease agreement would be $266,460. Rental expense was $107,032 and $96,777 for the years ended June 30, 2019 and 2018, respectively. This agreement was renewed for another five years, beginning July 1, 2017, whereby rent for the period covered under the new lease agreement would be $512,080. Future lease payments are as follows:

Year Ending June 30,	
2020	$ 102,416
2021	102,416
2022	102,416
	$ 307,248

Note 8 - Compensated Absences

Employees may accrue a maximum of 30 days (240 hours) of vacation leave. Unused vacation time may be carried forward to the next fiscal year. Employees terminating employment for any reason who have given at least two weeks' notice, are entitled to payment for all accrued, unused vacation time, calculated on a pro rata basis not to exceed a maximum of 20 days (160 hours). The liability for compensated absences at June 30, 2019 and 2018 was $123,221 and $113,268, respectively.

Note 9 - Retirement Plan

The Institute maintains a deferred compensation plan qualified under Section 403(b) of the Internal Revenue Code. Under this plan, employees are permitted to contribute a percentage of gross compensation into the retirement plan up to a maximum determined by the Internal Revenue Code. The Institute contributes ten percent of compensation for eligible employees. Contributions to this plan were $255,632 and $236,207 for the years ended June 30, 2019 and 2018, respectively.

Note 10 - Related Party Transactions

CMU passed through State appropriations in the amount of $500,000 for the years ended June 30, 2019 and 2018. The outstanding receivable was $90,910 at June 30, 2019 and 2018.

The Institute provides services to The Center for Charter Schools at CMU (The Center). Services to The Center totaled $366,596 and $207,635 for the years ended June 30, 2019 and 2018, respectively. The outstanding receivable was $25,881 and $14,544 at June 30, 2019 and 2018, respectively.