The Institute for Excellence in Education

Financial Statements

June 30, 2017 and 2016

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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, 2017 and 2016, and the related statements of activities, 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, 2017 and 2016, 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.

Yeo & Yeo, P.C.

Alma, Michigan
August 16, 2017

The Institute for Excellence in Education

Statement of Financial Position

June 30, 2017 and 2016

	2017	2016
Assets		
Current assets		
Cash	**$ 376,544**	$ 312,611
Accounts receivable, net of allowance	**614,450**	869,738
Accounts receivable - related party		
Central Michigan University	**90,910**	90,910
The Center for Charter Schools	**16,150**	22,950
Inventory	**31,222**	16,598
Prepaid expenses	**110,128**	94,529
Total current assets	**1,239,404**	1,407,336
Property and equipment, net	**61,894**	75,544
Intangible assets, net	**1,886,497**	1,806,185
Goodwill, net	**822,265**	959,309
Total assets	**$ 4,010,060**	$ 4,248,374

See Accompanying Notes to the Financial Statements

The Institute for Excellence in Education
Statement of Financial Position
June 30, 2017 and 2016

		2017		2016
Liabilities and net assets				
Current liabilities				
Accounts payable	**$**	**302,403**	$	201,877
Note payable, current portion		**133,861**		127,740
Accrued liabilities		**325,820**		280,071
Compensated absences		**99,117**		77,376
Deferred revenue		**92,521**		123,439
Total current liabilities		**953,722**		810,503
Note payable, net of current portion		**583,572**		716,177
Total liabilities		**1,537,294**		1,526,680
Net assets				
Unrestricted		**2,472,766**		2,721,694
Total liabilities and net assets	**$**	**4,010,060**	$	4,248,374

See Accompanying Notes to the Financial Statements

The Institute for Excellence in Education
Statement of Activities
For the Years Ended June 30, 2017 and 2016

	2017	2016
Operating revenue and other support		
State appropriation - related party		
Central Michigan University	**$ 500,000**	$ 500,000
Service revenue	**5,248,242**	5,515,218
Contributions	**303,551**	354,600
Book revenue, net of cost of goods sold	**4,424**	4,110
Other revenue	**6,341**	2,149
Total operating revenue and other support	**6,062,558**	6,376,077
Expenses		
Compensation	**3,735,028**	3,503,614
Benefits	**589,546**	485,862
Interest	**39,893**	47,678
Occupancy	**93,140**	90,341
Services and fees	**216,459**	139,646
Supplies and other	**206,736**	218,231
Telephone	**23,630**	29,905
Marketing	**95,300**	54,191
Travel	**549,164**	507,291
Bad debt	**-**	4,550
Loss on disposal of property and equipment	**3,521**	9,738
Total expenses before depreciation and amortization	**5,552,417**	5,091,047
Change in net assets from operations before depreciation and amortization	**510,141**	1,285,030
Depreciation	**23,549**	24,395
Amortization	**735,520**	620,663
Change in net assets	**(248,928)**	639,972
Unrestricted net assets - beginning of period	**2,721,694**	2,081,722
Unrestricted net assets - end of period	**$ 2,472,766**	$ 2,721,694

See Accompanying Notes to the Financial Statements

The Institute for Excellence in Education
Statement of Cash Flows
For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	**$ (248,928)**	$ 639,972
Items not requiring cash		
Depreciation and amortization	**759,069**	645,058
Change in allowance for doubtful accounts receivable	**-**	11,060
Bad debt expense	**-**	4,550
Loss on disposal of property and equipment	**3,521**	9,738
Changes in operating assets and liabilities		
Accounts receivable	**255,288**	(107,999)
Accounts receivable - related party		
The Center for Charter Schools	**6,800**	23,600
Inventory	**(14,624)**	(13,895)
Prepaid expenses	**(15,599)**	(33,741)
Accounts payable	**100,526**	(33,620)
Accrued liabilities	**45,749**	(207,536)
Compensated absences	**21,741**	1,029
Deferred revenue	**(30,918)**	104,721
Net cash provided by operating activities	**882,625**	1,042,937

The Institute for Excellence in Education
Statement of Cash Flows
For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from investing activities		
Purchases of property and equipment	**$ (14,904)**	$ (32,107)
Proceeds from sale of property and equipment	**1,484**	-
Purchases of intangible assets	**(678,788)**	(405,041)
Net cash used by investing activities	**(692,208)**	(437,148)
Cash flows from financing activities		
Net repayments on line of credit	**-**	(189,000)
Repayment of note payable	**(126,484)**	(120,690)
Net cash used by financing activities	**(126,484)**	(309,690)
Net change in cash	**63,933**	296,099
Cash - beginning of period	**312,611**	16,512
Cash - end of period	**$ 376,544**	$ 312,611
Supplemental disclosure of cash flow information		
Cash paid for interest	**$ 40,469**	$ 47,964

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 and Presentation

The Institute reports information regarding its financial position and activities according to two classes of net assets: unrestricted net assets and temporarily restricted net assets. The net assets of the Institute have been classified into the following categories:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the Institute and/or the passage of time. There were no temporarily restricted net assets at June 30, 2017 and 2016.

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 $537,767. Of these balances, $37,767 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 for each of the years ending June 30, 2017 and 2016.

Inventory

Inventory, which consists of books and other media, is stated at the lower of cost or market, 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, 2017 and 2016. 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

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time analysis performed by management. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Institute.

Management estimates the percentage of expenses related to programs services, and management and general are as follows:

	2017	2016
Programs services	88%	86%
Management and general	12%	14%

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 two clients for the year ended June 30, 2017 was $1,477,914. The total revenue attributable to one client for the year ended June 30, 2016 was $945,544. These represented a significant portion of the Institute's total revenue.

Subsequent Events

Management has evaluated subsequent events through August 16, 2017, which is the date the financial statements were available to be issued.

Note 2 - Property and Equipment

Property and equipment consists of the following:

	2017	2016
Furniture	$ 95,090	$ 95,090
Equipment	113,604	161,221
	208,694	256,311
Less: accumulated depreciation	(146,800)	(180,767)
Property and equipment, net	$ 61,894	$ 75,544

Note 3 - Intangible Assets and Goodwill

Intangible assets consist of the following:

	2017	2016
Board policies & administrative guidelines	$ 151,473	$ 151,473
E-commerce site	1,100	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
Virtual Board Policy Web page system	138,074	138,074
Board policies & administrative guidelines improvements	55,431	55,431
Basso website development	-	33,000
Board calendar	23,350	23,350
Websites	6,580	6,580
Epicenter	3,240,850	2,562,866
Board policy program	34,454	34,454
Other developed software and miscellaneous	305,500	310,794
Intangible asset in process	103,247	102,444
	4,090,414	3,449,921
Less accumulated amortization	(2,203,917)	(1,643,736)
Intangible assets, net	$ 1,886,497	$ 1,806,185

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,	
2018	$ 533,280
2019	499,913
2020	360,203
2021	202,091
2022	102,208
Thereafter	188,802
	$ 1,886,497

Goodwill consists of the following:

	2017	2016
Goodwill	$ 1,370,442	$ 1,370,442
Less: accumulated amortization	(548,177)	(411,133)
Goodwill, net	$ 822,265	$ 959,309

The estimated future amortization expense is as follows:

Year Ending June 30,	
2018	$ 137,044
2019	137,044
2020	137,044
2021	137,044
2022	137,044
Thereafter	137,045
	$ 822,265

Amortization expense is as follows:

	2017	2016
Intangible assets	$ 598,476	$ 483,618
Goodwill	137,044	137,045
Total amortization expense	$ 735,520	$ 620,663

Note 4 - Line of Credit

On October 5, 2015, the Institute executed an agreement with the bank which provided for secured borrowings of up to $750,000 through October 5, 2016, upon which the agreement was renewed for another year, expiring October 5, 2017. The line of credit is secured by all assets of the Institute. The line of credit has an interest rate of 4.75%. The Institute did not make any draws on the line of credit for the years ended June 30, 2017 and 2016.

Note 5 - 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,	
2018	$ 133,861
2019	141,146
2020	148,367
2021	155,958
2022	138,101
	$ 717,433

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

	2017	2016
Note payable, current portion	$ 133,861	$ 127,740
Note payable, net of current portion	583,572	716,177
	$ 717,433	$ 843,917

Note 6 - 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 $93,140 and $90,341 for the years ended June 30, 2017 and 2016, 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,	
2018	$ 102,416
2019	102,416
2020	102,416
2021	102,416
2022	102,416
	$ 512,080

Note 7 - 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, 2017 and 2016 was $99,117 and $77,376, respectively.

Note 8 - 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 $241,721 and $216,081 for the years ended June 30, 2017 and 2016, respectively.

Note 9 - Related Party Transactions

CMU passed through State appropriations in the amount of $500,000 for the years ended June 30, 2017 and 2016. The outstanding receivable was $90,910 at June 30, 2017 and 2016.

The Institute provides services to The Center for Charter Schools at CMU (The Center). Services to The Center totaled $215,050 and $189,910 for the years ended June 30, 2017 and 2016, respectively. The outstanding receivable was $16,150 and $22,950 at June 30, 2017 and 2016, respectively.