Illinois Network of Charter Schools

Financial Report
December 31, 2016

Contents

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Independent Auditor's Report

To the Board of Directors
Illinois Network of Charter Schools

Report on the Financial Statements

We have audited the accompanying financial statements of Illinois Network of Charter Schools (the "Organization"), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Illinois Network of Charter Schools as of December 31, 2016, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Illinois Network of Charter Schools

Report on Summarized Comparative Information

We have previously audited Illinois Network of Charter Schools' 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 20, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Plante & Moran, PLLC

June 8, 2017

Statement of Financial Position

	December 31, 2016	December 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	$ 4,740,621	$ 4,373,285
Contributions and other receivables	340,486	998,632
Prepaid expenses and other current assets:		
Prepaid expenses	17,654	11,039
Deposits	2,203	2,203
Total current assets	5,100,964	5,385,159
Property and Equipment - Net (Note 2)	113,350	158,079
Total assets	**$ 5,214,314**	**$ 5,543,238**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 108,446	$ 70,256
Accrued liabilities and other	27,359	113,348
Total current liabilities	135,805	183,604
Deferred Rent	42,167	43,125
Net Assets		
Unrestricted:		
Undesignated	4,029,494	4,144,305
Board designated	900,000	900,000
Temporarily restricted (Note 4)	106,848	272,204
Total net assets	5,036,342	5,316,509
Total liabilities and net assets	**$ 5,214,314**	**$ 5,543,238**

Illinois Network of Charter Schools

Statement of Activities and Changes in Net Assets
Year Ended December 31, 2016
(with comparative totals for year ended December 31, 2015)

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Total
Changes in Unrestricted Net Assets				
Revenue, gains, and other support:				
Contributions	$ 324,165	$ -	$ 324,165	$ 458,256
Foundation contributions	755,000	143,670	898,670	1,550,000
Government grants	726,816	-	726,816	480,375
Membership dues	264,409	-	264,409	433,001
Program fees	293,800	-	293,800	302,970
Investment income	6,320	-	6,320	6,381
Other	474	-	474	16,222
Net assets released from restrictions	309,026	(309,026)	-	-
Total revenue, gains, and other support	2,680,010	(165,356)	2,514,654	3,247,205
Expenses:				
Program services	2,275,723	-	2,275,723	2,243,743
Management and general	342,658	-	342,658	357,276
Fundraising	176,440	-	176,440	202,742
Total expenses	2,794,821	-	2,794,821	2,803,761
(Decrease) Increase in Net Assets	(114,811)	(165,356)	(280,167)	443,444
Net Assets - Beginning of year	5,044,305	272,204	5,316,509	4,873,065
Net Assets - End of year	**$ 4,929,494**	**$ 106,848**	**$ 5,036,342**	**$ 5,316,509**

Statement of Cash Flows
Year Ended December 31, 2016
(with comparative totals for year ended December 31, 2015)

	Year Ended December 31, 2016	Year Ended December 31, 2015
Cash Flows from Operating Activities		
(Decrease) Increase in net assets	$ (280,167)	$ 443,444
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation expense	59,639	56,728
Changes in operating assets and liabilities which provided (used) cash:		
Contributions and other receivables	658,146	(599,530)
Prepaid expenses and other current assets	(6,615)	5,502
Deposits	-	9,192
Accounts payable	42,409	70,256
Accrued liabilities and other	(90,208)	98,576
Deferred rent	(958)	19,166
Net cash provided by operating activities	382,246	103,334
Cash Flows from Investing Activities - Cash used for purchase of property and equipment	(14,910)	(3,514)
Net Increase in Cash and Cash Equivalents	367,336	99,820
Cash and Cash Equivalents - Beginning of year	4,373,285	4,273,465
Cash and Cash Equivalents - End of year	**$ 4,740,621**	**$ 4,373,285**

Note 1 - Nature of Business and Significant Accounting Policies

Illinois Network of Charter Schools (the "Organization") operates as an Illinois not-for-profit and membership organization. The Organization's chartered objectives are to improve educational outcomes for Illinois students by promoting and invigorating the charter school concept and by translating the collective expertise and strength of high-quality charter schools into individual charter school solutions. The Organization's main source of revenue is federal grants and contributions from foundations and individuals.

Cash and Cash Equivalents - Cash and cash equivalents consist of cash on hand and all highly liquid investments purchased with an original maturity of three months or less. The Organization maintains cash and cash equivalents in bank deposit accounts, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Tax Status - The Organization is a not-for-profit corporation and has been granted tax-exempt status by the Internal Revenue Service under the provisions of Code Section 501(c)(3). Net income from activities unrelated to the Organization's tax-exempt purpose is subject to taxation. Taxes on unrelated business income are not material to the financial statements.

Management has analyzed the tax positions taken by the Organization and has concluded that as of December 31, 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

Revenue, Gains, and Other Support - Membership dues revenue is recognized when received. Education and other programs are recognized as revenue in the period in which such programs occur. Government grants are recognized when the expenditures have been incurred in compliance with the grantor's restrictions.

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

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Contributions received are recorded as unrestricted or temporarily restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily restricted net assets. When the restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restriction.

Property and Equipment - Property and equipment are recorded at cost and depreciated over estimated useful lives using the straight-line method. All acquisitions of property and equipment in excess of $5,000 are capitalized. Costs of repairs and maintenance are charged to expense as incurred.

Classification of Net Assets - Net assets of the Organization are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Organization's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Unrestricted net assets also include board-designated net assets. Board-designated net assets are unrestricted net assets designated by the board for its future discretional use. These designations are based on board actions, which can be altered or revoked at a future time by the board.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

The Organization currently has no permanently restricted net assets.

Summarized Comparative Information for the Year Ended December 31, 2015 - The financial information presented for comparative purposes for the year ended December 31, 2015 is not intended to be a complete financial statement presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements from which the summarized information was derived.

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

Volunteer Services - A number of volunteers have donated significant amounts of their time in the Organization's program service. These volunteer services are not recordable under accounting principles generally accepted in the United States of America. The value of the volunteer services is not disclosed as no objective basis is available to measure the value of such services.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including June 8, 2017, which is the date the financial statements were available to be issued.

Functional Allocation of Expenses - The costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Contributions Receivable - The contributions receivable at December 31, 2016 are expected to be collected within one year. The Organization has not recorded a provision for doubtful accounts since it is the opinion of management that the receivable is collectible in full. The contributions receivable for the year ended December 31, 2016 amounted to $217,774.

Note 2 - Property and Equipment

The cost of property and equipment is summarized as follows:

	Amount	Depreciable Life - Years
Furniture and fixtures	$ 92,773	3-5
Computer equipment and software	113,053	3-5
Leasehold improvements	41,625	7
Total cost	247,451	
Less accumulated depreciation	(134,101)	
Net carrying amount	$ 113,350	

Depreciation expense was $59,639 for 2016.

Note 3 - Operating Lease

The Organization is obligated under certain operating leases, primarily for facilities and office equipment.

In May 2014, the Organization entered into a lease for new office space at 150 N. Michigan Ave., Chicago, Illinois, commencing on September 1, 2014 and expiring on August 31, 2021. As of part of the lease, the Organization entered into a letter of credit in the amount of $80,000 with Northern Trust as the security deposit to the lessor. The Organization received rent abatement for the new lease valued at approximately $40,250. Rent expense is required to be recognized ratably over the lease term. Deferred rent represents the cumulative amount by which rent expense recognized exceeds rent paid.

The following is a schedule of future minimum rental payments under the operating leases:

Years Ending December 31		Amount
2017		$ 84,240
2018		83,560
2019		81,458
2020		84,333
2021		57,500
	Total	$ 391,091

Total rent expense under all operating leases was $160,920 for the year ended December 31, 2016.

Note 4 - Restrictions on Net Assets

Temporarily restricted net assets are purpose restricted and are comprised as follows:

Advocacy and policy	$ 72,713
Charter growth	34,135
Total	$ 106,848

Note 5 - Retirement Plan

The Organization sponsors a 403(b) tax-deferred annuity plan to any employee wishing to participate, wherein employees make elective deferrals from their wages. Employee contributions are subject to limitations imposed by IRC Section 415 and fully vest immediately. The plan allows for employer contributions of 5 percent of an employee's annual salary. Accumulated contributions and earnings may be withdrawn when participants reach age 59½, terminate employment, die, or become disabled. Contributions to the plan totaled $68,922.

Note 6 - New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Organization's year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The Organization is currently evaluating the impact this standard will have on the financial statements.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for annual reporting periods beginning after December 31, 2019. The ASU permits the new revenue recognition guidance to be applied using one of two retrospective application methods. The Organization has determined that the standard will not have a significant impact on the financial statements. The Organization is currently gathering the appropriate information to implement these disclosure changes in a timely manner.

Note 6 - New Accounting Pronouncements (Continued)

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending December 31, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The Organization has determined that the standard will not have a significant impact on the financial statements. The Organization is currently gathering the appropriate information to implement these disclosure changes in a timely manner.