Illinois Network of Charter Schools

Financial Report
December 31, 2019

Contents

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Independent Auditor's Report

To the Board of Directors
Illinois Network of Charter Schools

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, 2019 and 2018 and the related statements of activities and changes in net assets, 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.

Auditor's 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Illinois Network of Charter Schools as of December 31, 2019 and 2018 and the changes in its net assets, its functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note 2 to the financial statements, the COVID-19 pandemic has impacted business operations. Our opinion is not modified with respect to this matter.

To the Board of Directors
Illinois Network of Charter Schools

Also as described in Note 2 to the financial statements, the Organization adopted the provisions of Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, as of January 1, 2019. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

January 3, 2022

Statement of Financial Position

December 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash	$ 4,663,783	$ 2,960,113
Contributions and other receivables	239,248	450,652
Prepaid expenses and other current assets	31,038	35,703
Total current assets	4,934,069	3,446,468
Other Assets		
Certificates of deposit	2,065,814	3,018,928
Deposits	40,000	40,000
Total other assets	2,105,814	3,058,928
Property and Equipment - Net (Note 3)	30,765	60,112
Total assets	**$ 7,070,648**	**$ 6,565,508**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 87,020	$ 56,860
Deferred revenue	124,106	84,477
Accrued liabilities and other	29,710	44,054
Total current liabilities	240,836	185,391
Deferred Rent	22,042	31,625
Total liabilities	262,878	217,016
Net Assets		
Without donor restrictions:		
Undesignated	5,890,473	5,410,641
Board designated	900,000	900,000
Total without donor restrictions	6,790,473	6,310,641
With donor restrictions (Note 5)	17,297	37,851
Total net assets	6,807,770	6,348,492
Total liabilities and net assets	**$ 7,070,648**	**$ 6,565,508**

See notes to financial statements.

Statement of Activities and Changes in Net Assets

Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Program fees	$ 194,199	$ -	$ 194,199	$ 247,885	$ -	$ 247,885
Contributions	594,484	-	594,484	730,707	-	730,707
Foundation contributions	1,370,500	25,000	1,395,500	1,290,500	75,000	1,365,500
Government grants	-	-	-	318,248	-	318,248
Membership dues	514,469	-	514,469	325,895	-	325,895
Investment income	129,522	-	129,522	32,710	-	32,710
Other	8,025	-	8,025	-	-	-
Net assets released from restrictions	45,554	(45,554)	-	105,891	(105,891)	-
Total revenue, gains, and other support	2,856,753	(20,554)	2,836,199	3,051,836	(30,891)	3,020,945
Expenses						
Program services	1,843,772	-	1,843,772	1,912,284	-	1,912,284
Support services:						
Management and general	290,720	-	290,720	374,442	-	374,442
Fundraising	242,429	-	242,429	218,817	-	218,817
Total support services	533,149	-	533,149	593,259	-	593,259
Total expenses	2,376,921	-	2,376,921	2,505,543	-	2,505,543
Increase (Decrease) in Net Assets	479,832	(20,554)	459,278	546,293	(30,891)	515,402
Net Assets - Beginning of year	6,310,641	37,851	6,348,492	5,764,348	68,742	5,833,090
Net Assets - End of year	**$ 6,790,473**	**$ 17,297**	**$ 6,807,770**	**$ 6,310,641**	**$ 37,851**	**$ 6,348,492**

See notes to financial statements.

Statement of Functional Expenses

Year Ended December 31, 2019

	Program Services				Support Services			
	Charter Growth	Charter Support	Charter Advocacy	Total	Management and General	Fundraising	Total	Total
Personnel	$ 181,070	$ 585,485	$ 346,501	$ 1,113,056	$ 160,315	$ 196,593	$ 356,908	$ 1,469,964
Awards and sponsorships	-	39,500	22,450	61,950	15,703	-	15,703	77,653
Meetings and events	4,193	64,578	127,820	196,591	12,382	10,100	22,482	219,073
Professional services	-	-	-	-	37,427	-	37,427	37,427
Consulting expenses	1,925	86,756	81,819	170,500	5,146	3,787	8,933	179,433
Office expenses	3,196	18,641	44,255	66,092	14,840	7,563	22,403	88,495
Charter school advocacy	482	4,816	68,617	73,915	-	-	-	73,915
Occupancy	10,730	59,948	69,045	139,723	39,519	21,110	60,629	200,352
Depreciation	1,665	9,303	10,714	21,682	4,452	3,276	7,728	29,410
Miscellaneous	-	263	-	263	936	-	936	1,199
Total functional expenses	**$ 203,261**	**$ 869,290**	**$ 771,221**	**$ 1,843,772**	**$ 290,720**	**$ 242,429**	**$ 533,149**	**$ 2,376,921**

Statement of Functional Expenses

Year Ended December 31, 2018

	Program Services				Support Services			
	Charter Growth	Charter Support	Charter Advocacy	Total	Management and General	Fundraising	Total	Total
Personnel	$ 130,615	$ 492,170	$ 597,027	$ 1,219,812	$ 213,530	$ 177,707	$ 391,237	$ 1,611,049
Awards and sponsorships	-	35,500	12,450	47,950	10,500	-	10,500	58,450
Meetings and events	4,470	190,056	111,361	305,887	17,211	7,633	24,844	330,731
Professional services	-	-	-	-	70,407	-	70,407	70,407
Consulting expenses	2,755	107,867	32,675	143,297	5,783	7,642	13,425	156,722
Office expenses	2,690	17,770	38,962	59,422	29,308	8,240	37,548	96,970
Charter school advocacy	793	6,371	7,737	14,901	-	-	-	14,901
Occupancy	7,984	41,749	49,116	98,849	21,427	14,393	35,820	134,669
Depreciation	1,776	9,288	10,927	21,991	4,766	3,202	7,968	29,959
Miscellaneous	-	175	-	175	1,510	-	1,510	1,685
Total functional expenses	**$ 151,083**	**$ 900,946**	**$ 860,255**	**$ 1,912,284**	**$ 374,442**	**$ 218,817**	**$ 593,259**	**$ 2,505,543**

See notes to financial statements.

Statement of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Increase in net assets	$ 459,278	$ 515,402
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	29,410	29,959
Interest received on certificates of deposit	(71,064)	(18,825)
Changes in operating assets and liabilities that provided (used) cash:		
Contributions and other receivables	211,404	56,774
Prepaid expenses and other current assets	4,665	28,374
Deposits	-	(40,000)
Accounts payable	30,160	(81,860)
Accrued liabilities and others	(14,344)	17,274
Deferred revenue	(9,583)	(54,326)
Deferred rent	39,629	(6,708)
Net cash provided by operating activities	679,555	446,064
Cash Flows from Investing Activities		
Purchase of property and equipment	(63)	(19,469)
Proceeds from maturity of certificates of deposit	1,024,178	-
Purchases of certificates of deposit	-	(3,000,103)
Net cash provided by (used in) investing activities	1,024,115	(3,019,572)
Net Increase (Decrease) in Cash	1,703,670	(2,573,508)
Cash - Beginning of year	2,960,113	5,533,621
Cash - End of year	**$ 4,663,783**	**$ 2,960,113**
Supplemental Cash Flow Information - Purchase of property and equipment in accounts payable	$ -	$ 9,870

Note 1 - Nature of Business

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.

Note 2 - Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and all highly liquid investments with an original maturity of three months or less when purchased. The Organization maintains cash and cash equivalents in bank deposit accounts that 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.

Certificates of Deposit

Certificates of deposit held in a financial institution are carried at cost plus accrued interest and have a maturity date of one year or longer. All certificates of deposit have balances greater than federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

Revenue, Gains, and Other Support

Membership dues revenue is recognized when received. Education and other program revenue is recognized 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.

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received and measured at fair value. Conditional contributions are not recognized until the conditions on which they depend are substantially met. Contributions received are recorded as support without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in net assets with donor restrictions. When the restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Deferred Revenue

Conditional contributions received in advance of the conditions being met are deferred and recognized as income, as stipulated in the agreements. Deferred revenue, including cash received in advance for other program work, amounted to $124,106 and $84,477 as of December 31, 2019 and 2018, respectively.

Note 2 - Significant Accounting Policies (Continued)

Contributions and Other Receivables

Contributions receivable 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. Contributions receivable are included with contributions and other receivables on the statement of financial position and totaled $142,373 and $60,398 as of December 31, 2019 and 2018, respectively.

Concentrations

The Organization receives a significant portion of its revenue and support from one private foundation. During the years ended December 31, 2019 and 2018, contributions from this private foundation amounted to 44 and 41 percent of total revenue and support, respectively. Loss of future grants from this contributor could affect the ability of the Organization to support its programs.

In addition, the Organization received significant support from one government grant. The Organization had a four-year grant from the United States Department of Education that expired in March 2018. During the year ended December 31, 2018, this grant amounted to 11 percent of total revenue and support.

Classification of Net Assets

Net assets of the Organization are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Organization. Board-designated net assets are net assets without donor restrictions 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.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Property and Equipment

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

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.

Note 2 - Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing the program and support services have been reported on a natural basis in the statement of activities and changes in net assets and on a functional basis in the statement of functional expenses. Costs are charged to program services and support services on an actual basis when available. In addition, certain costs have been allocated among the program and support services functions based on time tracking of personnel. Allocations are based on each function's approximate personnel headcount as a percentage of the total personnel headcount calculated by the Organization since no one employee is fully dedicated to one specific function. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including January 3, 2022, which is the date the financial statements were available to be issued.

Impact of Disease Outbreak

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. As a result of the COVID-19 outbreak, there was no significant impact on the Organization's operations. While the Organization canceled in-person fundraising events in 2021 and 2020 and transitioned all employees to a virtual working environment until early 2021, the Organization has experienced corresponding reductions in costs related to events and travel as a result of restrictions.

No impairments were recorded as of the statement of financial position date, as no triggering events or changes in circumstances had occurred as of year end; however, due to uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while the Organization’s results of operations, cash flows, and financial condition were not negatively impacted, the extent of any future impact cannot be reasonably estimated at this time. The Organization continues to monitor the situation.

In April 2020, the Organization received a Paycheck Protection Program (PPP) loan in the amount of $311,400. The PPP loan program was created under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and is administered by the Small Business Administration (SBA). Under the terms of this program, the loan may be fully or partially forgiven if the loan proceeds are spent on qualifying expenses and if staffing level and salary maintenance requirements are met. The Organization may use the funds on qualifying expenses over a covered period of up to 24 weeks. Any balance that is not forgiven by the SBA will be repaid over a period of two years, with interest accruing at 1 percent and monthly payments of principal and interest beginning 10 months after the conclusion of the covered period. Based on the loan amount, irrespective of any potential forgiveness that may be granted in the future, monthly principal payments would be approximately $17,000 during the repayment period. In November 2021, the Organization received full forgiveness of the PPP loan amount.

Adoption of New Accounting Principle

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The Organization adopted the new standard on a modified prospective basis. There was no impact on the financial statements as of December 31, 2019 and 2018 from the adoption of this ASU.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In May 2014, the FASB issued 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. Under an effective date deferral option issued by the FASB in 2020, the new guidance will be effective for the Organization's year ending December 31, 2020. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The Organization has not yet determined which application method it will use, although it is not expected to have a significant impact on the Organization's timing of revenue recognition.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-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, 2022 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Organization’s financial statements as a result of the Organization's operating leases, as disclosed in Note 4, that will be reported on the statement of financial position at adoption. Upon adoption, the Organization will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

Note 3 - Property and Equipment

Property and equipment are summarized as follows:

	2019	2018	Depreciable Life - Years
Furniture and fixtures	$ 92,773	$ 92,773	3-5
Computer equipment and software	142,455	113,053	3-5
Leasehold improvements	41,625	41,625	5-20
Work in progress	-	29,340	-
Total cost	276,853	276,791	
Accumulated depreciation	246,088	216,679	
Net property and equipment	$ 30,765	$ 60,112	

Work in progress as of December 31, 2018 represented redevelopment of the Organization's website, which was placed in service and reclassified to computer equipment and software in April 2019.

Depreciation expense for 2019 and 2018 was $29,410 and $29,959, respectively.

Note 4 - 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 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. In 2018, the Organization canceled the letter of credit and paid a security deposit of $40,000 directly 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. In June 2021, the lease was amended to extend the term to August 31, 2029.

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Amount
2020	$ 93,321
2021	66,488
2022	92,305
2023	93,740
2024	105,692
Thereafter	569,437
Total	$ 1,020,983

Total rent expense under all operating leases was $187,159 and $122,630 for the years ended December 31, 2019 and 2018, respectively.

Note 5 - Net Assets

Net assets with donor restrictions as of December 31 are available for the following purposes:

	2019	2018
Subject to expenditures for a specified purpose:		
Charter growth	$ -	$ 6,755
Business services program	12,297	21,096
Total subject to expenditures for a specified purpose	12,297	27,851
Subject to the passage of time	5,000	10,000
Total	$ 17,297	$ 37,851

Note 6 - 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 59½ years of age, terminate employment, die, or become disabled. Contributions to the plan totaled $72,518 and $75,334 for the years ended December 31, 2019 and 2018, respectively.

Note 7 - Related Party Transactions

The following is a description of transactions between the Organization and related parties:

Accounts Receivable

At December 31, 2019 and 2018, the Organization had accounts receivable from an independent affiliated 501(c)(4) social welfare organization, which has shared board members with the Organization, totaling $87,746 and $355,064, respectively.

Contributions

For the years ended December 31, 2019 and 2018, the Organization received contributions from board members totaling $57,000 and $23,000, respectively. Contributions from board members amounted to approximately 2 and 1 percent of total revenue for 2019 and 2018, respectively.

Shared Personnel and Other Costs

For the years ended December 31, 2019 and 2018, the Organization incurred personnel expenses and other overhead costs related to work performed for an independent affiliated 501(c)(4) social welfare organization of $537,746 and $530,064, respectively.

Note 8 - Liquidity

The Organization's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	2019	2018
Cash	$ 4,663,783	$ 2,960,113
Contribution and other receivables	239,248	450,652
Certificates of deposit	2,065,814	3,018,928
Total	$ 6,968,845	$ 6,429,693

None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

Contributions receivable amounting to $5,000 are subject to implied time restrictions, but the total amount reported above is expected to be collected within one year.

The Organization has a goal to maintain financial assets on hand to meet six months of normal operating expenses, which are, on average, approximately $1,220,000 at December 31, 2019 and 2018. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of current operating requirements in money market accounts.

The Organization also realizes there could be unanticipated liquidity needs.