Illinois Network of Charter Schools

Financial Report
December 31, 2017

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, 2017 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 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 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, 2017 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Illinois Network of Charter Schools' 2016 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 8, 2017. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

To the Board of Directors
Illinois Network of Charter Schools

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2018 on our consideration of Illinois Network of Charter Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Illinois Network of Charter Schools' internal control over financial reporting and compliance.

Plante & Moran, PLLC

September 18, 2018

Statement of Financial Position

December 31, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	$ 5,533,621	$ 4,740,621
Contributions and other receivables	507,426	340,486
Prepaid expenses and other current assets:		
Prepaid expenses	64,077	17,654
Deposits	-	2,203
Total current assets	6,105,124	5,100,964
Property and Equipment - Net (Note 3)	60,732	113,350
Total assets	**$ 6,165,856**	**$ 5,214,314**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 128,850	$ 108,446
Accrued liabilities and other:		
Accrued compensation	26,765	17,342
Other accrued liabilities	15	5,798
Total accrued liabilities and other	26,780	23,140
Deferred revenue	138,803	4,219
Total current liabilities	294,433	135,805
Deferred Rent	38,333	42,167
Net Assets		
Unrestricted:		
Undesignated	4,864,348	4,029,494
Board designated	900,000	900,000
Total unrestricted	5,764,348	4,929,494
Temporarily restricted (Note 5)	68,742	106,848
Total net assets	5,833,090	5,036,342
Total liabilities and net assets	**$ 6,165,856**	**$ 5,214,314**

See notes to financial statements.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2017

(with comparative totals for the Year Ended December 31, 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
Revenue, Gains, and Other Support				
Contributions	$ 872,152	$ 25,000	$ 897,152	$ 324,165
Foundation contributions	530,500	123,330	653,830	898,670
Government grants	777,612	-	777,612	726,816
Membership dues	282,745	-	282,745	264,409
Program fees	86,258	-	86,258	293,800
Special event revenue:				
Gross revenue	1,012,607	-	1,012,607	-
Direct benefit to donor costs	(125,973)	-	(125,973)	-
Total special event revenue	886,634	-	886,634	-
Investment income	6,756	-	6,756	6,320
Other	-	-	-	474
Net assets released from restrictions	186,436	(186,436)	-	-
Total revenue, gains, and other support	3,629,093	(38,106)	3,590,987	2,514,654
Expenses				
Program services	2,195,426	-	2,195,426	2,275,723
Support services:				
Management and general	291,724	-	291,724	342,658
Fundraising	307,089	-	307,089	176,440
Total expenses	2,794,239	-	2,794,239	2,794,821
Increase (Decrease) in Net Assets	834,854	(38,106)	796,748	(280,167)
Net Assets - Beginning of year	4,929,494	106,848	5,036,342	5,316,509
Net Assets - End of year	**$ 5,764,348**	**$ 68,742**	**$ 5,833,090**	**$ 5,036,342**

See notes to financial statements.

Statement of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 796,748	$ (280,167)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation expense	52,618	59,639
Changes in operating assets and liabilities which (used) provided cash:		
Contributions and other receivables	(166,940)	658,146
Prepaid expenses and other current assets	(44,220)	(6,615)
Accounts payable	20,404	42,409
Accrued liabilities and other	3,640	(90,208)
Deferred revenue	134,584	-
Deferred rent	(3,834)	(958)
Net cash and cash equivalents provided by operating activities	793,000	382,246
Cash Flows Used in Investing Activities - Cash used for purchase of property and equipment	-	(14,910)
Net Increase in Cash and Cash Equivalents	793,000	367,336
Cash and Cash Equivalents - Beginning of year	4,740,621	4,373,285
Cash and Cash Equivalents - End of year	**$ 5,533,621**	**$ 4,740,621**

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 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 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). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities.

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.

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 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.

During the year ended December 31, 2017, INCS hosted a special event for fundraising purposes. Revenue was recognized as unconditional contributions net of direct costs to donors on the statement of activities and changes in net assets.

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 as of December 31, 2017 amounted to $138,803.

Note 2 - Significant Accounting Policies (Continued)

Contributions Receivable

Contributions receivable at December 31, 2017 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 $391,000 as of December 31, 2017.

Classification of Net Assets

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

Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired or been fulfilled. 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.

Temporarily restricted net assets consist of contributions received with donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements.

Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. The Organization currently has no permanently restricted net assets.

Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets.

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.

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, determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Summarized Comparative Information for the Year Ended December 31, 2016

The financial information presented for comparative purposes for the year ended December 31, 2016 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 2 - Significant Accounting Policies (Continued)

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including September 18, 2018, which is the date the financial statements were available to be issued.

Upcoming 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 expects the ASU to impact the presentation of its functional expenses and how it discloses liquidity and availability of resources.

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. The new guidance will be effective for the Organization's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance to be applied 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 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, 2020 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 2 - Significant Accounting Policies (Continued)

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 new guidance will be effective for the Organization's year ending December 31, 2019 and will be applied on a modified prospective basis. The Organization does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts, but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Reclassification

Certain 2016 amounts have been reclassified to conform to the 2017 presentation.

Note 3 - Property and Equipment

Property and equipment are 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	
Accumulated depreciation	186,719	
Net property and equipment	$ 60,732	

Depreciation expense for 2017 was $52,618.

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. 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.

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

Years Ending December 31	Amount
2018	$ 87,403
2019	81,458
2020	84,333
2021	57,500
Total	$ 310,694

Note 4 - Operating Lease (Continued)

Total rent expense under all operating leases was $152,253 for the year ended December 31, 2017.

Note 5 - Net Assets

Temporarily restricted net assets as of December 31, 2017 are available for the following purposes:

Purpose restrictions:	
Charter growth	$ 16,000
Business services	12,742
Total purpose restrictions	28,742
Time restrictions	40,000
Total temporarily restricted net assets	$ 68,742

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 terminate employment, die, or become disabled. Contributions to the plan totaled $68,541 for the year ended December 31, 2017.

Note 7 - Related Party Transactions

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

Accounts Receivable

At December 31, 2017, the Organization had accounts receivable from an independent affiliated 501c(4) social welfare organization totaling $79,637.

Contributions

For the year ended December 31, 2017, the Organization received contributions from board members totaling $300,100. Contributions from board members amounted to 8.36 percent of total revenue.

Shared Personnel Costs

For the year ended December 31, 2017, the Organization incurred salary expenses related to work performed for an independent affiliated 501(c)(4) social welfare organization of $93,728.