

**NOBLE NETWORK OF CHARTER  
SCHOOLS, SUBSIDIARIES AND  
AFFILIATE**

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

YEARS ENDED JUNE 30, 2019 AND 2018

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## **Independent Auditors' Report**

Board of Directors  
Noble Network of Charter Schools

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Noble Network of Charter Schools, Subsidiaries and Affiliate (collectively referred to as the School), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

#### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Noble Network of Charter Schools, Subsidiaries and Affiliate as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 2 to the financial statements, the School has adopted the following guidance: ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, and ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to these matters.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2019, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 effectiveness of the School's 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 the School's internal control over financial reporting and compliance.

*Ostrow Reisin Berk & Abrams, Ltd.*

October 25, 2019

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

June 30,	2019	2018
<b>ASSETS</b>		
Current assets:		
Cash	\$ 41,799,216	\$ 32,091,376
Cash designated by Board	15,000,000	15,000,000
Investments	30,589,599	29,850,000
Accounts receivable	5,068,400	4,184,284
Contributions receivable	740,364	781,857
Prepaid expenses	2,494,490	2,660,725
Cash - restricted by NMTC		2,504,804
Cash equivalents - restricted by bond indenture	1,177,765	1,157,770
<b>Total current assets</b>	<b>96,869,834</b>	<b>88,230,816</b>
<b>Property and equipment, net</b>	<b>106,132,703</b>	<b>108,200,133</b>
Other assets:		
Contributions receivable, net of current portion	50,000	150,000
Investments - restricted for student scholarships	2,155,856	2,576,864
Leverage loan notes receivable - NMTC	24,918,422	24,918,422
Deposits	775,076	775,076
<b>Total other assets</b>	<b>27,899,354</b>	<b>28,420,362</b>
<b>Total assets</b>	<b>\$ 230,901,891</b>	<b>\$ 224,851,311</b>

*See notes to consolidated financial statements.*

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)**

June 30,	2019	2018
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 16,050,703	\$ 15,926,107
Bonds payable	849,139	819,139
Notes payable	1,625,000	500,000
Deferred lease incentive	199,046	199,046
Deferred revenue	2,599,120	2,194,758
<b>Total current liabilities</b>	<b>21,323,008</b>	<b>19,639,050</b>
Long-term liabilities:		
Bonds payable, net of unamortized bond issuance costs and current maturities	35,071,398	35,916,792
Notes payable, net of unamortized debt issuance costs and current maturities	34,280,251	35,573,189
Deferred lease incentive, net of current portion	1,725,062	1,924,108
Deferred rent	2,631,924	2,665,628
<b>Total long-term liabilities</b>	<b>73,708,635</b>	<b>76,079,717</b>
<b>Total liabilities</b>	<b>95,031,643</b>	<b>95,718,767</b>
Net assets:		
Without donor restrictions:		
Board-designated	15,000,000	15,000,000
Undesignated	117,915,523	110,153,628
<b>Total without donor restrictions</b>	<b>132,915,523</b>	<b>125,153,628</b>
<b>With donor restrictions</b>	<b>2,954,725</b>	<b>3,978,916</b>
<b>Total net assets</b>	<b>135,870,248</b>	<b>129,132,544</b>
<b>Total liabilities and net assets</b>	<b>\$ 230,901,891</b>	<b>\$ 224,851,311</b>

*See notes to consolidated financial statements.*

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

**CONSOLIDATED STATEMENTS OF ACTIVITIES**

Years ended June 30,	2019			2018		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenue:						
PCTC tuition	\$ 136,939,505		\$ 136,939,505	\$ 133,630,574		\$ 133,630,574
Supplemental SPED	6,228,372		6,228,372	5,255,054		5,255,054
Other CPS funding	336,551		336,551	301,601	\$ 358,717	660,318
Federal Titles I, II, III, IV, NSLP, MCJROTC, and E-Rate	16,248,329		16,248,329	16,660,589		16,660,589
Federal DOE Charter Schools Program grant		\$ 1,093,292	1,093,292		1,283,295	1,283,295
Campus revenues	4,006,784		4,006,784	4,457,667		4,457,667
Tuition - Noble Day Care	748,069		748,069	793,843		793,843
Contributed goods and services	4,646,319		4,646,319	4,208,446		4,208,446
Contributions and grants	1,493,031	3,913,517	5,406,548	2,198,912	4,475,313	6,674,225
Summer of a Lifetime, a Noble Network Program	528,588	435,083	963,671	475,060	484,287	959,347
Investment income, net	2,072,323		2,072,323	674,432		674,432
Other revenues	1,138,867		1,138,867	224,261		224,261
Net assets released from restrictions	6,466,083	(6,466,083)		14,735,630	(14,735,630)	
<b>Total revenue</b>	<b>180,852,821</b>	<b>(1,024,191)</b>	<b>179,828,630</b>	<b>183,616,069</b>	<b>(8,134,018)</b>	<b>175,482,051</b>

*See notes to consolidated financial statements.*

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)

Years ended June 30,	2019			2018		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Expenses:						
Program services	\$ 153,818,756		\$ 153,818,756	\$ 147,108,955		\$ 147,108,955
Supporting services:						
Management and general	17,542,763		17,542,763	16,413,436		16,413,436
Fundraising	1,729,407		1,729,407	1,277,164		1,277,164
Total expenses	173,090,926		173,090,926	164,799,555		164,799,555
Change in net assets before other income	7,761,895	\$ (1,024,191)	6,737,704	18,816,514	\$ (8,134,018)	10,682,496
Other income:						
Forgiveness of debt from NMTC unwind				3,568,458		3,568,458
Change in net assets	7,761,895	(1,024,191)	6,737,704	22,384,972	(8,134,018)	14,250,954
Net assets:						
Beginning of year	125,153,628	3,978,916	129,132,544	102,768,656	12,112,934	114,881,590
End of year	\$ 132,915,523	\$ 2,954,725	\$ 135,870,248	\$ 125,153,628	\$ 3,978,916	\$ 129,132,544

*See notes to consolidated financial statements.*

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years ended June 30,	2019				2018			
	Program services	Supporting Services			Program services	Supporting Services		
		Management and general	Fundraising	Total		Management and general	Fundraising	Total
Salaries	\$ 79,217,914	\$ 7,783,705	\$ 468,752	\$ 87,470,371	\$ 75,730,531	\$ 6,998,492	\$ 427,635	\$ 83,156,658
Employee benefits and payroll taxes	20,529,022	1,430,967	95,180	22,055,169	19,220,704	1,232,503	75,149	20,528,356
Contracted services and consulting	2,861,252	2,775,246	1,004,989	6,641,487	3,099,275	1,701,406	586,887	5,387,568
Professional development and staff recruitment	1,305,837	610,017	25,083	1,940,937	1,194,020	573,653	28,253	1,795,926
Food	5,573,750			5,573,750	5,912,728			5,912,728
Educational materials, technology and instruction equipment	7,703,429	160,001	14,006	7,877,436	6,774,902	83,768	27,151	6,885,821
Other direct student expenses	7,227,719	123,494		7,351,213	6,715,189	194,292		6,909,481
Scholarships	3,091,622			3,091,622	2,525,234			2,525,234
Summer of a Lifetime, a Noble Network Program	1,325,387			1,325,387	1,305,366			1,305,366
Office	653,629	396,527	1,128	1,051,284	763,935	204,866	3,790	972,591
Occupancy	15,698,789	500,519	4,944	16,204,252	15,043,901	468,092	7,470	15,519,463
CPS administrative fee		3,634,113		3,634,113		3,567,593		3,567,593
Interest	2,635,651	16,563		2,652,214	2,893,578	247,427		3,141,005
Depreciation and amortization	5,967,765	68,739		6,036,504	5,905,745	79,838		5,985,583
Other expenses	26,990	42,872	115,325	185,187	23,847	51,506	120,829	196,182
Uncollectible pledges						1,010,000		1,010,000
<b>Total expenses</b>	<b>\$ 153,818,756</b>	<b>\$ 17,542,763</b>	<b>\$ 1,729,407</b>	<b>\$ 173,090,926</b>	<b>\$ 147,108,955</b>	<b>\$ 16,413,436</b>	<b>\$ 1,277,164</b>	<b>\$ 164,799,555</b>

*See notes to consolidated financial statements.*

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended June 30,	2019	2018 (As restated)
Cash flows from operating activities:		
Change in net assets	\$ 6,737,704	\$ 14,250,954
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,036,504	5,985,583
Amortization of lease incentive	(199,046)	(199,046)
Deferred rent	(33,704)	59,735
Amortization of debt issuance costs	111,668	180,900
Debt forgiveness	(250,000)	(3,818,458)
Uncollectible pledges		1,010,000
Net realized and unrealized gain on investments	(783,387)	(7,565)
(Increase) decrease in operating assets:		
Accounts receivable	(884,116)	5,105,067
Contributions receivable	141,493	6,681,816
Prepaid expenses	166,235	(663,785)
Deposits		25,000
Accrued interest on leverage loan notes receivable - NMTC		(206,351)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(623,517)	123,064
Deferred revenue	404,362	(157,810)
<b>Net cash provided by operating activities</b>	<b>10,824,196</b>	<b>28,369,104</b>

*See notes to consolidated financial statements.*

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

Years ended June 30,	2019	2018 (As restated)
Cash flows from investing activities:		
Purchase of investments	\$ (29,999,485)	\$ (29,808,608)
Proceeds from sale of investments	30,000,000	
Purchase of investments - restricted for student scholarships	(56,167)	(39,603)
Sales of investments - restricted for student scholarships	520,448	
Proceeds from redemption of investments - restricted for lease security deposit		362,145
Purchase of investments - restricted for lease security deposit		(813)
Purchase of property and equipment	(3,220,961)	(5,661,553)
Net cash used in investing activities	(2,756,165)	(35,148,432)
Cash flows from financing activities:		
Proceeds from termination of interest rate swap		42,101
Payments on bonds payable	(845,000)	(11,845,000)
Payments on notes payable		(5,113,489)
Net cash used in financing activities	(845,000)	(16,916,388)
Net change in cash, restricted cash and restricted cash equivalents	7,223,031	(23,695,716)
Cash, restricted cash and restricted cash equivalents, beginning of year	50,753,950	74,449,666
Cash, restricted cash and restricted cash equivalents, end of year	\$ 57,976,981	\$ 50,753,950

*See notes to consolidated financial statements.*

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

Years ended June 30,	2019	2018 (As restated)
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 2,554,878	\$ 3,106,446
Supplemental disclosures of non-cash investing and financing activities:		
Forgiveness of notes payable included in contributions and grants revenue	\$ 250,000	\$ 250,000
Net gain on forgiveness of debt from NMTC unwind		\$ 3,568,458
Purchase of property and equipment included in accounts payable and accrued expenses	\$ 780,753	\$ 32,640
Reconciliation of cash, restricted cash and restricted cash equivalents reported within the consolidated statements of financial position that sum to the total of the same such accounts shown in the consolidated statements of cash flows:		
Cash	\$ 41,799,216	\$ 32,091,376
Cash designated by Board	15,000,000	15,000,000
Cash - restricted by NMTC		2,504,804
Cash equivalents - restricted by bond indenture	1,177,765	1,157,770
Total cash, restricted cash and restricted cash equivalents shown in the consolidated statements of cash flows	\$ 57,976,981	\$ 50,753,950

*See notes to consolidated financial statements.*

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and purpose**

Noble Network of Charter Schools (the School) was formed to provide educational and community opportunities for youths. During the years ended June 30, 2019 and 2018, the School served the following students:

Opened in August	Years ended June 30,	2019	2018
1999	Noble Street College Prep	664	645
2006	Rauner College Prep	620	627
2006	Pritzker College Prep	969	972
2007	Rowe Clark College Prep	405	454
2007	Golder College Prep	658	653
2008*	Gary Comer College Prep	1176	1,086
2008	UIC College Prep	922	920
2009	Muchin College Prep	965	950
2009	Chicago Bulls College Prep	1121	1,121
2010	Johnson College Prep	750	805
2012	Hansberry College Prep	557	613
2012	DRW College Prep	349	497
2013	Baker College Prep	232	358
2013	Butler College Prep	667	639
2014	ITW David Speer Academy	1059	1,007
2014	The Noble Academy	439	483
2016	Mansueto High School	786	515
		<b>12,339</b>	<b>12,345</b>

\*Includes Gary Comer Middle School which opened in August 2011.

# **NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

### **1. Organization and purpose (continued)**

The School is supported through per-capita tuition payments from Chicago Public Schools, grants from state and federal agencies, various community and corporate foundations and the general public. During each of the years ended June 30, 2019 and 2018, the School received approximately 76% of its support from PCTC and related funding from Chicago Public Schools.

The School is subject to a Charter Agreement with the Chicago School Reform Board of Trustees (Chicago Public Schools or CPS). The agreement was for an original term of five years which has been routinely renewed for the same term since the School's inception. The current agreement expired on June 30, 2019 and Chicago Public Schools has agreed to renew it through June 30, 2024. In addition, the School has been certified as a charter school by the Illinois State Board of Education (ISBE).

The School is governed by a Board of Directors that is comprised of at least five and no more than twenty-five members, who serve one-year terms until their successors shall have been selected and qualified. Directors are elected annually.

Under state law, Chicago Public Schools has oversight responsibility to verify that the School complies with and meets the expectation of a public educational system. The School is expected to satisfy regulations and compliance requirements defined by Chicago Public Schools.

Through the Summer of a Lifetime Program, low-income, minority scholars of the School are provided funding and support to participate in summer academic enrichment programs on college campuses nationwide. The program is funded by philanthropic support.

# **NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

### **2. Summary of significant accounting policies**

#### **Basis of accounting:**

The School's consolidated financial statements are prepared in accordance with generally accepted accounting principles (GAAP).

#### **Recent accounting pronouncements:**

Effective July 1, 2018, the School adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance requires that the School recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the School expects to be entitled in exchange for those goods or services. The guidance uses a principles-based approach for determining revenue recognition, eliminates the transaction and industry-specific guidance, and establishes a five step approach for the recognition of revenue. As disclosed in Note 11, the School implemented this standard during the year ended June 30, 2019 using the modified retrospective method. The adoption of this standard did not materially impact the consolidated financial statements of the School.

Effective July 1, 2018, the School adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. The adoption of this standard did not materially impact the consolidated financial statements of the School.

Effective July 1, 2018, the School adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. This guidance provides for additional disclosure requirements and modifies net asset reporting. The standard requires the School to reclassify its net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) into two categories: net assets without donor restrictions and net assets with donor restrictions. It also adds information about liquidity and availability of resources and requires the reporting of expense by nature and function. The School has included the changes within the consolidated financial statements and related disclosures. The ASU has been applied retrospectively to all periods presented.

# **NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

### **2. Summary of significant accounting policies (continued)**

#### **Recent accounting pronouncements: (continued)**

Effective July 1, 2018, the School adopted ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. This guidance addresses the classification of certain cash receipts and payments in the consolidated statements of cash flows. In addition, effective July 1, 2018, the School adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This guidance requires a statement of cash flows to explain the change during the period in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents and any internal transfers between cash, cash equivalents, restricted cash, and restricted cash equivalents are no longer presented in the consolidated statements of cash flows. The ASUs have been applied retrospectively to all periods presented. The School has adjusted and restated the presentation in the consolidated statements of cash flows accordingly.

#### **Principles of consolidation:**

The accompanying consolidated financial statements include the accounts of Noble Day Care, L3C (Noble Day Care) and Mansueto High School, LLC, of which the Noble Network of Charter Schools (the Network) is the sole member and manager, and the Noble Network Education Foundation (the Foundation) collectively referred to as “the School.” The Network and the Foundation have common control since the Network appoints two of the five Foundation Directors (Appointed Directors) with the remaining three elected Directors selected from a slate of nominees approved by the Appointed Directors. All significant inter-organization transactions and balances have been eliminated in consolidation.

#### **Reclassification:**

The consolidated statements of activities and functional expenses have been reclassified in order to conform to the current year’s presentation. In addition, the School updated its functional expense allocations, which resulted in a reclassification of \$3,400,000 from program expenses to supporting services in the consolidated statements of activities and functional expenses for the year ended June 30, 2018. The reclassifications had no effect on net assets or change in net assets as previously reported.

# **NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

### **2. Summary of significant accounting policies (continued)**

#### **Net assets:**

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 grantor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for specified purposes. The School's Board-designated net assets as of June 30, 2019 and 2018 consist of funds designated for instructional and educational expenses to be used at the discretion of campus administration, upon approval of the CEO, as well as amounts to be used for future maintenance and repair costs of campus buildings.

**Net assets with donor restrictions** - Net assets subject to donor-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. See Note 19 for a description of net assets with donor restrictions at June 30, 2019 and 2018.

#### **Cash equivalents:**

The School considers all highly liquid investments with maturities of three months or less, when purchased, to be cash equivalents.

#### **Accounts receivable:**

Accounts receivable consist of grants and other amounts due from Chicago Public Schools and other governmental agencies as well as student fees net of an allowance for doubtful accounts. The School estimates the allowance based on an analysis of specific account history and experience. It is the School's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. An allowance for doubtful accounts is considered unnecessary and is not provided as of June 30, 2019 and 2018.

**NOBLE NETWORK OF CHARTER SCHOOLS,  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**2. Summary of significant accounting policies (continued)**

**Contributions receivable:**

Contributions receivable include unconditional promises to give net of an allowance for doubtful accounts. The School estimates the allowance based on an analysis of specific donor history and experience. Pledges due in more than one year are discounted using a risk-adjusted rate of return to reflect the present value of the receivables.

June 30,	2019	2018
Receivable due in less than one year	\$ 740,364	\$ 781,857
Receivable due in one to five years	50,000	150,000
Unconditional promises to give	\$ 790,364	\$ 931,857

An allowance for doubtful accounts is considered unnecessary and is not provided as of June 30, 2019 and 2018.

**Bond and NMTC issuance costs:**

Debt issuance costs are recorded on the consolidated statements of financial position as a direct deduction from the face amount of debt. Amortization of the debt issuance costs is reflected as interest expense on the consolidated statements of functional expenses.

**Property and equipment:**

Property and equipment are stated at cost or, if donated, at the approximate fair value at date of donation. Amortization of leasehold improvements is provided ratably over the lesser of the term of the lease or the estimated life of the improvements. Depreciation is provided over the estimated useful life of the assets using the straight-line method ranging from three to thirty-nine years. Major additions over \$5,000 are capitalized while replacements, maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed as incurred.

The School reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. An impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2019 and 2018.

# **NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

### **2. Summary of significant accounting policies (continued)**

#### **Deferred lease incentive:**

The School amortizes lease incentives against rent expense over the lease term.

#### **Deferred revenue:**

Deferred revenue results from the School receiving cash for conditional contributions and grants of which the conditions have not yet been met. Accordingly, revenue for contributions and grants received are deferred until the conditions are met.

#### **Deferred rent:**

The School records rent expense on a straight-line basis over the life of the related leases. The difference between rent expense recorded and the amount paid is charged to deferred rent in the consolidated statements of financial position.

#### **Revenue and revenue recognition:**

Revenue is recognized when earned. The School has the following types of revenue.

PCTC tuition, supplemental SPED, other CPS funding, and federal revenue (including Title funding, National School Lunch Program, MCJROTC, and E-Rate)

The School receives a student allocation from Chicago Public Schools as well as other state and local and federal entitlement funding to cover the cost of educational expenses. PCTC tuition is calculated by ISBE as defined by statute, and varies year-to-year as the following fluctuate: CPS' expenditures, expenditure composition, categorical revenue, and student attendance. PCTC tuition includes an allotment for instruction and operations, facility costs (for schools operating in independent facilities), and Special Education. The revenue is recognized ratably over the school year. Other state and local entitlements, supplemental SPED, and other CPS funding are allocated by CPS and recognized as revenue ratably over the school year. Federal entitlements such as Title funding are also allocated by CPS and are recognized as revenue as allowable costs are incurred. National School Lunch Program revenue is recognized as revenue when meals are served to qualifying students. MCJROTC revenue is recognized as allowable costs are incurred. E-Rate revenue is recognized when eligible program expenses are incurred and approved. All of these revenue categories are accounted for as nonexchange transactions as the benefit to the resource provider is incidental to the public benefit received by the students served by the School.

# **NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

### **2. Summary of significant accounting policies (continued)**

#### **Revenue and revenue recognition: (continued)**

##### Federal DOE Charter Schools Program grant

The School recognizes government grant revenue when qualifying expenditures are incurred. These amounts are accounted for as nonexchange transactions as the benefit to the resource provider is incidental to the public benefit received by the students served by the School.

##### Campus revenues

Campus revenues include school fees, such as annual school fees, sports fees, graduation and prom fees, lunch, and textbook fees, as well as summer school fees, night school fees, and uniform fees. Campus revenues are considered to be exchange transactions and accounted for as revenue from contracts with customers.

##### Tuition – Noble Day Care

Tuition revenue for Noble Day Care is considered to be an exchange transaction and accounted for as revenue from contracts with customers.

##### Contributions and grants and Summer of a Lifetime, a Noble Network Program

The School recognizes contributions and grants when cash, securities or other assets, or an unconditional promise to give (pledge) is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Contributions received are recorded as without 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 restrictions depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose of restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. Summary of significant accounting policies (continued)**

**Revenue and revenue recognition: (continued)**

Contributed goods and services

Contributed goods are reflected as contributions at their fair value at date of donation and are reported as contributions without donor restrictions unless explicit donor stipulations specify how donated assets must be used. The School recognizes the fair value of contributed services received if such services a) create or enhance nonfinancial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed. The School receives services from a large number of volunteers who give significant amounts of their time to the School but these services do not meet the criteria for financial statement recognition.

The School was the recipient of the following contributed goods and services:

Year ended June 30, 2019	Program services	Management and general	Fundraising	Total
<b>Food service - Illinois State Board of Education</b>	\$ 369,041			\$ 369,041
<b>Rent - Chicago Public Schools</b>	4,099,271			4,099,271
<b>Supplies - Chicago Public Schools</b>	178,007			178,007
<b>Total</b>	<b>\$ 4,646,319</b>			<b>\$ 4,646,319</b>
Year ended June 30, 2018	Program services	Management and general	Fundraising	Total
Food service - Illinois State Board of Education	\$ 377,160			\$ 377,160
Rent - Chicago Public Schools	3,831,093			3,831,093
Other	193			193
<b>Total</b>	<b>\$ 4,208,446</b>			<b>\$ 4,208,446</b>

# **NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

### **2. Summary of significant accounting policies (continued)**

#### **Expense allocation:**

The costs of programs and supporting service activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include salaries, employee benefits and payroll taxes, rent and depreciation. Salaries and employee benefits and payroll taxes are allocated on the basis of estimates of time and effort. Rent and depreciation are allocated based on square footage utilized for program and supporting services. All other expenses are reported using the direct allocation method. Expenses for program services represented approximately 89% of total expenses for the years ended June 30, 2019 and 2018.

#### **Use of estimates:**

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the consolidated financial statements. Accordingly, actual results could differ from those estimates.

#### **Subsequent events:**

Management has evaluated subsequent events through October 25, 2019, the date that the consolidated financial statements were available to be issued.

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**3. Liquidity and availability**

The following represents the School's financial assets at June 30, 2019:

<u>June 30, 2019</u>	
Financial assets at year-end:	
Cash	\$ 41,799,216
Cash designated by Board	15,000,000
Investments	30,589,599
Accounts receivable	5,068,400
Contributions receivable	790,364
Cash equivalents - restricted by bond indenture	1,177,765
Investments - restricted for student scholarships	2,155,856
Leverage loan notes receivable - NMTC	24,918,422
<b>Total financial assets</b>	<b>121,499,622</b>
Less amounts not available to be used within one year:	
Cash equivalents - restricted by bond indenture	1,177,765
Investments - restricted for student scholarships	2,155,856
Funds related to a conditional grant for which conditions have not been met	2,000,000
Leverage loan notes receivable - NMTC	24,823,400
Net assets without donor restrictions - Board-designated	15,000,000
Net assets with donor restrictions	2,954,725
<b>Total amounts not available to be used within one year</b>	<b>48,111,746</b>
<b>Financial assets available to meet general expenditures within one year</b>	<b>\$ 73,387,876</b>

# **NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

### **3. Liquidity and availability (continued)**

The School's goal is generally to maintain financial assets to meet debt covenant requirements and to pay expenditures and liabilities when due. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts, fixed income mutual funds and United States Treasury securities. The sources of liquidity available to the School are cash, investments and receivables.

### **4. Tax status**

The School is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. In addition, the Internal Revenue Service has determined that the School is not a private foundation within the meaning of Section 509(a) of the Code. The School has adopted the requirements for accounting for uncertain tax positions and management has determined that the School was not required to record a liability related to uncertain tax positions as of June 30, 2019 and 2018.

### **5. Cash**

The School maintains its cash in bank accounts which, at times, exceed federally-insured limits. At June 30, 2019 and 2018, cash in excess of these limits totaled approximately \$56,700,000 and \$48,900,000, respectively. Management believes that the School is not exposed to any significant credit risk on cash.

# **NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

### **6. Fair value measurements**

The three levels of the fair value hierarchy are described as follows:

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Level 1	Inputs to valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the School has the ability to access.
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Level 2	Inputs to the valuation methodology include: <ul style="list-style-type: none"><li>• quoted prices for similar assets or liabilities in active markets;</li><li>• quoted prices for identical or similar assets or liabilities in inactive markets;</li><li>• inputs other than quoted prices that are observable for the asset or liability;</li><li>• inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li></ul>
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If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.
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The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**6. Fair value measurements (continued)**

The following table sets forth by level, within the fair value hierarchy, the School's financial instruments at fair value as of June 30, 2019:

June 30, 2019	Total	Level 1	Level 2
<b>Recurring fair value measurements:</b>			
<b>Assets:</b>			
<b>Investments:</b>			
Fixed income mutual funds	\$ 2,155,856	\$ 2,155,856	
United States Government treasury bills	30,589,599	30,589,599	
<b>Total investments</b>	<b>32,745,455</b>	<b>32,745,455</b>	
<b>Total recurring fair value measurements</b>	<b>\$ 32,745,455</b>	<b>\$ 32,745,455</b>	
<b>Nonrecurring fair value measurements:</b>			
<b>Asset:</b>			
Leverage loan notes receivable - NMTC	\$ 24,918,422		\$ 24,918,422
<b>Liabilities:</b>			
Bonds payable	(35,920,537)		(35,920,537)
Notes payable	(35,905,251)		(35,905,251)
<b>Total nonrecurring fair value measurements</b>	<b>\$ (46,907,366)</b>		<b>\$ (46,907,366)</b>

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**6. Fair value measurements (continued)**

The following table sets forth by level, within the fair value hierarchy, the School's financial instruments at fair value as of June 30, 2018:

June 30, 2018	Total	Level 1	Level 2
Recurring fair value measurements:			
Assets:			
Investments:			
Fixed income mutual funds	\$ 2,576,864	\$ 2,576,864	
United States Government treasury bills	29,850,000	29,850,000	
<b>Total investments</b>	<b>32,426,864</b>	<b>32,426,864</b>	
<b>Total recurring fair value measurements</b>	<b>\$ 32,426,864</b>	<b>\$ 32,426,864</b>	
Nonrecurring fair value measurements:			
Asset:			
Leverage loan notes receivable - NMTC	\$ 24,918,422		\$ 24,918,422
Liabilities:			
Bonds payable	(36,735,931)		(36,735,931)
Notes payable	(36,073,189)		(36,073,189)
<b>Total nonrecurring fair value measurements</b>	<b>\$ (47,890,698)</b>		<b>\$ (47,890,698)</b>

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**6. Fair value measurements (continued)**

Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds are valued at the Net Asset Value (NAV) of shares held by the School at year-end.

United States Government treasury bills are stated at fair value based on quoted prices in active markets.

The leverage loan notes receivable – NMTC fair value approximates the carrying amount in the accompanying consolidated financial statements. The carrying value of the loans approximates fair value based on current borrowing rates.

Long-term obligations, including bonds payable and notes payable, fair value approximates the carrying amounts in the accompanying consolidated financial statements. The carrying value of the debt approximates fair value based on current borrowing rates.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the School believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**7. Property and equipment**

Property and equipment are as follows:

June 30,	2019	2018
Leasehold improvements	\$ 72,550,498	\$ 71,061,592
Buildings	51,009,877	50,696,910
Land	6,423,651	6,423,651
Equipment	11,981,944	9,917,710
Furniture	2,063,020	2,018,741
Software	782,883	700,462
Automobiles	190,561	190,561
	<b>145,002,434</b>	141,009,627
Less accumulated depreciation and amortization	<b>(39,788,852)</b>	(33,749,798)
	<b>105,213,582</b>	107,259,829
Construction in progress	<b>919,121</b>	940,304
Property and equipment, net	<b>\$ 106,132,703</b>	\$ 108,200,133

**8. Leverage loan notes receivable – NMTC and notes payable – NMTC**

**2011 New Market Tax Credits:**

The School entered into a New Markets Tax Credits (NMTC) transaction to finance and reimburse the School in connection with the renovation and construction of school facilities and to finance the acquisition of related equipment, furniture, textbooks and other items located in Qualified Census Tracts.

State NMTC Investors contributed \$1,950,000 in State NMTC equity to Stonehenge Illinois NMTC Investment Fund II, LLC (State Investment Fund). In conjunction with this equity investment, the School then made an \$8,050,000 leverage loan (note receivable – 2011 NMTC) to the State Investment Fund.

# **NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

### **8. Leverage loan notes receivable – NMTC and notes payable – NMTC (continued)**

#### **2011 New Market Tax Credits: (continued)**

In conjunction with the NMTC transaction, the School received a loan in the amount of \$13,000,000 from PNBI Subsidiary CDE 3, LLC (NMTC Lender), a Federal Sub-Community Development Entity, financed through equity provided by both state and federal new markets tax credit investors and the leveraging of the Foundation. The loan was comprised of two tranches, \$10,000,000 QLICI Note A and \$3,000,000 QLICI Note B (collectively referred to as notes payable – 2011 NMTC).

The initial NMTC compliance period ended on May 30, 2018. Effective June 1, 2018, the NMTC unwind began when the state tax credit investors exercised its put option and gave the notes payable – 2011 NMTC to the School for \$1,000. In conjunction with this event, the School paid an exit fee of \$100,581. As a result of the NMTC unwind, the School was able to gain control of and cancel the \$13,000,000 notes payable – 2011 NMTC, which was offset by its forgiveness of the \$8,050,000 note receivable – 2011 NMTC and related accrued interest of approximately \$1,300,000. The School realized a net gain of \$3,568,458 on the forgiveness of debt from the NMTC unwind.

#### **2015 New Market Tax Credits:**

The School entered into a NMTC transaction to finance and reimburse the School in connection with the purchase and construction of a new school facility and to finance related equipment and furniture for its ITW David Speer Academy located in a Qualified Census Tract.

In conjunction with the NMTC transaction, the School then made a \$5,819,200 leverage loan (note receivable – 2015 NMTC) to Chase NMTC Noble ITW Investment Fund, LLC (the NMTC Investment Fund). The note receivable – 2015 NMTC is payable by the NMTC Investment Fund over 30 years and matures on April 30, 2045. The NMTC Investment Fund will pay interest only at a rate of 1.00% (\$58,192 per year) for the initial seven years after which time annual principal and interest payments due from the NMTC Investment Fund will be \$283,536.

As collateral for the note, the NMTC Investment Fund has assigned its 99.99% interest in BH New Markets Sub-CDE III, LLC (the ITW NMTC Lender).

Simultaneous with the closing of the NMTC transaction, the School entered into a term loan for \$5,700,000 from BMO Harris Bank.

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**8. Leverage loan notes receivable – NMTC and notes payable – NMTC  
(continued)**

**2015 New Market Tax Credits: (continued)**

As part of the NMTC transaction, the School received a loan for \$7,920,000 from the ITW NMTC Lender. The loan was comprised of two tranches, \$5,819,200 QLICI Note A and \$2,100,800 QLICI Note B (collectively referred to as notes payable – 2015 NMTC). The notes payable include a simple interest rate of 1.40401% and interest payments are payable quarterly over the life of the notes. The notes shall mature on the earlier of April 30, 2045 or the date which the unpaid principal balance becomes due and payable by acceleration or otherwise pursuant to the loan documents or the exercise by the ITW NMTC Lender of any right or remedy. Under Note A, the School will pay interest only of \$81,702 annually for the initial seven years after which annual principal and interest payments will be \$296,496. Under Note B, the School will pay interest only of \$29,495 annually for the initial seven years after which annual principal and interest payments will be \$107,040. Note A and Note B are *pari passu* (equal rights) in rights of payment and principal, interest, escrow items, late charges and all other amounts payable. The loan agreement is subordinate to the note below and secured by a second priority mortgage of the ITW David Speer Academy building and assignments of rents. Under terms of the NMTC transaction, the School is also obligated to pay annual loan servicing fees of \$20,000.

It is anticipated that the School will be in compliance with all NMTC program requirements for the seven-year NMTC compliance period ending on September 30, 2021. At the end of the seven years, Chase Community Equity, LLC (the NMTC investor) has the right under a put/call option agreement to put 100% of its membership interest in the NMTC Investment Fund to the School for a purchase price of \$1,000. If the put right is not exercised by the NMTC investor, the School has the option to purchase 100% of the NMTC investor's membership interest in the NMTC Investment Fund for its then appraised fair value. At that time, it is anticipated that the School will gain control of the NMTC Investment Fund holding the note payable of \$7,920,000 and will forgive the loan, along with the note receivable of \$5,819,200, and realize a gain of approximately \$2,100,000.

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**8. Leverage loan notes receivable – NMTC and notes payable – NMTC  
(continued)**

**2017 New Market Tax Credits:**

The School entered into a NMTC transaction to finance and reimburse the School for the purchase and construction of a new school facility and to finance related equipment and furniture for its Mansueto High School located in a Qualified Census Tract.

In conjunction with the NMTC transaction, the School received a bridge loan of \$12,000,000 from JPMorgan Chase Bank, N.A. to fund a \$19,004,200 leverage loan (note receivable – 2017 NMTC) to Chase NMTC Mansueto Investment Fund, LLC (the NMTC Investment Fund). The note receivable – 2017 NMTC is payable by the NMTC Investment Fund over 30 years and matures on March 31, 2047. The NMTC Investment Fund will pay interest only at a rate of 1.00% (\$190,042 per year) for the initial seven years after which time annual principal and interest payments due from the NMTC Investment Fund will be \$929,036.

As collateral for the note, the NMTC Investment Fund has assigned its 99.99% interest in (i) BH New Markets Sub-CDE XIII, LLC (the BMO CDE); (ii) SCORE Sub-CDE 9, LLC, (the SCORE CDE), and (iii) CNI Subsidiary CDE 1, LLC (the CNI CDE), together with the BMO CDE and SCORE CDE, the “CDEs” (collectively, the “Mansueto NMTC Lender”).

As part of the NMTC transaction, the School received a loan for \$26,700,000 from the Mansueto NMTC Lender. The loan was comprised of two tranches, QLICI Note A and QLICI Note B from each of the CDEs (collectively referred to as notes payable – 2017 NMTC). The notes payable include a simple interest rate of 1.32599% with interest due annually over the life of the notes. The notes shall mature on the earlier of March 31, 2047 or the date which the unpaid principal balance becomes due and payable by acceleration or otherwise pursuant to the loan documents or the exercise by the Mansueto NMTC Lender of any right or remedy. Under Notes A and B, the School will pay interest only annually for the initial seven years of \$354,039 after which annual principal and interest payments will be \$1,347,296. The loan agreement is collateralized by a first priority mortgage of the Mansueto building and assignments of rents. Under the terms of the NMTC transaction, the School is also obligated to pay annual loan servicing fees of \$50,000.

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**8. Leverage loan notes receivable – NMTC and notes payable – NMTC  
(continued)**

**2017 New Market Tax Credits: (continued)**

It is anticipated that the School will be in compliance with all NMTC program requirements for the seven-year NMTC compliance period ending on March 16, 2024. At the end of the seven years, Chase Community Equity, LLC (the NMTC investor) has the right under a put/call option agreement to put 100% of its membership interest in the NMTC Investment Fund to the School for a purchase price of \$1,000. If the put right is not exercised by the NMTC investor, the School has the option to purchase 100% of the NMTC investor’s membership interest in the NMTC Investment Fund for its then appraised fair value. At that time, principal payments of \$141,890 will be due from the School and it is anticipated that the School will gain control of the NMTC Investment Fund holding the note payable of \$26,700,000 and will forgive the loan, along with the note receivable of \$19,004,200, and realize a gain of approximately \$7,700,000.

Leverage notes receivable – NMTC outstanding at June 30, 2019 and 2018 are summarized below:

	Original note	Accrued interest	Total
2017 NMTC	\$ 19,004,200	\$ 95,022	\$ 19,099,222
2015 NMTC	5,819,200		5,819,200
<b>Total leverage notes receivable – NMTC</b>	<b>\$ 24,823,400</b>	<b>\$ 95,022</b>	<b>\$ 24,918,422</b>

The applicable Loan Agreements for the NMTC transactions contain various covenants. The School is in compliance with all loan covenants as of June 30, 2019 and 2018.

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**8. Leverage loan notes receivable – NMTC and notes payable – NMTC  
(continued)**

**2017 New Market Tax Credits: (continued)**

Notes payable – NMTC are summarized below:

June 30,	2019	2018
Notes payable – 2017 NMTC	\$ 26,700,000	\$ 26,700,000
Notes payable – 2015 NMTC	7,920,000	7,920,000
Total notes payable – NMTC	34,620,000	34,620,000
Unamortized NMTC – notes payable issuance costs	(339,749)	(421,811)
Notes payable – NMTC, net	\$ 34,280,251	\$ 34,198,189

See Note 10 for notes payable.

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**9. Bonds payable**

Bonds payable are summarized as follows:

June 30,	2019	2018
Series 2015 bonds payable with interest only payable semi-annually on March 1 and September 1, at rates ranging from 1.5% to 5%. Principal payments (net of reoffering premiums of \$1,272,180 and \$1,371,311 for the years ended June 30, 2019 and 2018, respectively) are payable annually on September 1 through maturity in 2032. The bonds are collateralized by various campus facilities.	<b>\$ 17,878,607</b>	\$ 18,834,806
Series 2013 bonds payable with interest only payable semi-annually on March 1 and September 1, at rates ranging from 6% to 6.25%. Principal payments (net of discounts of \$74,790 and \$78,534 for the years ended June 30, 2019 and 2018, respectively) are payable annually beginning September 1, 2023 through maturity in 2039. The bonds are collateralized by various campus facilities.	<b>19,925,210</b>	19,921,466
Total bonds payable	<b>37,803,817</b>	38,756,272
Unamortized bond issuance costs	<b>(1,883,280)</b>	(2,020,341)
Bonds payable, net	<b>35,920,537</b>	36,735,931
Less current portion	<b>(849,139)</b>	(819,139)
Long-term portion, net	<b>\$ 35,071,398</b>	\$ 35,916,792

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**9. Bonds payable (continued)**

The loan agreements relating to the bonds require the School to comply with certain financial covenants and places restrictions on various activities, such as the transfer of assets and incurrence of additional indebtedness. At June 30, 2019 and 2018, the School was in compliance with all of the financial covenants.

Future minimum principal payments are as follows:

Year ending June 30:	Amount*
2020	\$ 982,455
2021	1,027,455
2022	1,072,455
2023	1,117,455
2024	1,257,455
Thereafter	32,346,542
<b>Total</b>	<b>\$ 37,803,817</b>

\*Includes \$1,423,607 reoffering premium payables and net of \$74,790 discount on bonds payable.

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**10. Notes payable**

Notes payable are summarized as follows:

June 30,	2019	2018
Charter School Growth Fund note payable with interest accruing at a rate of 1% per annum and matures on June 30, 2020. Principal payments are due annually starting on June 30, 2019 with the final payment and total accrued interest due at maturity.	\$ 1,250,000	\$ 1,500,000
Charter School Growth Fund note payable with interest accruing at a rate of 1% per annum and matures on June 30, 2020. Total principal and accrued interest payable at maturity.	375,000	375,000
Notes payable – NMTC, net (See Note 8)	34,280,251	34,198,189
Total notes payable	35,905,251	36,073,189
Less current portion	(1,625,000)	(500,000)
Long-term portion, net	\$ 34,280,251	\$ 35,573,189

The above notes payable require the School to comply with certain financial covenants. At June 30, 2019 and 2018, the School as in compliance with all of the financial covenants.

Future minimum principal payments are as follows:

Year ending June 30:	Amount
2020	\$ 1,625,000
2021	
2022	48,723
2023	294,570
2024	298,726
Thereafter	33,977,981
	36,245,000
Less unamortized NMTC – notes payable issuance costs	(339,749)
Notes payable, net	\$ 35,905,251

# **NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

### **11. Revenue from contracts with customers**

Effective July 1, 2018, the School adopted Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance requires that the School recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the School expects to be entitled in exchange for those goods and services. The guidance uses a principles-based approach for determining revenue recognition, eliminates the transaction and industry-specific guidance, and establishes a five-step approach for the recognition of revenue.

The School has adopted this guidance using the modified retrospective approach, which applies to contracts that have remaining obligations as of July 1, 2018 and new contracts entered into subsequent to July 1, 2018. Under the modified retrospective method, the cumulative effect of the application of Topic 606 is shown as an adjustment to beginning net assets as of the date of application. Based on the School's evaluation of its contracts with customers, the timing and amount of revenue previously recognized is materially consistent with how revenue is recognized under Topic 606. No changes were required to previously reported revenues and net assets as a result of the adoption.

#### **School fees and Tuition – Noble Day Care:**

School fees are derived from education services provided to students served by the School. Noble Day Care tuition fees are derived from day care services provided to families served by Noble Day Care. Revenue from school fees is earned for providing education services during the academic school year which runs from August through June. Students are charged a flat fee at the onset of the school year for education services to be provided for that particular school year. The fees are recognized ratably over the life of the school year using the output method as education services are provided. Similarly, Noble Day Care tuition fees are charged at the beginning of each month and recognized using the output method as day care services are provided during that month. Payment for Noble Day Care tuition is due upon invoicing to the family, which generally occurs in advance of the day care service to be provided. As of June 30, 2019 and 2018, all education and day care services have been completed, and thus, there are no remaining performance obligations outstanding.

#### **School activities:**

The School charges fees to students for optional educational activities. These fees are charged and due prior to the performance of the activity and recognized at a point in time upon registration. There is no deferred revenue at June 30, 2019 and 2018 relating to school activities.

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**11. Revenue from contracts with customers (continued)**

**Uniform and meals fees:**

Fees for uniforms are recognized at a point in time when the good is transferred to the student. The student is required to pay for the uniform at the point in time when the good is transferred to the student. Fees for meals are recognized at a point in time when the food is consumed by the student. Payment is either received upon consumption of the meal or billed to the student on a monthly basis for the meals consumed during the prior month. If not paid at the point of purchase, the payment is due upon invoicing to the student.

Revenue from contracts with customers disaggregated by category for the years ended June 30, 2019 and 2018 are as follows:

Years ended June 30,	2019	2018
Revenue recognized over time:		
School fees	\$ 1,877,556	\$ 2,140,746
Tuition - Noble Day Care	748,069	793,843
<b>Total revenue recognized over time</b>	<b>2,625,625</b>	<b>2,934,589</b>
Revenue recognized at a point in time:		
School activities	1,117,345	1,050,126
Uniforms and meals	1,011,883	1,266,795
<b>Total revenue recognized at a point in time</b>	<b>2,129,228</b>	<b>2,316,921</b>
<b>Total contract revenue</b>	<b>\$ 4,754,853</b>	<b>\$ 5,251,510</b>

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**11. Revenue from contracts with customers (continued)**

**Receivables from contracts with customers:**

Receivables from contracts with customers represent amounts billed to students of the School or families at Noble Day Care related to their education or day care experience and for which the School has an unconditional right to receive payment due to the absence of a right of refund. The following table presents receivables from contracts with customers:

	Receivables from contract revenue
At July 1, 2017	\$ 1,094,615
At June 30, 2018	\$ 1,111,192
At June 30, 2019	\$ 884,314

**Significant judgments:**

Significant judgment is required in determining the appropriate approach to applying the revenue recognition criteria. While Topic 606 is generally applied to an individual contract with a customer, as a practical expedient, the School applies this guidance to a portfolio of contracts (or performance obligations) with similar characteristics. The School reasonably expects that the effects of applying this guidance to the portfolio would not differ materially from applying the guidance to the individual contracts (or performance obligations) within the portfolio.

For school fees, school activities, meals and uniform fees, the School has determined that students can be grouped into a single portfolio for each of the performance obligations. Similarly, for Noble Day Care tuition, the School has determined that families can be grouped into a single portfolio for the performance obligations. Based on the School's experience, students at the School and families at Noble Day Care, have similar characteristics concerning the School's approach to revenue recognition. Agreements concerning enrollment and student or family financial responsibility each contain terms which clarify the performance obligations and are fundamentally the same. Refunds and fee adjustments issued by the School are treated on a case by case basis and generally infrequent.

Significant judgment is also required to assess collectibility which is assessed at the onset of the contract using the portfolio approach and revenue is recognized at the amount management expects to collect from its customers when performance obligations have been satisfied.

# **NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

### **12. Conditional promises to receive**

The School records revenue associated with conditional promises to receive when the conditions have been substantially met. As of June 30, 2019, the School has approximately \$22,500,000 of conditional promises associated with expansion and student scholarships that have not yet been recognized as revenue, including \$2,000,000 of funds received from a donor in advance of the conditions being met. These advance funds are recorded as deferred revenue and will be recognized as contribution revenue when donor conditions are met.

### **13. Commitments and contingencies**

The School has received funds from state and federal grants in the current year which are subject to audits by the granting agencies. Management believes that any adjustments that might arise from these audits would be insignificant to the School's operations.

As of June 30, 2019, the School had entered into construction contracts totaling approximately \$840,000 to renovate certain campus facilities.

### **14. Scholarship funds**

In recognition of a grant received, the School committed to fund a \$10,000 scholarship per year in perpetuity from its operating budget.

In addition, the School has received contributions restricted to fund scholarships. Scholarships are awarded through an application process and based on financial need and merit.

### **15. School lunch program**

For the years ended June 30, 2019 and 2018, the School has contracted with a third party to administer the School's breakfast, lunch and summer food service program under an annual agreement with optional one-year renewals. Under this agreement, the School collects all fees related to this program and purchases the necessary quantity of meals through the third party.

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**16. Self-insurance program**

The School maintains a self-insurance program for its employees' health care costs. The School is liable for losses on claims up to \$155,000 per covered person and up to approximately \$5,000,000 (PPO) and \$2,000,000 (HMO) in aggregate for 2019. The School has third-party insurance coverage for any losses in excess of such amounts. Self-insurance costs are accrued based on claims reported as of the date of the consolidated financial statements as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs was approximately \$606,000 and \$613,000 as of June 30, 2019 and 2018, respectively, and is included in accounts payable and accrued expenses on the consolidated statements of financial position.

**17. Retirement fund commitments**

The School participates in the Public School Teachers' Pension and Retirement Fund of Chicago (CTPF or the Fund), a defined-benefit plan. Members of the Fund include all active nonannuitants who are employed by a Fund-covered employer and who hold an Illinois State Teacher Certification Board certification. The State of Illinois appropriates public contributions to Chicago Public Schools and remits those contributions to the Fund for the benefit of applicable Chicago schools.

Chicago Public Schools withholds the employer contribution related to pensionable salaries from the tuition that is paid to each school.

On a discretionary basis, the School has elected to pay a portion of its employees' required contributions to the Fund. The Fund does not maintain separate actuarial records for the School.

CTPF pension amounts are as follows for the years ended June 30, 2019 and 2018:

Years ended June 30,	2019	2018
Total pensionable salaries	\$ 44,236,326	\$ 42,162,685
Employees' contribution expense picked up by employer	3,096,543	2,951,388
Employer's contribution expense (11.16%)	4,936,774	4,705,356
Less: CPS deduction amount for employer's pension expense	(4,057,710)	(4,093,347)
Pension true-up amount	\$ 879,064	\$ 612,009

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**17. Retirement fund commitments (continued)**

In addition, all employees were eligible to participate in the Noble Network of Charter Schools 401(k) P/S Plan (the Plan). Employees can elect to defer their compensation up to the maximum allowed. The School matches eligible employee deferral contributions up to a maximum of 5% of compensation or \$2,000 semiannually. Contributions made by the School to the Plan during the years ended June 30, 2019 and 2018 were \$778,422 and \$619,976, respectively.

**18. Lease agreements**

The School rents various facilities under leases expiring through 2035. Some of the leases contain renewal provisions ranging from 5 to 15 years. Annual rent under the leases ranges from \$1 to \$2,129,000. Security deposits totaling \$550,398 are held by the landlords. In addition, the use of certain facilities are donated to the School.

Total rent expense was \$3,852,420, excluding contributed rent of \$4,099,271, and \$3,820,956, excluding contributed rent of \$3,831,093, for the years ended June 30, 2019 and 2018, respectively.

Future minimum rental payments are as follows:

Year ending June 30:	Amount
2020	\$ 4,332,321
2021	3,665,510
2022	3,448,061
2023	3,472,025
2024	3,481,926
Thereafter	22,105,505
Total	\$ 40,505,348

**NOBLE NETWORK OF CHARTER SCHOOLS,  
SUBSIDIARIES AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**19. Net assets with donor restrictions**

Net assets with donor restrictions are available for the following purpose or time restrictions:

June 30,	2019	2018
Restricted for purpose:		
College readiness program	\$ 167,800	\$ 489,079
Extracurricular activities	36,507	98,658
Other programs	321,462	15,677
Scholarships	1,849,166	2,288,215
Startup and growth activities and costs	100,000	100,000
Summer of a Lifetime program	404,790	434,176
Total restricted for purpose	2,879,725	3,425,805
Restricted for time	75,000	553,111
Total net assets with donor restrictions	\$ 2,954,725	\$ 3,978,916

During the years ended June 30, 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the following purpose or time restrictions:

Years ended June 30,	2019	2018
Restricted for purpose:		
College readiness program	\$ 582,779	\$ 657,540
Extracurricular activities	131,201	72,648
Other programs	191,265	795,280
Scholarships	3,212,186	3,208,618
Startup and growth activities and costs	1,093,292	7,684,288
Summer of a Lifetime program	464,469	569,107
Total restricted for purpose	5,675,192	12,987,481
Restricted for time	790,891	1,748,149
Total net assets released from restrictions	\$ 6,466,083	\$ 14,735,630

**Independent Auditors' Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Noble Network of Charter Schools

We have audited, in accordance with the 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, the consolidated financial statements of Noble Network of Charter Schools, Subsidiaries and Affiliate (collectively referred to as the School), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 25, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ostrow Reisin Berk & Abrams, Ltd.*

Chicago, IL  
October 25, 2019