NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE

YEARS ENDED JUNE 30, 2017 AND 2016

CONTENTS

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, 2017 and 2016, 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.

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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, 2017 and 2016, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2017, 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 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 17, 2017

NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30,	**2017**	2016
ASSETS		
Current assets:		
Cash	**$ 51,647,306**	$ 54,939,695
Accounts receivable	**9,289,351**	8,844,245
Contributions receivable	**7,613,673**	11,546,418
Prepaid expenses	**1,996,940**	1,997,208
Cash - restricted by NMTC	**10,399,174**	
Cash and investments - restricted by bond indenture	**12,403,186**	11,771,600
Investments - restricted for lease security deposit	**361,332**	
Leverage loan notes receivable - NMTC	**9,187,788**	
Total current assets	**102,898,750**	89,099,166
Property and equipment, net	**108,491,523**	89,975,438
Other assets:		
Contributions receivable, net of current portion	**1,010,000**	581,000
Cash - restricted by NMTC		2,604,562
Cash and investments - restricted by bond indenture net of current portion		11,174,245
Investments - restricted for student scholarships	**2,589,641**	2,616,057
Investments - restricted for lease security deposit		360,268
Leverage loan notes receivable - NMTC, net of current portion	**24,878,829**	14,808,362
Deposits	**800,076**	800,076
Total other assets	**29,278,546**	32,944,570
Total assets	**$ 240,668,819**	$ 212,019,174

See notes to consolidated financial statements.

NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

June 30,	2017	2016
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 15,770,403	$ 10,739,890
Bonds payable, net, current portion	11,819,140	10,310,390
Notes payable, net, current portion	15,730,424	1,287,615
Deferred lease incentive, current portion	199,046	199,046
Deferred revenue	2,352,568	1,957,314
Total current liabilities	45,871,581	24,494,255
Long-term liabilities:		
Bonds payable, net, net of current portion	36,732,186	48,551,330
Notes payable, net, net of current portion	38,454,378	28,633,993
Obligation under interest rate swap agreement	37	116,247
Deferred lease incentive, net of current portion	2,123,154	2,322,199
Deferred rent	2,605,893	2,414,829
Total long-term liabilities	79,915,648	82,038,598
Total liabilities	125,787,229	106,532,853
Net assets:		
Unrestricted:		
Board-designated	15,000,000	15,000,000
Undesignated	87,768,656	73,835,601
Total unrestricted	102,768,656	88,835,601
Temporarily restricted	12,112,934	16,650,720
Total net assets	114,881,590	105,486,321
Total liabilities and net assets	$ 240,668,819	$ 212,019,174

See notes to consolidated financial statements.

NOBLE NETWORK OF CHARTER SCHOOLS,
SUBSIDIARIES AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended June 30,	**2017**			2016		
	Unrestricted	**Temporarily Restricted**	**Total**	Unrestricted	Temporarily Restricted	Total
Revenue:						
Chicago Public Schools:						
Per-capita tuition	**$ 92,749,746**		**$ 92,749,746**	$ 94,199,385		$ 94,199,385
Facilities	**5,568,390**		**5,568,390**	5,281,125		5,281,125
Special education	**14,747,093**		**14,747,093**	13,272,148		13,272,148
Case manager stipends	**26,652**		**26,652**	48,217		48,217
Chapter I	**9,112,283**		**9,112,283**	8,367,705		8,367,705
Title I	**8,423,092**		**8,423,092**	8,018,094		8,018,094
Title II	**1,094,172**		**1,094,172**	1,032,347		1,032,347
Title III	**22,128**		**22,128**	112,364		112,364
English Language Learners	**180,583**		**180,583**			
Growth funds		**$ 407,016**	**407,016**		$ 1,006,960	1,006,960
Contributed services	**4,514,170**		**4,514,170**	4,818,948		4,818,948
Contributions and grants	**2,834,237**	**6,774,874**	**9,609,111**	1,252,915	20,244,935	21,497,850
Contributed services, other than CPS	**1,015,300**		**1,015,300**			
E-rate discount funding	**1,615,254**		**1,615,254**	446,484		446,484
Food program	**6,550,614**		**6,550,614**	5,768,394		5,768,394
Instructional program - ROTC	**238,436**		**238,436**	344,172		344,172
Interest and dividends	**575,304**		**575,304**	539,185		539,185
Change in fair value of interest rate swap	**116,210**		**116,210**	(116,247)		(116,247)
Net realized and unrealized loss on investments	**(134,626)**		**(134,626)**	(23,677)		(23,677)
Night school fees	**200,601**		**200,601**	216,602		216,602
Other revenue	**231,722**		**231,722**	220,783		220,783
Registration and tuition - Noble Day Care	**762,152**		**762,152**	698,133		698,133
School fees	**3,082,474**		**3,082,474**	2,913,422		2,913,422
School fundraising	**78,045**		**78,045**	66,532		66,532
Summer of a Lifetime, a Noble Network Program	**729,831**	**518,996**	**1,248,827**	752,364	580,822	1,333,186
Summer school fees	**378,020**		**378,020**	310,046		310,046
Uniform fees	**567,463**		**567,463**	667,681		667,681
Net assets released from restrictions:						
Satisfaction of purpose or time restrictions	**12,238,672**	**(12,238,672)**		12,654,414	(12,654,414)	
Total revenue	**167,518,018**	**(4,537,786)**	**162,980,232**	161,861,536	9,178,303	171,039,839

See notes to consolidated financial statements.

NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)

Years ended June 30,	2017			2016		
	Unrestricted	**Temporarily Restricted**	**Total**	Unrestricted	Temporarily Restricted	Total
Expenses:						
Program services	**$ 137,191,514**		**$ 137,191,514**	$ 135,409,471		$ 135,409,471
Supporting services:						
Management and general	**14,291,821**		**14,291,821**	13,327,195		13,327,195
Fundraising	**2,101,628**		**2,101,628**	877,908		877,908
Total expenses	**153,584,963**		**153,584,963**	149,614,574		149,614,574
Change in net assets	**13,933,055**	**$ (4,537,786)**	**9,395,269**	12,246,962	$ 9,178,303	21,425,265
Net assets:						
Beginning of year	**88,835,601**	**16,650,720**	**105,486,321**	76,588,639	7,472,417	84,061,056
End of year	**$ 102,768,656**	**$ 12,112,934**	**$ 114,881,590**	$ 88,835,601	$ 16,650,720	$ 105,486,321

See notes to consolidated financial statements.

NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years ended June 30,	2017				2016			
		Supporting Services				Supporting Services		
	Program services	**Management and general**	**Fundraising**	**Total**	Program services	Management and general	Fundraising	Total
Building maintenance and repairs	**$ 1,729,596**	**$ 11,562**		**$ 1,741,158**	$ 1,347,812	$ 68,267		$ 1,416,079
Bonus salaries	**5,625,973**	**657,282**	**$ 31,270**	**6,314,525**	6,711,238	611,698	$ 52,400	7,375,336
Classroom furniture	**458,151**			**458,151**	677,365			677,365
Contracted maintenance services	**2,311,678**	**1,011**		**2,312,689**	2,260,691	14,248		2,274,939
Contractual services and stipends	**1,648,157**	**1,680,870**	**1,415,297**	**4,744,324**	1,109,530	1,350,315	125,960	2,585,805
Contributed services					427,520			427,520
CPS administrative fee	**3,011,448**			**3,011,448**	3,479,177			3,479,177
CPS facility fee	**1,169,013**			**1,169,013**	983,208			983,208
Depreciation and amortization	**4,931,310**	**98,030**		**5,029,340**	4,464,461	98,639		4,563,100
Educational materials	**2,074,204**	**66,838**		**2,141,042**	2,543,983	104,907		2,648,890
Employee benefits and payroll taxes	**16,958,729**	**1,530,476**	**70,767**	**18,559,972**	14,995,761	1,265,266	58,945	16,319,972
Extracurricular activities	**1,007,511**			**1,007,511**	1,547,034			1,547,034
Field studies	**1,303,510**	**24,491**		**1,328,001**	1,336,656	10,145		1,346,801
Food program	**6,405,234**	**86**		**6,405,320**	5,727,568	2,943		5,730,511
Fundraising events			**27,380**	**27,380**			44,019	44,019
Graduation	**305,707**			**305,707**	260,157			260,157
Insurance	**685,939**			**685,939**	543,592			543,592
Interest	**3,247,760**	**228,874**		**3,476,634**	3,627,269	267,623		3,894,892
Music program	**232,208**			**232,208**	227,077			227,077
Night school	**192,563**			**192,563**	273,483			273,483
Office furniture	**48,116**	**8,058**		**56,174**	80,174	57,471		137,645
Other expenses	**402,374**	**480,129**	**89,827**	**972,330**	371,995	422,998	10,032	805,025
Payroll processing fees		**202,051**		**202,051**		156,996		156,996
Postage and delivery	**65,051**	**72,276**	**148**	**137,475**	77,743	67,276	67	145,086
Printing and copying	**1,028,520**	**96,684**	**2,523**	**1,127,727**	1,178,859	87,995	4,783	1,271,637
Professional development	**894,454**	**506,355**	**31,434**	**1,432,243**	1,443,692	485,912	38,169	1,967,773
Rent	**7,315,302**	**366,037**		**7,681,339**	8,882,130	361,104		9,243,234
Salaries	**61,210,038**	**7,818,280**	**329,398**	**69,357,716**	59,252,523	7,045,895	442,322	66,740,740
Scholarships	**1,910,493**			**1,910,493**	1,113,195			1,113,195
Sports activities	**1,304,625**	**33,124**		**1,337,749**	1,368,878	229,228		1,598,106

See notes to consolidated financial statements.

NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)

Years ended June 30,	2017				2016			
		Supporting Services				Supporting Services		
	Program services	**Management and general**	**Fundraising**	**Total**	Program services	Management and general	Fundraising	Total
Staff advertising and recruitment	**$ 56,444**	**$ 137,938**	**$ 200**	**$ 194,582**	$ 103,373	$ 120,503	$ 331	$ 224,207
Summer of a Lifetime, A Noble Network Program	**1,269,746**	**138,532**	**80,941**	**1,489,219**	1,115,052	192,541	94,103	1,401,696
Summer school	**388,655**			**388,655**	338,465			338,465
Supplies	**467,081**	**44,856**	**15**	**511,952**	501,881	124,786	1,128	627,795
Technology	**4,295,416**	**85,065**	**22,428**	**4,402,909**	3,772,294	179,017	5,649	3,956,960
Transportation	**932,040**	**2,900**		**934,940**	1,072,495	1,386		1,073,881
Uniforms	**919,335**			**919,335**	833,380			833,380
Utilities	**1,385,133**	**16**		**1,385,149**	1,359,760	36		1,359,796
Total expenses	**$ 137,191,514**	**$ 14,291,821**	**$ 2,101,628**	**$ 153,584,963**	$ 135,409,471	$ 13,327,195	$ 877,908	$ 149,614,574

See notes to consolidated financial statements.

NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,	**2017**	2016
Cash flows from operating activities:		
Change in net assets	**$ 9,395,269**	$ 21,425,265
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**5,029,340**	4,563,100
Amortization of lease incentive	**(199,045)**	(199,046)
Amortization of deferred rent	**191,064**	144,685
Amortization of debt issuance costs	**108,913**	104,036
Debt forgiveness	**(1,250,000)**	
Net realized and unrealized (gain) loss on investments	**134,626**	(11,531)
Change in fair value of interest rate swap	**(116,210)**	116,247
(Increase) decrease in operating assets:		
Accounts receivable	**(445,106)**	(332,267)
Contributions receivable	**3,503,745**	(8,331,600)
Prepaid expenses	**268**	144,348
Deposits		(94,983)
Accrued interest on leverage loan note receivable - NMTC	**(254,055)**	(192,161)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	**5,030,513**	133,012
Deferred revenue	**395,254**	(1,665,437)
Net cash provided by operating activities	**21,524,576**	15,803,668

See notes to consolidated financial statements.

NOBLE NETWORK OF CHARTER SCHOOLS, SUBSIDIARIES AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended June 30,	2017	2016
Cash flows from investing activities:		
Release of cash restricted by bond indenture	**$ 242,089**	$ 3,844,578
Restriction of cash for NMTC	**(7,794,612)**	(340)
Release of cash restricted for lease security deposit		720,029
Proceeds from sale of investments - restricted for bond indenture	**10,216,000**	424,000
Purchase of investments - restricted for student scholarships	**(23,640)**	(19,090)
Purchase of investments - restricted for lease security deposit	**(1,064)**	(360,268)
Purchase of property and equipment	**(23,545,423)**	(10,243,779)
Issuance of leverage loan (notes receivable - NMTC)	**(19,004,200)**	
Net cash used in investing activities	**(39,910,850)**	(5,634,870)
Cash flows from financing activities:		
Payments on bonds payable	**(10,336,257)**	(1,278,754)
Proceeds from notes payable	**26,700,000**	
Payments on notes payable	**(860,398)**	(1,547,495)
Payments for bond and NMTC issuance costs	**(409,460)**	
Net cash provided by (used in) financing activities	**15,093,885**	(2,826,249)
Net change in cash	**(3,292,389)**	7,342,549
Cash, beginning of year	**54,939,695**	47,597,146
Cash, end of year	**$ 51,647,306**	$ 54,939,695
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	**$ 3,470,513**	$ 3,577,792
Supplemental disclosure of non-cash financing activities:		
Forgiveness of notes payable included in contributions and grants revenue	**$ 1,250,000**	

See 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. The School plans to replicate by opening new campuses in Chicago. During the years ended June 30, 2017 and 2016, the School served the following students:

Opened in August	Years ended June 30,	**2017**	2016
1999	Noble Street College Prep	**632**	626
2006	Rauner College Prep	**634**	613
2006	Pritzker College Prep	**993**	934
2007	Rowe Clark College Prep	**538**	551
2007	Golder College Prep	**651**	655
2008*	Gary Comer College Prep	**1,130**	1,061
2008	UIC College Prep	**899**	890
2009	Muchin College Prep	**939**	879
2009	Chicago Bulls College Prep	**1,123**	1,104
2010	Johnson College Prep	**857**	842
2012	Hansberry College Prep	**703**	754
2012	DRW College Prep	**533**	609
2013	Baker College Prep	**389**	392
2013	Butler College Prep	**577**	441
2014	ITW David Speer Academy	**815**	681
2014	The Noble Academy	**346**	247
2016	Mansueto High School	**179**	
		11,938	11,279

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

1. Organization and purpose (continued)

The School is supported through per-capita tuition payments from the Chicago Public Schools, grants from state and federal agencies, various community and corporate foundations and the general public. During the years ended June 30, 2017 and 2016, the School received approximately 57% and 55%, respectively, of its support from per-capita tuition paid by Chicago Public Schools. Per-capita tuition payments are determined annually by Chicago Public Schools and may be adjusted or vary from year to year depending upon the amount of appropriations authorized by the Illinois General Assembly and subsequent approval by Chicago Public Schools of its budget on an annual basis.

The School is subject to a "Charter Agreement" with the Chicago School Reform Board of Trustees (Chicago Public Schools). 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 expires on June 30, 2019. In addition, the School has been certified as a charter school by the Illinois State Board of Education.

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 his or her successor shall have been selected and qualified. Directors shall be elected annually.

Under state law, the Chicago Public Schools have 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 by the Chicago Public Schools.

Activity for Summer of a Lifetime, a Noble Network Program, is included in the consolidated financial statements. Through the Summer of a Lifetime Program, low-income, minority scholars of the School are provided funding and support to participate in life-changing, summer academic enrichment programs on college campuses nationwide. The program is funded by philanthropic support.

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).

Principles of consolidation:

The accompanying consolidated financial statements include the accounts of Noble Day Care, L3C (Noble Day Care) and Noble Management, 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." Noble Management, LLC is the sole member and manager of Mansueto High School, LLC. The Network and the Foundation have common control since the Network appointed 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.

2. Summary of significant accounting policies (continued)

Basis of presentation:

The School reports information regarding its financial position and activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted - Unrestricted net assets are available to finance the general operations of the School. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the School, the environment in which it operates and the purposes specified in its Articles of Incorporation. Voluntary resolutions by the Board of Directors to designate a portion of the School's unrestricted net assets for specified purposes do not result in restricted funds. Since designations are voluntary and may be reversed by the Board of Directors at any time, designated net assets are included under the caption "unrestricted net assets."

The School's Board-designated unrestricted net assets as of June 30, 2017 and 2016 consist of instructional and educational expenses to be used at the discretion of campus administration, upon approval of the Superintendent and CEO, as well as amounts to be used for future maintenance and repair costs of campus buildings.

Temporarily restricted - Temporarily restricted net assets result (a) from contributions and other inflows of assets, the use of which by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by action of the School pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time or their fulfillment and removal by actions of the School pursuant to those stipulations. See Note 18 for a description of temporarily restricted net assets at June 30, 2017 and 2016.

Permanently restricted - Permanently restricted net assets (generally referred to as endowment funds) are assets that have donor-imposed restrictions that stipulate that the contributed resources be maintained permanently, but permit the entity to utilize or expend part or all of the income or other economic benefits derived from the donated assets. The School has no permanently restricted net assets.

2. Summary of significant accounting policies (continued)

Unrestricted and restricted revenue and support:

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets 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), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Expense allocation:

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses for program services represented approximately 89% and 91% of total expenses for the years ended June 30, 2017 and 2016, respectively.

Derivative instruments:

The School makes limited use of derivative instruments for the purpose of managing interest rate risks. An interest rate swap agreement is used to convert variable rate debt to a fixed rate (see Note 10). The differentials paid or received on the interest rate swap agreement is accrued and recognized as adjustments to interest rate expense; gains and losses realized upon settlement of this agreement is deferred until the underlying hedge instrument is settled.

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 for years ended June 30, 2017 and 2016.

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,	**2017**	2016
Receivable due in less than one year	**$ 7,613,673**	$ 11,546,418
Receivable due in one to five years	**1,010,000**	581,000
Unconditional promises to give	**$ 8,623,673**	$ 12,127,418

An allowance for doubtful accounts is considered unnecessary and is not provided for the years ended June 30, 2017 and 2016.

Bond and NMTC issuance costs:

During the year ended June, 30, 2017, the School adopted new authoritative GAAP guidance for the presentation of debt issuance costs and related amortization. Debt issuance costs are now reported on the consolidated statements of financial position as a direct deduction from the face amount of debt. Previously, such costs were shown as a deferred charge in the consolidated statements of financial position and amortized using the interest method over the lives of the bonds and NMTC payables. Accordingly, total assets and liabilities decreased by $2,541,161 for year ended June 30, 2016. The School continues to reflect amortization of debt issuance costs as interest expense, in accordance with the new guidance. The change had no effect on previously reported net assets or change in net assets.

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.

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 recognizing textbook, uniform, and other student fees collected as revenue in the period in which the related educational instruction is performed, as well as receiving cash for conditional contributions and grants of which the conditions have not yet been met. Accordingly, revenue for student fees received for the next school term is deferred until the instruction commences and 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.

Contributed goods and services:

Contributed goods are reflected as contributions at their fair value at date of donation and are reported as unrestricted support 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 do not meet the criteria for financial statement recognition.

For the years ended June 30, 2017 and 2016, the School was the recipient of employer pension expense made on behalf of the School by Chicago Public Schools and donated rent for the use of Chicago Public Schools' buildings by various campuses.

2. Summary of significant accounting policies (continued)

Contributed goods and services: (continued)

The School recognized $5,430,408 of contributed shares of stock and $1,015,300 of specialized consulting services during the year ended June 30, 2017, which is included in contributions and grants revenue and contributed services revenue in the consolidated statements of activities. The School recognized $5,419,482 of contributed shares of stock during the year ended June 30, 2016, which is included in contributions and grants revenue in the consolidated statements of activities.

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.

Reclassification:

Certain amounts from the prior year have been reclassified in order to conform to the current year's presentation.

Subsequent events:

Management has evaluated subsequent events through October 17, 2017, the date that the consolidated financial statements were issued.

3. 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, 2017 and 2016.

4. Cash

The School maintains its cash in bank accounts which, at times, exceed federally-insured limits. At June 30, 2017 and 2016, cash in excess of these limits totaled approximately $61,600,000 and $57,100,000, respectively. Management believes that the School is not exposed to any significant credit risk on cash.

5. Fair value measurements

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

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.
Level 2	Inputs to the valuation methodology include: ● quoted prices for similar assets or liabilities in active markets; ● quoted prices for identical or similar assets or liabilities in inactive markets; ● inputs other than quoted prices that are observable for the asset or liability; ● inputs that are derived principally from or corroborated by observable market data by correlation or other means. 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.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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.

5. 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, 2017:

June 30, 2017	Total	Level 1	Level 2
Recurring fair value measurements:			
Assets:			
Cash and investments:			
Certificate of deposit	$ 361,332	$ 361,332	
Fixed income mutual funds	2,475,165	2,475,165	
United States Government treasury bonds	11,267,010	11,267,010	
Cash investments	1,250,652	1,250,652	
Total cash and investments	15,354,159	15,354,159	
Liability:			
Interest rate swap derivative	(37)		$ (37)
Total recurring fair value measurements	$ 15,354,122	$ 15,354,159	$ (37)
Nonrecurring fair value measurements:			
Asset:			
Leverage loan notes receivable - NMTC	$ 34,066,617		$ 34,066,617
Liabilities:			
Bonds payable	48,551,326		48,551,326
Notes payable	54,184,802		54,184,802
Total nonrecurring fair value measurements	$ 136,802,745		$ 136,802,745

5. 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, 2016:

June 30, 2016	Total	Level 1	Level 2
Recurring fair value measurements:			
Assets:			
Cash and investments:			
Certificate of deposit	$ 360,268	$ 360,268	
Fixed income mutual funds	2,590,772	2,590,772	
United States Government treasury bonds	21,512,336	21,512,336	
Cash investments	1,458,794	1,458,794	
Total cash and investments	25,922,170	25,922,170	
Liability:			
Interest rate swap derivative	(116,247)		$ (116,247)
Total recurring fair value measurements	$ 25,805,923	$ 25,922,170	$ (116,247)
Nonrecurring fair value measurements:			
Asset:			
Leverage loan notes receivable - NMTC	$ 14,808,362		$ 14,808,362
Liabilities:			
Bonds payable	58,861,720		58,861,720
Notes payable	29,921,608		29,921,608
Total nonrecurring fair value measurements	$ 103,591,690		$ 103,591,690

5. 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 bonds are stated at fair value based on quoted prices in active markets.

Cash investments are stated at cost which approximates fair value.

The interest rate swap derivative is valued using pricing models that use observable outputs.

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.

6. Property and equipment

Property and equipment are as follows:

June 30,	2017	2016
Leasehold improvements	$ 70,010,386	$ 68,823,397
Building	26,710,276	26,654,059
Land	6,423,651	6,423,651
Equipment	8,467,620	7,278,129
Furniture	1,077,275	1,077,275
Software	476,540	393,044
Automobiles	145,561	179,082
	113,311,309	110,828,637
Less accumulated depreciation and amortization	(27,764,215)	(22,751,636)
	85,547,094	88,077,001
Construction in progress	22,944,429	1,898,437
Property and equipment, net	$ 108,491,523	$ 89,975,438

7. Leverage loan notes receivable – NMTC and notes payable – NMTC

2011 New Market Tax Credits:

The School negotiated a New Markets Tax Credits (NMTC) 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. The School qualifies as a Qualified Active Low-Income Community Business (QALICB), within the meanings of Section 45D of the Internal Revenue Code of 1986, as amended (the Code) and Section 1.45D of the Treasury Regulations promulgated thereunder (the Treasury Regulations).

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.

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

2011 New Market Tax Credits: (continued)

The note receivable – 2011 NMTC held by the Foundation is payable by the State Investment Fund over 30 years and matures on May 30, 2041. Interest compounds at 3.08127% per annum.

The State Investment Fund will pay interest at a rate of 1.00% ($80,500 per year) for the initial seven years of the note after which time annual principal and interest payments due from the State Investment Fund will be $569,222. As collateral for the note, the State Investment Fund has assigned its 99.99% interest in the State Sub-Community Development Entity.

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 notes payable – 2011 NMTC held by the School include a simple interest rate of 1.34049% and are payable over 30 years and mature on May 30, 2041. Under Note A, the School will pay interest only of $134,049 annually for the initial seven years of the Note after which annual principal and interest payments will be $505,968. Under Note B, the School will pay interest only of $40,215 annually for the initial seven years of the Note after which annual principal and interest payments will be $146,701.

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. Under terms of the NMTC transaction, the School is also obligated to pay annual loan servicing fees of $32,500 and annual asset management fees of $100,581.

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

2011 New Market Tax Credits: (continued)

As collateral for the notes payable, the School has pledged the Rowe Clark Gymnasium as well as all rights, title and interest in, to and under leases and rents related to the property, if any. As additional collateral, the School has pledged money held in various accounts. The net book value or fair value of the collateral pledged in conjunction with the notes payable – 2011 NMTC is as follows:

June 30,	**2017**	2016
Rowe Clark gymnasium - net book value	**$ 4,101,965**	$ 4,216,602
Various cash accounts with financial institutions - fair value	**2,604,900**	2,604,562
Total security pledged in connection with notes payable – NMTC	**$ 6,706,865**	$ 6,821,164

After the seven-year NMTC period expires, if the School has performed its obligations under the NMTC financing arrangement, the School may be able to gain control of and cancel, approximately $5,000,000 of the $13,000,000 indebtedness through the mutual forgiveness of the $8,050,000 note receivable – 2011 NMTC and the $13,000,000 notes payable – 2011 NMTC. The School can gain control of such debt in one of two ways: (1) the state and/or federal tax credit investors can exercise a put option giving the notes payable – 2011 NMTC to the School for $1,000 or (2) if such put is not exercised, the School would be able to exercise a call option on the notes payable – 2011 NMTC by paying the fair market value of the state and federal tax credit investors' interests in the entities that provided the funds, in the form of equity or loans, needed for the NMTC lender to make the NMTC loan. It is expected that the gain of $5,000,000 will be reduced by the forgiveness of accrued interest receivable of approximately $1,300,000 and an exit fee of $100,581 for a net gain of $3,600,000.

2015 New Market Tax Credits:

The School entered into a second 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.

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

2015 New Market Tax Credits: (continued)

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.

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 monthly 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.

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

2015 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 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 may be able to gain control of and cancel, approximately $2,100,000 of the $7,920,000 indebtedness through the mutual forgiveness of the $5,819,200 note receivable – 2015 NMTC and the $7,920,000 notes payable – 2015 NMTC.

2017 New Market Tax Credits:

On March 16, 2017, the School entered into a third 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").

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

2017 New Market Tax Credits: (continued)

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 terms of the NMTC transaction, the School is also obligated to pay annual loan servicing fees of $50,000.

It is anticipated that the School will be in compliance with all NMTC program requirements for the seven-year NMTC compliance period ending on 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 may be able to gain control of and cancel, approximately $7,700,000 of the $26,700,000 indebtedness through the mutual forgiveness of the $19,004,200 note receivable – 2017 NMTC and the $26,700,000 notes payable – 2017 NMTC.

Leverage notes receivable – NMTC outstanding at June 30, 2017 and 2016 are summarized below:

June 30, 2017	Original note	Accrued interest	Total
2017 NMTC	$ 19,004,200	$ 55,430	$ 19,059,630
2015 NMTC	5,819,200		5,819,200
2011 NMTC	8,050,000	1,137,787	9,187,787
Total leverage notes receivable - NMTC	$ 32,873,400	$ 1,193,217	$ 34,066,617

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

June 30, 2016	Original note	Accrued interest	Total
2015 NMTC	$ 5,819,200		$ 5,819,200
2011 NMTC	8,050,000	$ 939,162	8,989,162
Total leverage notes receivable - NMTC	$ 13,869,200	$ 939,162	$ 14,808,362

The applicable Loan Agreements for the NMTC transactions contain various covenants. The School is in compliance with all loan covenants as of June 30, 2017 and 2016.

NMTC – notes payable are summarized below:

June 30,	**2017**	2016
Notes payable - 2017 NMTC	**$ 26,700,000**	
Notes payable - 2015 NMTC	**7,920,000**	$ 7,920,000
Notes payable - 2011 NMTC	**13,000,000**	13,000,000
Total notes payable - NMTC	**47,620,000**	20,920,000
Unamortized NMTC - notes payable issuance costs	**(573,107)**	(246,699)
Notes payable - NMTC, net	**$ 47,046,893**	$ 20,673,301

See Note 9 for notes payable.

8. Bonds payable

Bonds payable are summarized as follows:

June 30,		**2017**		2016
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 $1,470,442 and $1,569,573 for the years ended June 30, 2017 and 2016, respectively) are payable annually on September 1 through maturity in 2032. The bonds are collateralized by various campus facilities.	**$**	**19,655,677**	$	20,464,573
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 $82,279 and $86,024 for the years ended June 30, 2017 and 2016, respectively) are payable annually beginning September 1, 2023 through maturity in 2039. The bonds are collateralized by various campus facilities.		**19,917,721**		19,913,976
Series 2007A bonds payable with interest payable semi-annually on March 1 and September 1, at rates ranging from 4.10% to 5%. Principal payments (net of reoffering premiums of $100,330 and $107,056 for the years ended June 30, 2017 and 2016, respectively) are payable annually on September 1. The bonds were defeased with the issuance of the Series 2015 bonds and are to be redeemed in full on September 1, 2017.		**11,135,330**		11,555,807
Series 2006C bonds payable with interest payable semi-annually on March 1 and September 1, at rates ranging from 4% to 4.40%. Principal payments (net of reoffering premium of $80,575 for the year ended June 30, 2016) were payable annually on September 1. The bonds were defeased with the issuance of the Series 2015 bonds and were redeemed in full on September 1, 2016.				9,221,826
Total bonds payable		**50,708,728**		61,156,182
Unamortized bond issuance costs		**(2,157,402)**		(2,294,462)
Bonds payable, net		**48,551,326**		58,861,720
Less current portion, net		**(11,819,140)**		(10,310,390)
Long-term portion, net	**$**	**36,732,186**	$	48,551,330

8. Bonds payable (continued)

Subsequent to June 30, 2017, the School made the final redemption payment of $11,035,000 on the Series 2007A bonds payable.

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, 2017 and 2016, the School was in compliance with all of the financial covenants.

Future minimum principal payments are as follows:

Year ending June 30:	Amount
2018	$ 11,956,199
2019	956,199
2020	986,199
2021	1,031,199
2022	1,076,199
Thereafter	34,702,733
Total	$ 50,708,728

9. Notes payable

Notes payable are summarized as follows:

June 30,		**2017**		2016
IFF note payable in monthly installments of $6,682, which includes interest at 5.84% per annum and matures on June 1, 2023. The note is collateralized various campus property and equipment.	**$**	**405,025**	$	459,806
IFF note payable in monthly installments of $8,013, which includes interest at 5.68% per annum and matures on November 1, 2019. The note is collateralized by various campus property and equipment.		**589,320**		654,241
Charter School Growth Fund note payable with interest accruing at a rate of 1% per annum and matures June 30, 2018. Total principal and accrued interest payable at maturity.		**500,000**		500,000
Charter School Growth Fund note payable with interest accruing at a rate of 1% per annum and matures June 30, 2019. Principal payments are due annually starting June 20, 2018 with the final payment and total accrued interest due at maturity.		**1,750,000**		3,000,000
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
BMO Harris Bank note payable in monthly installments of $61,728, which includes interest at LIBOR plus 2.5% per annum and matures on April 17, 2022. The note is collateralized by a first priority mortgage of a campus building and assignment of rents.		**3,518,564**		4,259,260
Notes payable - NMTC, net (See Note 7)		**47,046,893**		20,673,301
Total notes payable		**54,184,802**		29,921,608
Less current portion		**(15,730,424)**		(1,287,615)
Long-term portion, net	**$**	**38,454,378**	$	28,633,993

9. Notes payable (continued)

The above notes payable require the School to comply with certain financial covenants. At June 30, 2017 and 2016, the School was in compliance with all of the financial covenants.

Future minimum principal payments are as follows:

Year ending June 30:	Amount
2018	$ 15,867,096
2019	1,124,026
2020	1,630,328
2021	809,898
2022	677,582
Thereafter	34,648,979
	54,757,909
Less unamortized NMTC - notes payable issuance costs	(573,107)
Notes payable, net	$ 54,184,802

10. Interest rate swap

The School entered into an ISDA Master (Swap) Agreement with BMO Harris Bank for a notional amount of $5,000,000, with an effective date of July 17, 2015 and a maturity date of April 15, 2022, in which the School will make interest payments based upon a fixed rate of 1.64% commencing on August 17, 2015 in exchange for BMO Harris Bank to make interest payments to the School based on a floating rate of one-month LIBOR rate through and including the maturity date. However, the swap agreement may be terminated at any time. The notional amount under the swap will decline in lockstep with principal redemption payment on the BMO Harris Bank loan (see Note 9) so that the notional amount does not exceed the principal amount outstanding under the BMO Harris Bank loan. The swap is designed to hedge the risk of changes in interest rate payments on the BMO Harris Bank loan caused by changes in the floating interest rates.

10. Interest rate swap (continued)

The swap was issued at market terms so that it had no fair value at its inception. The carrying amount of the swap has been adjusted to its fair value as of June 30, 2017, which because of changes to future implied levels of one-month LIBOR, resulted in reporting a liability of $37 for the fair value of the future net payments forecasted under the swap. The change in fair value of the swap is reported in the consolidated statements of activities.

11. Conditional promises to give

The School records revenue associated with conditional promises to give when the conditions have been substantially met. As of June 30, 2017, the School has approximately $21,500,000 of conditional promises associated with expansion and student scholarships that have not yet been recognized as revenue.

12. 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 School operations.

As of June 30, 2017, the School had entered into construction contracts totaling approximately $21,941,000 to build the Mansueto High School, of which $18,656,000 had been incurred as of June 30, 2017.

13. 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 to be named the Osborn Family Scholarship program.

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.

14. School lunch program

For the years ended June 30, 2017 and 2016, 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.

15. Self-insurance program

Effective January 1, 2016, 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 $4,600,000 in aggregate for 2017. 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 $558,000 and $850,000 as of June 30, 2017 and 2016, respectively, and is included in accounts payable and accrued expenses on the consolidated statements of financial position.

16. Retirement fund commitments

The School participates in the Public School Teachers' Pension and Retirement Fund of Chicago (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 the Chicago Public Schools and remits those contributions to the Fund on behalf of applicable Chicago schools' employer contributions.

During the years ended June 30, 2017 and 2016, the Chicago Public Schools withheld the employer contribution related to pensionable salaries, other than special education instructors, from the per-capita tuition that was paid to the School. In addition, Chicago Public Schools contributed the employer contribution related to pensionable salaries of special education instructors. For the year ended June 30, 2017, the amount of employer contributions was estimated at $4,357,121 (based on pensionable salaries of $39,042,307), which approximates 11.16% of pensionable salary and includes $1,015,548 (based on pensionable salaries of $9,099,894) as contributed by the Chicago Public Schools and recorded as contributed services revenue. For the year ended June 30, 2016, the amount of employer contributions was estimated at $4,051,182 (based on pensionable salaries of $36,300,916), which approximates 11.16% of pensionable salary and includes $997,175 (based on pensionable salaries of $8,935,257) as contributed by the Chicago Public Schools and recorded as contributed services revenue.

In addition, the School has elected to pay a portion of its employees' contributions to the Fund. During the years ended June 30, 2017 and 2016, the School paid $2,732,961 and $2,541,064, respectively, in pension contributions to the Fund. The Fund does not maintain separate actuarial records for the School.

16. Retirement fund commitments (continued)

In addition, all employees were eligible to participate in the Noble Network of Charter Schools 401(k) P/S Plan (P/S Plan). Employees can elect to defer their compensation up to the maximum allowed. The School matches employee deferral contributions up to a maximum of 5% of compensation or $2,000 semiannually. Contributions paid by the School to the Plan during the years ended June 30, 2017 and 2016 were $515,301 and $505,323, respectively.

17. Leases agreements

The School rents various facilities under leases expiring through 2035. Some of the leases contain renewal provisions ranging from 10 to 15 years. Annual rent under the leases ranges from $1 to $2,129,000. Security deposits totaling $1,161,408 are held by the landlords. In addition, the use of certain facilities are donated to the School.

Total rent expense was $3,986,283, excluding contributed rent of $3,496,081, and $5,848,761, excluding contributed rent of $3,394,473, for the years ended June 30, 2017 and 2016, respectively.

Future minimum building rental commitments are estimated as follows:

Year ending June 30:	Amount
2018	$ 3,892,928
2019	3,979,229
2020	4,044,879
2021	3,516,047
2022	3,295,881
Thereafter	28,746,943
Total	$ 47,475,907

18. Temporarily restricted net assets

Temporarily restricted net assets are available for the following purpose or time restrictions:

June 30,	2017	2016
Restricted for purpose:		
College readiness program	$ 1,000,411	$ 76,192
Extracurricular activities	33,214	5,989
Other programs	236,946	56,306
Scholarships	2,724,322	3,046,798
Startup and growth activities and costs	6,093,464	11,974,032
Summer of a Lifetime program	518,996	480,822
Total restricted for purpose	10,607,353	15,640,139
Restricted for time	1,505,581	1,010,581
Total temporarily restricted net assets	$ 12,112,934	$ 16,650,720

18. Temporarily restricted net assets (continued)

During the years ended June 30, 2017 and 2016, net assets were released from donor restrictions by incurring expenses satisfying the following purpose or time restrictions:

Years ended June 30,	**2017**	2016
Restricted for purpose:		
College readiness program	**$ 340,781**	$ 272,000
Extracurricular activities	**123,231**	50,419
Other programs	**194,539**	485,882
Principal internship program		100,000
Scholarships	**2,054,070**	1,051,576
Startup and growth activities and costs	**7,630,229**	8,358,239
Summer of a Lifetime program	**480,822**	355,338
Total restricted for purpose	**10,823,672**	10,673,454
Restricted for time	**1,415,000**	1,980,960
Total net assets released from restrictions	**$ 12,238,672**	$ 12,654,414

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, 2017, 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 17, 2017.

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.

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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 17, 2017