

FOUNDATION LEARNING COLORADO, INC.

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

**FOUNDATION LEARNING COLORADO, INC.
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2018**

INDEPENDENT AUDITORS' REPORT	I
MANAGEMENT'S DISCUSSION AND ANALYSIS	IV
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	1
STATEMENT OF ACTIVITIES	2
BALANCE SHEET — GENERAL FUND	3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE — GENERAL FUND	4
NOTES TO FINANCIAL STATEMENTS	5
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL — GENERAL FUND	15
SUPPLEMENTARY INFORMATION	
BALANCE SHEET — GENERAL FUND BY LOCATION	17
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — GENERAL FUND BY LOCATION	18
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 <i>GOVERNMENT AUDITING STANDARDS</i>	19

INDEPENDENT AUDITORS' REPORT

Board of Directors
Foundation Learning Colorado, Inc.
Lakewood, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Foundation Learning Colorado, Inc. (the Network), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Network's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Foundation Learning Colorado, Inc. as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Network's basic financial statements. The balance sheet — general fund by location and the statement of revenues, expenditures, and changes in fund balance — general fund by location are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Board of Directors
Foundation Learning Colorado, Inc.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2018 on our consideration of the Network'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Network'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 Network's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Denver, Colorado
November 26, 2018

**FOUNDATION LEARNING COLORADO, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018**

In this Management's Discussion and Analysis (MD&A) section of the Financial Statements for Foundation Learning Colorado, Inc. (the Network), we provide readers with a narrative overview and analysis of the financial activities for the year ended June 30, 2018. This discussion and analysis is also intended to serve as an introduction to the Network's basic financial statements. We encourage readers to consider the information presented here in conjunction with the information presented in the basic financial statements to enhance their understanding of the Network's financial activity and performance.

Financial Highlights

Key to the financial condition of the organization is the strength of the balance sheet disclosing amounts for assets, liabilities, and net position.

At the close of the fiscal year, the Network experienced an increase of \$0 in net position due to conservative fiscal management and a successful year of school operations.

Total unrestricted net position was \$25,294 at June 30, 2018.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements are comprised of three components:

- Government-wide Financial Statements on pages 1 and 2
- Fund Financial Statements on pages 3 and 4
- Notes to the Financial Statements on pages 5-13

Government-wide Financial Statements

The Government-wide Financial Statements are designed to provide readers with a long-term and broad overview of the Network's finances as a whole in a manner similar to a private sector business. The Government-wide Financial Statements use an economic resource management focus in which all of the assets are available to the Network for the purpose of providing goods and services to qualified enrolled students, and the full accrual basis of accounting, which results in recording changes in assets and liabilities (revenues and expenses) when the underlying event causing the changes occurs to present this long-term and broad overview of financial position and activities in the Statement of Net Position and the Statement of Activities. Therefore, certain expenditures recorded in the governmental fund financial statements are deferred or capitalized and amortized or depreciated, and long-term liabilities not reported in fund financial statements are recorded before the cash, which can fund current year expenditures is received.

The Statement of Net Position presents the financial position of the Network as a whole at the end of the fiscal year by presenting information on all of the Network's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position serve as a useful indicator of whether the Network's financial position is improving or deteriorating.

The Statement of Activities shows how the financial position of the Network as a whole has changed since the beginning of the fiscal year. In the Statement of Activities, all changes in net position are reported as soon as the underlying economic event has occurred, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement even though the resulting cash flow may be recorded in a future period.

**FOUNDATION LEARNING COLORADO, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018**

Fund Financial Statements

A fund is a fiscal and accounting entity with a self-balancing set of accounts used to record cash and other financial resources and related liabilities and residual equities segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The Network uses fund accounting to ensure and demonstrate compliance with finance-related regulations, requirements, restrictions, or limitations. Fund financial statements for the Network include a Governmental Fund only.

The measurement focus for governmental fund accounting is current financial resources, which include cash and near-cash assets and short term debt that are available during the fiscal year and soon enough after the end of the fiscal year to financially support the purpose of carrying on specific activities or attaining certain objectives in accordance with the special regulations, restrictions or limitations that define the fund.

Governmental fund accounting uses the modified accrual basis of accounting. This basis of accounting records and reports the inflows and outflows of current financial resources (spendable/appropriable resources) under the special regulations, restrictions, or limitations that define the fund. Governmental fund financial statements reinforce the Government-wide Financial Statements by focusing on the current financial resources and emphasizing the need for short-term financing and generation of spendable resources. Governmental fund financial statements provide additional information related to the regulation, restrictions, or limitations that define the funds, their impact on the ability of the fund to finance current activities and specific missions, and measurement against the planned appropriations and budgets of the responsible officials of the Network.

Governmental Fund — is used to account for essentially the same functions reported as governmental activities in the Government-wide Financial Statements. However, unlike the Government-wide Financial Statements, Governmental Fund Financial Statements focus on near-term inflow and outflows of financial (spendable/appropriable) resources, as well as on balances of financial (spendable) resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing and appropriation related requirements.

Because the focus of Fund Financial Statements is narrower than that of the Government-wide Financial Statements, it is useful to compare the information presented for governmental funds in Fund Financial Statements with similar information presented for governmental activities in the Government-wide Financial Statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. A reconciliation of the Total Governmental Fund Balances in the Fund Financial Statements balance sheets to the Net Position of Governmental Activities in the Government-wide Financial Statements is provided following the Balance Sheet of Government Funds in the Fund Financial Statements. A reconciliation of the Net Change in Fund Balance — Total Governmental Fund in the Fund Financial Statements to the Change in Net Position of Governmental Activities in the Government-wide Financial Statement is provided following the Statement of Revenues, Expenditures, and Changes in Fund Balance in the Fund Financial Statements.

**FOUNDATION LEARNING COLORADO, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018**

Fund Financial Statements (Continued)

These reconciliations provide explanations of differences between these balances and facilitate an understanding of the differences between the measurement focuses and basis of accounting used in preparing the Fund Financial Statements and the Government-wide Financial Statements.

In this annual report, the Network reports one governmental fund. Information is presented separately in the Fund Financial Statements for the General Fund. Individual Fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance are presented for the General Fund.

Notes to the Basic Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the information provided in the government-wide and fund financial statements.

Budgetary Comparisons

The Network adopts an annual appropriated budget for its governmental fund. A budgetary comparison schedule has been provided for the General Fund on page 15.

CHANGES IN THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

Condensed Statement of Net Position

The following table provides a condensed presentation of the Network's Government-wide Statement of Net Position for fiscal year June 30, 2018:

	2018
ASSETS	
Current Assets	\$ 2,475,633
Total Assets	2,475,633
 LIABILITIES	
Current Liabilities	1,898,211
Total Liabilities	1,898,211
 NET POSITION	
Restricted	552,128
Unrestricted	25,294
Total Net Position	\$ 577,422

A review of the condensed Government-wide Statement of Net Position for the Network for fiscal year 2018 shows that current assets exceed current liabilities by \$577,422 and overall net position did not change during the current fiscal year.

**FOUNDATION LEARNING COLORADO, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018**

Condensed Statement of Activities

The following table provides a condensed presentation of the Network's Government-wide Statement of Activities for fiscal year ended June 30, 2018:

	2018
REVENUES	
Intergovernmental	\$ 17,683,651
Other	33,047
Total Revenues	17,716,698
EXPENSES	
Current	
Instruction	13,030,148
Support Services:	
Student Services	1,042,128
General Administrative	633,661
School Administration Services	1,252,689
Business Services	836,469
Operations and Maintenance of Plant Services	343,115
Central Support Services	578,488
Total Expense	17,716,698
REVENUES UNDER EXPENDITURES	-
Net Position - Beginning of Year	577,422
NET POSITION - END OF YEAR	\$ 577,422

Revenue and expense line items used in the condensed Government-wide Statement of Activities for the Network account for the following:

- Intergovernmental Revenue — The major portion of intergovernmental revenue is provided by the Colorado Public School Finance Act of 1994 (Finance Act), which provides for the funding of public school's on a full-time equivalent (FTE) pupil enrollment count formula. Student FTE was 2,241.90 for all five of the Network's Schools combined for the 2018 fiscal year.
- Instruction — Instructional expenses include activities dealing directly with the interactions between teaching staff and students.
- Student Services — Activities designed to assess and improve the well-being of students and to supplement the teaching process. These services pertain to interaction between students and teachers by designing the educational program for the needs of individual students and include activities designed to improve student attendance.
- General Administrative — Activities concerned with establishing and administering policy for operating the school.
- School Administrative — Activities concerned with the overall administrative responsibility for the school.

**FOUNDATION LEARNING COLORADO, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018**

- Business Services — Activities concerned with paying, transporting, exchanging, and maintaining goods and services for the school. Included are the fiscal and internal services necessary for operating the school.
- Operations & Maintenance of Plant Services — Activities concerned with keeping the physical plant open, comfortable, and safe for use, and keeping the grounds, buildings, and equipment in effective working condition and state of repair.
- Central Support Services — Activities, other than general administration, which support each of the other instructional and support service programs. These activities include planning, research, development, evaluation, information, staff, and data processing services.

ANALYSIS OF THE GOVERNMENT-WIDE FINANCIAL POSITION AND RESULTS OF OPERATIONS

Analysis of Government-wide Financial Position

Net position, the amount by which the Network's assets exceed its liabilities, are generally accepted as the primary indicator of the Network's financial position. Increasing net position from one year to the next indicates an improvement in the Network's financial position while decreasing net position from one year to the next indicates deterioration in the Network's financial position.

As of June 30, 2018, the Network's assets exceeded liabilities by \$577,422. The changes in government-wide net position are presented and discussed above in the Changes in the Government-wide Financial Statements section of this MD&A.

The Network's unrestricted net position was \$25,294 in fiscal year 2018.

The remaining net position, \$552,128 in fiscal year 2018, represents resources that are subject to external restrictions on how they may be used. Included in this category are reserves for Special Education required by an agreement with the East Central Board of Cooperative Educational Services and statutory reserves required by the State of Colorado.

Analysis of Government-wide Results of Operation

The primary indicator used to assess the health of a Network's operations is whether revenues exceed expenses for the fiscal year. The fact that revenues exceed expenses for the fiscal year demonstrates that the government is able to fund the services it is required to provide to the charter schools on an ongoing basis.

The changes in government-wide revenue are presented and discussed above in the Changes in the Government-wide Financial Statements section of this Management's Discussion and Analysis.

ANALYSIS OF BALANCES OF FUND FINANCIAL STATEMENTS

Fund Financial Statements Overview

The Network uses fund accounting to ensure and demonstrate compliance with finance-related regulations, requirements, restrictions, or limitations and to report the financial position and financial activity of the funds. Fund Financial Statements reinforce the Government-wide Financial Statements and provide additional information related to regulations, requirements, restrictions or limitations and report the financial position and financial activity of the funds. The Fund Financial Statements include a Governmental Fund.

**FOUNDATION LEARNING COLORADO, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018**

Governmental Fund

Governmental Fund Financial Statements focus on the current financial resources, cash and near-cash assets and short-term debt that are available during the fiscal year and soon enough after the end of the fiscal year to financially support the purpose of carrying on specific activities or attaining certain objectives in accordance with the special regulation, restrictions or limitations that define the fund. This information is useful in assessing the Network's current financial resource requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for future spending at the end of the fiscal year.

The total ending fund balance of the Network governmental fund was \$577,422 at the end of fiscal year 2018. \$499 is recorded as nonspendable fund balance and \$24,795 was unassigned fund balance at the end of fiscal year 2018. The remainder of the total governmental fund ending fund balance was not available for new spending in the following fiscal year because it is restricted for the following purposes:

- Special Education Reserve - \$50,000
- TABOR (Taxpayer's Bill of rights) - \$502,128

GENERAL FUND BUDGET VARIANCE ANALYSIS

The Network's budget is prepared according to Colorado Statutes.

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Fund Balance - Beginning of Year	\$ 577,422	\$ 577,422	\$ 577,422	\$ -
Revenues	18,978,321	18,058,224	17,716,698	(341,526)
Expenditures	18,952,385	18,058,224	17,716,698	341,526
Fund Balance - June 30, 2017	<u>\$ 603,358</u>	<u>\$ 577,422</u>	<u>\$ 577,422</u>	<u>\$ -</u>

Economic Factors and Next Year's Budget

An increase in per pupil funding by at least inflation plus 1% was provided by the State Constitution Amendment 23, passed by the voters in November 2000. For fiscal year 2018, State funding for the Network charter schools will include a per pupil rate increase as compared to fiscal year 2018. The Network charter schools will be receiving an estimated \$7,454 per pupil (FTE basis).

Requests for Information

This financial report is designed to provide a general overview of the Network's finances for all those with an interest in the Network's charter schools. Questions concerning any of the information provided in this report or requests for additional information shall be addressed to Foundation Learning Colorado, Inc., Attn: Board Treasurer, 165 S. Union Blvd., Ste. 777, Lakewood, CO 80228.

**FOUNDATION LEARNING COLORADO, INC.
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities
ASSETS	
Cash and Investments	\$ 2,128,367
Accounts Receivable	346,767
Prepaid Expenses	499
Total Assets	\$ 2,475,633
LIABILITIES	
Accounts Payable	\$ 1,543,462
State Equalization Payable	354,749
Total Liabilities	1,898,211
NET POSITION	
Restricted for:	
Special Education Reserve	50,000
TABOR	502,128
Unrestricted	25,294
Total Net Position	\$ 577,422

See accompanying Notes to Financial Statements.

**FOUNDATION LEARNING COLORADO, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

	Expenses	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
Governmental Activities			
Instruction	\$ 13,030,148	\$ -	\$ (13,030,148)
Supporting Services:			
Student Services	1,042,128	-	(1,042,128)
Instructional Staff Services	-	-	-
General Administrative	633,661	-	(633,661)
School Administration Services	1,252,689	-	(1,252,689)
Business Services	836,469	-	(836,469)
Operations and Maintenance of Plant Services	343,115	-	(343,115)
Central Support Services	578,488	-	(578,488)
Total Governmental Activities	\$ 17,716,698	\$ -	(17,716,698)
GENERAL REVENUES			
Intergovernmental			17,683,651
Other			33,047
Total General Revenues			17,716,698
CHANGE IN NET POSITION			-
Net Position - Beginning of Year			577,422
NET POSITION - END OF YEAR			\$ 577,422

See accompanying Notes to Financial Statements.

**FOUNDATION LEARNING COLORADO, INC.
BALANCE SHEET — GENERAL FUND
JUNE 30, 2018**

General

ASSETS

Cash and Investments	\$	2,128,367
Accounts Receivable		346,767
Prepaid Items		499
		<u>499</u>
Total Assets	\$	<u><u>2,475,633</u></u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Accounts Payable	\$	1,543,462
State Equalization Payable		354,749
Total Liabilities		<u>1,898,211</u>

FUND BALANCE

Nonspendable		499
Restricted:		
Special Education Reserve		50,000
TABOR		502,128
Unassigned		24,795
Total Fund Balance		<u>577,422</u>

Total Liabilities and Fund Balances	\$	<u><u>2,475,633</u></u>
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Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:

Total Fund Balance of Governmental Fund	\$	<u>577,422</u>
Net Position of Governmental Activities	\$	<u><u>577,422</u></u>

See accompanying Notes to Financial Statements.

FOUNDATION LEARNING COLORADO, INC.
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE —
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	General
REVENUES	
Federal Revenues	\$ 901,873
State Revenues	16,781,778
Other Revenues	33,047
Total Revenues	17,716,698
EXPENDITURES	
Instruction	13,030,148
Support Services:	
Student Services	1,042,128
General Administrative	633,661
School Administration Services	1,252,689
Business Services	836,469
Operations and Maintenance of Plant Services	343,115
Central Support Services	578,488
Total Expenditures	17,716,698
EXCESS OF REVENUES OVER EXPENDITURES	-
NET CHANGE IN FUND BALANCE	-
Fund Balances - Beginning of Year	577,422
FUND BALANCES - END OF YEAR	\$ 577,422

A reconciliation reflecting the differences between the governmental fund net change in fund balance and change in net position reported for governmental activities in the statement of activities is as follows:

Net Change in Fund Balance - Total Governmental Fund	\$ -
Change in Net Position of Governmental Activities	\$ -

See accompanying Notes to Financial Statements.

FOUNDATION LEARNING COLORADO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foundation Learning Colorado, Inc. (the Network) is a charter school network based on the Colorado Charter Schools Act (C.R.S. §§ 22-30.5-104.7). The Network was formed to advance the educational mission of participating charter schools in the State of Colorado.

The Network may hold one or more charter contracts through one or more authorizers for purposes of operating more than one school. The Network is governed by a single governing body. The Network is authorized to make necessary and appropriate expenditures from any lawful source for central office purposes and to allocate funds among the schools that it operates, as permitted by law.

During the fiscal year ended June 30, 2018, the Network operated the following charter schools: New Elementary School, New Middle School, New High School, Elevate Academy and Valiant Academy (collectively, the Schools).

The Schools are component units of the Byers School District 32J of the State of Colorado (the District), which provide education based on rigorous teaching methods, parental involvement, and student responsibility. The Schools are component units of the District because even though they are separate legal entities, the Schools operate under authority of the District, which exercises oversight as required by Colorado law. The Network and the Schools provide education, at no cost to the parents, to students in kindergarten through twelfth grade.

Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability, and/or religious affiliation. The Network operates multiple charter schools authorized by the District, which is responsible for oversight of the School's operations.

The Network operates as an organization exempt from federal income tax as a governmental entity pursuant to Colorado laws applicable to Colorado public schools.

The majority of the Network's funding is provided by the State of Colorado and passed through the District.

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles applicable to governmental units. A summary of the Network's significant accounting policies consistently applied in the preparation of these financial statements follows:

FOUNDATION LEARNING COLORADO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Reporting Entity

The Governmental Accounting Standards Board (GASB) has specified the criteria to be used in defining a governmental entity for financial reporting purposes:

The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the exercise of financial accountability over such agencies by the governmental unit's elected officials. Financial accountability is derived from the governmental unit's power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. Financial accountability implies that a governmental unit is dependent on another and the dependent unit should be reported as part of the other.

The Network is a public entity established as a charter school network pursuant to Colorado state law. The Network is authorized to provide any function, service, or facility that is lawfully authorized for each of the Network's charter schools.

For financial reporting purposes, in conformance with GASB, the Network includes all funds, agencies, boards and commissions that are controlled by or dependent on its board of directors. Control by or dependence on the Network was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the Network, obligation of the Network to finance any debts that may occur, or receipt of significant subsidies from the Network. The Network is not financially accountable for any other entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Network. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Separate financial statements are provided for the governmental fund. The Network has one major individual governmental fund — the General Fund.

FOUNDATION LEARNING COLORADO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting

The accounts of the Network are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of the general fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the individual fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The major fund presented in the accompanying basic financial statements is as follows:

Major Governmental Fund

General Fund — The General Fund is the general operating fund of the Network. It is used to account for all financial resources except those required to be accounted for in another fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, operating statements present increases and decreases in net current assets and fund balance as a measure of available spendable resources. This means that only current liabilities are generally included on their balance sheets.

The governmental fund uses the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. Revenues are considered to be available if collected within 60 days after year-end.

Grants and entitlement revenues are recognized when compliance with matching requirements is met. A receivable is established when the related expenditures exceed revenue receipts, and an unearned revenue account is established when receipts exceed the related expenditures.

Cash and Investments

Investments are measured at amortized cost.

Prepaid Items

Payments made to vendors for services that will benefit future periods are recorded as prepaid expenses. An expenditure is reported in the year in which the services are consumed.

FOUNDATION LEARNING COLORADO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

In the government-wide financial statements, net position is restricted when constraints placed on the net position are externally imposed.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Network is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable — This classification includes amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact. The Network had \$499 of nonspendable resources as of June 30, 2018.

Restricted — This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Network has classified Special Education Reserves as being restricted because their use is restricted by an agreement with the East Central Board of Cooperative Educational Services. The Network has also classified TABOR Reserves as being restricted because their use is restricted by State Statute for declared emergencies. Restricted balance related to Special Education Reserves and TABOR Reserves as of June 30, 2018, is \$552,128.

Committed — This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the board of directors. These amounts cannot be used for any other purpose unless the board of directors removes or changes the specified use by taking the same type of action (i.e. resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Network did not have any committed resources as of June 30, 2018.

Assigned — This classification includes amounts that are subject to a purpose constraint that represents an intended use as directed by the board of directors, but does not meet the criteria to be classified as restricted or committed. The purpose of this assignment must be narrower than the purpose of the General Fund, and in funds other than the General Fund, assigned fund balance represents the residual amount of fund balance. The Network did not have any assigned fund balance as of June 30, 2018.

Unassigned — This classification includes the residual fund balance for the General Fund.

**FOUNDATION LEARNING COLORADO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Classification (Continued)

The Network would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned fund balance.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budget and Budgetary Accounting

A budget was adopted for the General Fund for fiscal year 2018, on a basis consistent with generally accepted accounting principles.

The Network's management submits to the board of directors a proposed budget for the fiscal year commencing the following July 1. The budget is adopted by the board prior to June 30.

Expenditures may not legally exceed appropriations at the fund level. Revisions must be approved by the board. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at fiscal year-end.

The Network's budgeted and actual expenditures for the year ending June 30, 2018 represent the following:

	<u>Budgeted Amounts Final</u>	<u>Actual Expenditures</u>	<u>Variance with Final Budget Positive (Negative)</u>
General Fund	\$ 18,058,224	\$ 17,716,698	\$ 341,526

NOTE 3 CASH AND INVESTMENTS

Cash Deposits

The Network's deposits are governed by Colorado Statute. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

The State Regulatory Commissions for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

**FOUNDATION LEARNING COLORADO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Cash Deposits (Continued)

The cash balance was held by banking institutions in the State of Colorado and was fully collateralized, to the extent not covered by federal deposit insurance.

At June 30, 2018, the Network had cash deposits with a carrying amount of \$1,372,489.

Investments

Credit Risk

The Network has not adopted a formal investment policy; however, the Network follows State statutes regarding investments.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest, which include:

- Obligations of the United States, U.S. government agency securities, and World Bank
- Certain corporate bonds
- General obligation and revenue bonds of U.S. state and local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools
- Certain reverse repurchase agreements
- Certain securities lending agreements

The money market fund held by the Network is rated A-1+ by Standard & Poor's.

Interest Rate Risk

Colorado revised statutes generally limit investment maturities to five years or less unless formally approved by the board of directors. Revenue bonds of U.S. local governments, corporate and bank securities, and guaranteed investment contracts not purchased with bond proceeds are limited to maturities of three years or less.

As of June 30, 2018, the Network had the following investments:

<u>Investments</u>	<u>Maturity</u>	<u>Amortized Cost</u>
Money Market Mutual Fund	Less than 1 Year	<u>\$ 755,878</u>

FOUNDATION LEARNING COLORADO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Interest Rate Risk (Continued)

At June 30, 2018, cash deposits and investments consisted of the following:

Cash Deposits	\$ 1,372,489
Investments	755,878
Total	<u>\$ 2,128,367</u>

The Network categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Network's money market fund investment as of June 30, 2018 is measured at amortized cost and is therefore not categorized in a level of the fair value hierarchy.

NOTE 4 STATE EQUALIZATION PAYABLE

Revenue of the Network is primarily provided by the Colorado Public School Finance Act of 1994, which provides funding to public schools on a full time equivalent (FTE) per pupil enrollment count. The Network performs a pupil enrollment count each October. The enrollment count is subject to audit by the Colorado Department of Education (CDE).

The Network has recorded a liability for fiscal year 2018 of \$77,217, representing .46% of state revenues. Total liability for fiscal year 2017 and 2018 combined is \$354,749.

NOTE 5 TAX SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR) contains, tax spending, revenue, and debt limitations, which apply to the State of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year's Fiscal Year spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service and certain expenditures). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

FOUNDATION LEARNING COLORADO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 TAX SPENDING AND DEBT LIMITATIONS (CONTINUED)

The Network's management believes it is in compliance with the provisions of TABOR. At June 30, 2018 the Network's reserve of \$502,128 was reported as a restricted fund balance in the General Fund. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

NOTE 6 RELATED PARTY TRANSACTIONS

The Network is a charter school network based on the Colorado Charter School Act, C.R.S. 22-30.5-104.7. During the fiscal year ended June 30, 2018, the Network operated the following charter schools: New Elementary School, New Middle School, New High School, Elevate Academy, and Valiant Academy (collectively, the Schools).

All of the Schools are authorized by the Byers School District No. 32J (District). As compensation for central administrative costs incurred by the District on behalf of the Schools and for providing services, training, and routine consultation to the Schools and Network, the District retains the per pupil amount authorized by statute and as agreed between the parties. Payments made from the Network to the District during the year ended June 30, 2018, amounted to \$554,410.

The Network entered into a services agreement (the Agreement) with Foundation Learning (FL), which requires FL to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students at the Schools. FL provides similar services to public schools in other states. Under the terms of the Agreement, FL receives as remuneration for its services an amount equal to the revenue received by the Network less certain expenses. Subsequent to entering into the Agreement, the Network's independent board members requested that certain officers of FL serve as volunteers on the Network's board. The independent directors maintain majority control of the Network board. Payments made during the year ended June 30, 2018, amounted to \$14,113,545. The Network and its independent board members relied upon legal counsel for the purpose of confirming that services are not priced in excess of fair market value.

The Network entered into a Special Education Services Agreement with the East Central Board of Cooperative Educational Services (ECBOCES) under which ECBOCES serves as the administrative unit of record for the Network's special education program. Program revenue received by the Network from the ECBOCES during the year ended June 30, 2018, amounted to \$618,870. As compensation for providing services, training, and routine consultation to the Network, ECBOCES retains an amount as agreed between the parties. Payments made from the Network to ECBOCES during the year ended June 30, 2018, amounted to \$61,884.

All related party transactions are properly documented, disclosed, and approved. The Network believes that compensation paid is fair for the services rendered.

FOUNDATION LEARNING COLORADO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 RISK MANAGEMENT

The Network is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God. The Network maintains commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in the prior two fiscal years.

NOTE 8 COMMITMENTS

The Network routinely enters into agreements with vendors to provide curriculum, materials, services, and/or systems. Agreements that span multiple fiscal years typically contain a provision allowing the Network to terminate the agreement in the event of nonappropriation.

The Network entered into a Charter Network Contract (Network Contract) with Byers 32J School District (District) effective July 1, 2016. The District provides oversight of the Schools and incurs central administrative costs on behalf of the Schools. The District also provides services, training, and routine consultation to the Schools and Network.

The Network entered into a services agreement (the Agreement) with Foundation Learning (FL), which requires FL to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students.

The Network also has a Special Education Services Agreement (Services Agreement) with the East Central Board of Cooperative Education Services (ECBOCES). The Agreement was entered into between ECBOCES and a predecessor entity of the Network and became effective on July 1, 2014. ECBOCES is the administrative unit of record for the special education program at the Schools and pursuant to the Services Agreement provides oversight, services, training, and routine consultation to the Schools and Network.

REQUIRED SUPPLEMENTARY INFORMATION

FOUNDATION LEARNING COLORADO, INC.
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE —
BUDGET AND ACTUAL — GENERAL FUND
YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Federal Sources	\$ 936,727	\$ 918,372	\$ 901,873	\$ (16,499)
State Sources	18,041,594	17,139,852	16,781,778	(358,074)
Other Sources	-	-	33,047	33,047
Total Revenues	<u>18,978,321</u>	<u>18,058,224</u>	<u>17,716,698</u>	<u>(341,526)</u>
EXPENDITURES				
Current:				
Instructional	12,909,784	12,295,979	13,030,148	(734,169)
Support Services:				
Student Services	1,192,884	1,131,524	1,042,128	89,396
General Administrative	834,450	805,711	633,661	172,050
School Administration Services	1,571,191	1,496,743	1,252,689	244,054
Business Services	1,222,038	1,164,133	836,469	327,664
Operations and Maintenance of Plant Services	349,154	332,610	343,115	(10,505)
Central Support Services	872,884	831,524	578,488	253,036
Total Expenditures	<u>18,952,385</u>	<u>18,058,224</u>	<u>17,716,698</u>	<u>341,526</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>25,936</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	25,936	-	-	-
Fund Balances - Beginning of Year	<u>577,422</u>	<u>577,422</u>	<u>577,422</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u><u>\$ 603,358</u></u>	<u><u>\$ 577,422</u></u>	<u><u>\$ 577,422</u></u>	<u><u>\$ -</u></u>

SUPPLEMENTARY INFORMATION

**FOUNDATION LEARNING COLORADO, INC.
BALANCE SHEET — GENERAL FUND BY LOCATION
JUNE 30, 2018**

	New Elementary School	New Middle School	New High School	Elevate Academy	Valiant Academy	Total
ASSETS						
Cash and Investments	\$ 471,731	\$ 268,299	\$ 534,621	\$ 635,084	\$ 218,632	\$ 2,128,367
Accounts Receivable	23,065	13,118	26,140	273,755	10,689	346,767
Prepaid Items	-	-	-	499	-	499
Total Assets	<u>\$ 494,796</u>	<u>\$ 281,417</u>	<u>\$ 560,761</u>	<u>\$ 909,338</u>	<u>\$ 229,321</u>	<u>\$ 2,475,633</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts Payable	\$ 305,770	\$ 173,908	\$ 346,534	\$ 575,536	\$ 141,714	\$ 1,543,462
State Equalization Payable	66,077	37,582	74,887	145,578	30,625	354,749
Total Liabilities	<u>371,847</u>	<u>211,490</u>	<u>421,421</u>	<u>721,114</u>	<u>172,339</u>	<u>1,898,211</u>
FUND BALANCE						
Nonspendable	-	-	-	499	-	499
Restricted:						
Special Education Reserve	10,646	6,055	12,066	16,299	4,934	50,000
TABOR	106,916	60,809	121,170	163,681	49,552	502,128
Unassigned	5,387	3,063	6,104	7,745	2,496	24,795
Total Fund Balance	<u>122,949</u>	<u>69,927</u>	<u>139,340</u>	<u>188,224</u>	<u>56,982</u>	<u>577,422</u>
Total Liabilities and Fund Balances	<u>\$ 494,796</u>	<u>\$ 281,417</u>	<u>\$ 560,761</u>	<u>\$ 909,338</u>	<u>\$ 229,321</u>	<u>\$ 2,475,633</u>

**FOUNDATION LEARNING COLORADO, INC.
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES – GENERAL FUND BY LOCATION
YEAR ENDED JUNE 30, 2018**

	New Elementary School	New Middle School	New High School	Elevate Academy	Valiant Academy	Total
REVENUES						
Intergovernmental	\$ 3,604,960	\$ 2,021,263	\$ 4,027,636	\$ 6,359,015	\$ 1,670,777	\$ 17,683,651
Other	7,037	4,002	7,975	10,772	3,261	33,047
Total Revenues	<u>3,611,997</u>	<u>2,025,265</u>	<u>4,035,611</u>	<u>6,369,787</u>	<u>1,674,038</u>	<u>17,716,698</u>
EXPENDITURES						
Instruction	2,678,630	1,495,369	2,979,722	4,634,973	1,241,454	13,030,148
Support Services:						
Student Services	160,806	91,459	182,244	533,091	74,528	1,042,128
General Administrative	131,490	73,826	147,108	220,296	60,941	633,661
School Administration Services	266,731	151,704	302,290	408,343	123,621	1,252,689
Business Services	178,107	101,299	201,851	272,667	82,545	836,469
Operations and Maintenance	73,058	41,552	82,798	111,846	33,861	343,115
Central Support Services	123,175	70,056	139,598	188,571	57,088	578,488
Total Expenditures	<u>3,611,997</u>	<u>2,025,265</u>	<u>4,035,611</u>	<u>6,369,787</u>	<u>1,674,038</u>	<u>17,716,698</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	-	-	-	-	-
Fund Balances - Beginning of Year	<u>122,949</u>	<u>69,927</u>	<u>139,340</u>	<u>188,224</u>	<u>56,982</u>	<u>577,422</u>
FUND BALANCES - END OF YEAR	<u><u>\$ 122,949</u></u>	<u><u>\$ 69,927</u></u>	<u><u>\$ 139,340</u></u>	<u><u>\$ 188,224</u></u>	<u><u>\$ 56,982</u></u>	<u><u>\$ 577,422</u></u>

**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
Foundation Learning Colorado, Inc.,
Lakewood, Colorado

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 financial statements of the governmental activities and the major fund of the Foundation Learning Colorado, Inc. (the Network), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Network's basic financial statements, and have issued our report thereon dated November 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Network'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Network's internal control. Accordingly, we do not express an opinion on the effectiveness of the Network'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 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 Network's 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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Denver, Colorado
November 26, 2018