TWO RIVERS PUBLIC CHARTER SCHOOL, INC.

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2015 AND 2014

TABLE OF CONTENTS

JM&M
Jones, Maresca & McQuade, P.A.
Certified Public Accountants

1730 Rhode Island Avenue, NW
Suite 800
Washington, DC 20036
(202) 296-3306
Fax: (202) 296-0059

Independent Auditor's Report

The Board of Trustees
Two Rivers Public Charter School, Inc.
Washington, DC

Report on the Financial Statements

We have audited the accompanying financial statements of Two Rivers Public Charter School, Inc. ("the School"), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the 2015 financial statements referred to above present fairly, in all material respects, the financial position of Two Rivers Public Charter School, Inc. as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements as of June 30, 2014, were audited by McQuade Brennan, LLP, who merged with Jones, Maresca & McQuade, P.A. as of February 1, 2015, and whose report dated November 10, 2014, expressed an unmodified opinion on those statements.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2015, 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.

Jones Maresca & McQuade PA

Washington, DC
October 28, 2015

TWO RIVERS PUBLIC CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 6,419,535	$ 4,017,846
Cash and cash equivalents restricted by debt agreements	587,315	627,658
Accounts receivable	26,135	19,114
Grants receivable	241,944	302,023
Pledges receivable, current portion	6,974	-
Prepaid expenses	139,708	164,432
Total Current Assets	7,421,611	5,131,073
PROPERTY AND EQUIPMENT, NET	26,792,008	15,238,054
OTHER ASSETS		
Pledges receivable, net of current	13,731	-
Deposits	55,000	41,251
Debt issuance costs, net	534,254	215,571
Total Other Assets	602,985	256,822
TOTAL ASSETS	$ 34,816,604	$ 20,625,949
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 4,139,275	$ 166,094
Accrued expenses	1,521,357	443,188
Deferred revenue	-	197,372
Debt, current portion	458,320	432,549
Total Current Liabilities	6,118,952	1,239,203
LONG-TERM LIABILITIES		
Debt, net of current	21,704,878	13,645,654
Interest rate swap	103,055	78,279
Total Long-Term Liabilities	21,807,933	13,723,933
TOTAL LIABILITIES	27,926,885	14,963,136
NET ASSETS		
Unrestricted	6,765,936	5,646,204
Temporarily restricted	123,783	16,609
Total Net Assets	6,889,719	5,662,813
TOTAL LIABILITIES AND NET ASSETS	$ 34,816,604	$ 20,625,949

See independent auditor's report and accompanying notes to the financial statements.

TWO RIVERS PUBLIC CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT						
Per pupil local appropriations	$ 7,706,515	$ -	7,706,515	$ 7,275,552	$ -	7,275,552
Per pupil facility allowance	1,591,296	-	1,591,296	1,548,000	-	1,548,000
Federal and entitlement grants	1,362,197	-	1,362,197	762,490	-	762,490
Private gifts and grants	492,348	123,783	616,131	174,635	16,609	191,244
Local gifts and grants	58,751	-	58,751	27,997	-	27,997
Program service revenue	72,272	-	72,272	76,630	-	76,630
Interest income	11,862	-	11,862	12,604	-	12,604
Net assets released from restrictions	16,609	(16,609)	-	188	(188)	-
Total revenue and support	11,311,850	107,174	11,419,024	9,878,096	16,421	9,894,517
EXPENSES						
Program and educational services	8,951,721	-	8,951,721	8,343,440	-	8,343,440
General and administrative	1,025,809	-	1,025,809	923,460	-	923,460
Fundraising	189,812	-	189,812	147,761	-	147,761
Total expenses	10,167,342	-	10,167,342	9,414,661	-	9,414,661
CHANGE IN NET ASSETS FROM OPERATIONS	1,144,508	107,174	1,251,682	463,435	16,421	479,856
Changes in fair value of interest rate swap	(24,776)	-	(24,776)	(78,279)	-	(78,279)
CHANGE IN NET ASSETS	1,119,732	107,174	1,226,906	385,156	16,421	401,577
NET ASSETS, beginning of year	5,646,204	16,609	5,662,813	5,261,048	188	5,261,236
NET ASSETS, end of year	$ 6,765,936	$ 123,783	$ 6,889,719	$ 5,646,204	$ 16,609	$ 5,662,813

See independent auditor's report and accompanying notes to the financial statements.

TWO RIVERS PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	Program and educational services	General and administrative	Fundraising	Total
Personnel Expenses				
Salaries	$ 5,021,737	$ 764,730	$ 50,690	$ 5,837,157
Employee benefits	524,241	83,710	5,549	613,500
Payroll taxes	375,846	60,014	3,978	439,838
Professional development	157,426	-	-	157,426
Travel and meetings	847	-	-	847
Other staff expenses	40,110	-	-	40,110
Total Personnel Expenses	6,120,207	908,454	60,217	7,088,878
Direct Student Costs				
Supplies and materials	68,244	-	-	68,244
Contracted instruction fees	600,610	-	-	600,610
Textbooks	10,430	-	-	10,430
Student assessments	34,564	-	-	34,564
Other student costs	178,152	-	-	178,152
Total Direct Student Costs	892,000	-	-	892,000
Occupancy Expense				
Maintenance and repairs	18,958	218	44	19,220
Utilities	171,898	1,974	397	174,269
Contracted building services	262,552	3,015	607	266,174
Total Occupancy Expense	453,408	5,207	1,048	459,663
Office Expense				
Office supplies and materials	45,669	524	106	46,299
Equipment rental	34,013	391	79	34,483
Telecommunications	32,690	375	76	33,141
Professional fees	81,490	95,906	62,112	239,508
Printing and publications	13,276	152	31	13,459
Postage and shipping	3,855	44	9	3,908
Computer and related	80,945	929	187	82,061
Other office expenses	2,298	26	5	2,329
Total Office Expense	294,236	98,347	62,605	455,188
General Expense				
Insurance	51,984	597	120	52,701
Interest expense	366,794	4,211	848	371,853
Administration fees	108,380	-	-	108,380
Depreciation and amortization	456,151	5,238	1,054	462,443
Fees and licenses	9,566	110	22	9,698
Food service/catering	194,883	-	-	194,883
Other general expenses	3,019	-	25,852	28,871
Donated services/products	1,093	3,645	38,046	42,784
Total General Expense	1,191,870	13,801	65,942	1,271,613
TOTAL EXPENSES	$ 8,951,721	$ 1,025,809	$ 189,812	$ 10,167,342

See independent auditor's report and accompanying notes to the financial statements.

TWO RIVERS PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	Program and educational services	General and administrative	Fundraising	Total
Personnel Expenses				
Salaries	$ 4,604,707	$ 748,075	$ 40,256	$ 5,393,038
Employee benefits	483,219	79,513	4,279	567,011
Payroll taxes	359,196	59,105	3,181	421,482
Professional development	121,098	-	-	121,098
Travel and meetings	222	-	-	222
Other staff expenses	20,612	-	-	20,612
Total Personnel Expenses	5,589,054	886,693	47,716	6,523,463
Direct Student Costs				
Supplies and materials	71,680	-	-	71,680
Contracted instruction fees	543,596	-	-	543,596
Textbooks	33,483	-	-	33,483
Student assessments	33,256	-	-	33,256
Other student costs	135,881	-	-	135,881
Total Direct Student Costs	817,896	-	-	817,896
Occupancy Expense				
Rent	2,182	25	5	2,212
Maintenance and repairs	22,333	256	52	22,641
Utilities	168,633	1,936	390	170,959
Contracted building services	258,679	2,970	598	262,247
Total Occupancy Expense	451,827	5,187	1,045	458,059
Office Expense				
Office supplies and materials	50,759	583	117	51,459
Equipment rental	29,055	334	67	29,456
Telecommunications	44,030	506	102	44,638
Professional fees	166,047	18,955	63,427	248,429
Printing and publications	11,633	134	27	11,794
Postage and shipping	4,294	49	10	4,353
Computer and related	69,324	796	160	70,280
Other office expenses	4,700	54	11	4,765
Total Office Expense	379,843	21,410	63,921	465,174
General Expense				
Insurance	43,667	501	101	44,269
Interest expense	359,719	4,130	831	364,680
Administration fees	48,516	-	-	48,516
Depreciation and amortization	445,429	5,114	1,029	451,572
Fees and licenses	20,071	230	46	20,347
Food service/catering	159,612	-	-	159,612
Other general expenses	10,914	-	33,032	43,946
Donated services/products	16,892	194	39	17,125
Total General Expense	1,104,821	10,170	35,079	1,150,070
TOTAL EXPENSES	$ 8,343,440	$ 923,460	$ 147,761	$ 9,414,661

See independent auditor's report and accompanying notes to the financial statements.

TWO RIVERS PUBLIC CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,226,906	$ 401,577
Adjustments to reconcile change in net assets		
provided by operating activities		
Depreciation on property and equipment	434,763	440,831
Amortization on debt issuance costs	27,680	10,741
Loss on dispositions of property and equipment	217	2,754
Change in fair value of interest rate swap	24,776	78,279
Decrease (increase) in assets:		
Cash and cash equivalents restricted by debt agreements	40,343	(127,594)
Accounts receivable	(7,021)	36,589
Grants receivable	60,079	(182,031)
Pledge receivable	(20,705)	-
Prepaid expenses	24,724	(70,398)
Deposits	(13,749)	(1,251)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	5,051,350	233,609
Deferred revenue	(197,372)	(61,545)
Net cash provided by operating activities	6,651,991	761,561
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(11,988,934)	(559,587)
Net cash used in investing activities	(11,988,934)	(559,587)
CASH FLOWS FROM FINANCING ACTIVITIES		
Deferred debt issuance costs	(346,363)	(7,056)
Borrowings on debt	8,517,544	-
Payments on debt	(432,549)	(421,797)
Net cash provided by (used in) financing activities	7,738,632	(428,853)
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,401,689	(226,879)
CASH AND CASH EQUIVALENTS, beginning of year	4,017,846	4,244,725
CASH AND CASH EQUIVALENTS, end of year	$ 6,419,535	$ 4,017,846
SUPPLEMENTAL INFORMATION		
Interest paid, net of amounts capitalized	$ 351,007	$ 359,477

See independent auditor's report and accompanying notes to the financial statements.

NOTE A – ORGANIZATION AND NATURE OF BUSINESS

Two Rivers Public Charter School, Inc. ("the School") was incorporated as a non-stock and not-for-profit School on April 4, 2003 under the laws of the District of Columbia. Its mission is to nurture a diverse group of students to become lifelong, active participants in their own education, develop a sense of self and community, and become responsible and compassionate members of society. It is open to any DC child in grades preschool through grade eight, and admission is free.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The School's financial statements are prepared on the accrual basis of accounting. Therefore, revenue and related assets are recognized when earned and expenses and related liabilities are recognized as the obligations are incurred.

Basis of Presentation

Financial statement presentation follows Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Topic *Not-for-Profit Entities*. In accordance with the topic, the School is required to report information regarding its financial position and activities according to three classes of net assets. Accordingly, the net assets of the School and changes therein are classified and reported as follows:

> *Unrestricted Net Assets* – Net assets not subject to donor-imposed stipulations;
>
> *Temporarily Restricted Net Assets* – Net assets subject to donor-imposed stipulations that may or will be met by either actions of the School and/or the passage of time;
>
> *Permanently Restricted Net Assets* – Net assets subject to donor-imposed stipulations that are permanently maintained by the school. The School had no permanently restricted net assets during the years ended June 30, 2015 and 2014.

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The term cash and cash equivalents as used in the accompanying financial statements includes currency on hand, demand deposits, money market accounts and highly liquid investments purchased from financial institutions with a maturity of three months or less.

Cash and Cash Equivalents Restricted by Debt Agreements

Cash and cash equivalents restricted by debt agreements is comprised of cash and cash equivalents held by the trustee or authority to fund the current portion of debt service and a required project improvement account.

Grants and Accounts Receivable

Grants receivable are recorded when billed or accrued and represents claims against third parties that will be settled in cash. Grants receivable are reported net of the allowance for doubtful accounts, if any. The allowance for doubtful accounts, if any, is estimated based on historical collection trends, the age of the outstanding receivable and existing economic conditions. If actual experience changes, revisions to the allowance may be necessary. Past due grants receivable are written off when internal collection efforts have been unsuccessful in collecting the amount due. As of June 30, 2015 and 2014, the majority of the receivables are due from the federal government and the District of Columbia, which by nature, management believes is fully collectible. Therefore, no allowance for doubtful accounts has been provided.

Pledges receivable

Pledges receivable are unconditional promises to give that are reported at fair value. Pledges receivable that include future expected payments more than 12 months after the balance sheet date are discounted at the prime interest rate at the balance sheet date and revised at each measurement date to reflect current market conditions and the creditworthiness of donors. As of June 30, 2015, gross pledges collectible more than 12 months after the balance sheet date totaled $15,000 with a discount of $1,415.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. The School capitalizes all expenditures for property and equipment over $1,000 and all expenditures for repairs, maintenance, and betterment that materially prolong the useful lives of the assets are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets, which ranges from three to 39 years. Leasehold improvements will be depreciated over the term of the lease while maintenance and repairs

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

which do not improve or extend the life of the respective asset are charged to expense when incurred. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation and amortization are removed from the accounts, and any remaining gain or loss is included in operations. Construction in progress for both the Middle and Young Schools include construction that has not been completed as of June 30, 2015. Construction in progress on the Middle School includes ongoing school facility renovations which upon completion will be reclassified to building. Construction in progress on the Young School includes construction costs and alterations which upon completion will be reclassified as leasehold improvements.

Deferred Revenue

Deferred revenue results from the School recognizing grant income in the period in which the work is performed. Accordingly, grant income which is received in the current fiscal year is deferred until the fiscal year in which the work is performed.

Contributions and Grants

Contributions and grants received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same period are reported as unrestricted.

Grant revenues are received primarily from the federal government and administered by the District of Columbia government. The grants are subject to audit by the grantor agencies. Such audits could result in a request for reimbursement by the agency for expenditures disallowed under the terms and conditional of the appropriate grantor. No provision for possible adjustment has been made in the accompanying financial statements because, in the opinion of management, such adjustment, if any, would not have material effect on the financial statements.

Activity Fee

Activity fees are recognized at the time the activity is held. This revenue includes amounts collected from students, primarily for field trips, camps and other school related activities.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Debt Issuance Costs

Debt issuance costs incurred to secure financing are capitalized and are amortized over the life of the debt.

Functional Allocation of Expenses

The costs of providing the various programs and other activities of the School have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications

Certain amounts for the year ended June 30, 2014 have been reclassified to conform to the current year presentation. The reclassification had no effect on the previously reported net assets or change in net assets.

NOTE C – INCOME TAXES

The School qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code. In addition, the School is classified as an entity that is not a private foundation under Section 509(a)(1).

The School has adopted the accounting for uncertainty in income taxes as required by the *Income Taxes* topic of the FASB ASC. The topic requires the School to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is more than fifty percent likely of being realized upon ultimate settlement which could result in the School recording a tax liability that would reduce its net assets

The School has analyzed its tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to any uncertain tax positions taken on returns filed for open tax years (2012-2014), or expected to be taken in its 2015 tax return. The School is not aware of any tax positions for which it believes that there is a reasonable possibility that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

NOTE D – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at June 30:

	2015	2014
Land	$ 5,454,478	$ 5,454,478
Building	11,061,934	11,003,938
Furniture and equipment	462,505	434,429
Computers	716,290	637,691
Construction in progress - Young School	11,993,131	147,034
Construction in progress - Middle School	11,067	34,853
	29,699,405	17,712,423
Less: Accumulated depreciation	(2,907,397)	(2,474,369)
Total propert and equipment, net	$ 26,792,008	$ 15,238,054

Depreciation expense for the years ended June 30, 2015 and 2014 totaled $434,763 and $440,831, respectively.

NOTE E – DEBT ISSUANCE COSTS

The following is a summary of debt issuance costs as of June 30:

	2015	2014
Loan fees	$ 556,583	$ 267,947
Less allowance for amortization	(22,329)	(52,376)
Debt issuance costs, net	$ 534,254	$ 215,571

Amortization expense for the years ended June 30, 2015 and 2014 totaled $27,680 and $10,741, respectively.

NOTE F - DEBT

Revenue Bonds

On June 6, 2013, the District of Columbia issued $14,500,000 of Variable Rate Revenue Bonds (Series 2013 Bonds) and loaned the proceeds to the School. The Series 2013 Bonds mature June 1, 2038 and bear interest at a rate equal to 70% of the sum of one-month LIBOR and a spread of 2.21% per annum. In accordance with the terms of the agreement, the spread fluctuates with

NOTE F - DEBT (continued)

Revenue Bonds (continued)

changes to the maximum federal corporation tax rate, which is currently 35%. The interest rate effective as of June 30, 2015 and 2014 was 1.68% and 1.65% per annum, respectively. In conjunction with the Series 2013 Bonds, the School entered into an agreement with a bank to purchase the Series 2013 Bonds and hold them through June 1, 2018. In accordance with this agreement, the School has agreed to make monthly payments to retire the Series 2013 Bonds based on a 25 year amortization schedule. The Series 2013 Bonds are secured by the building, furniture, fixtures and equipment located at 1227 and 1234 4th Street N.E. Washington, DC. At the end of the bank's five year commitment the School will either renew this agreement or find another credit facility to support the Series 2013 Bonds that will allow them to be resold weekly on the open market. The agreement with the bank contains certain financial and operating covenants. In the opinion of management, the School has complied with the required covenants for 2015 and 2014. The School has entered into an interest rate swap agreement with a bank that effectively fixes the interest rate on the bonds at 2.52% per annum through June 1, 2018 (see below). As of June 30, 2015 and 2014, the total outstanding debt related to this loan totaled $13,654,654 and $14,078,203, respectively.

Other Financing

In March 2015, the School entered into a loan agreement with SunTrust, a commercial bank, to finance the construction and renovation of Charles E. Young Elementary School ("Young School"). The loan is considered a senior loan that is secured by two subordinate loans from Building Hope, a 501(c)3 nonprofit organization, and from the Office of Public Charter School Financing and Support ("OPCSFS") pursuant to separate loan agreements. The OPCSFS loan and Building Hope loan are junior in payment and priority to the senior (SunTrust) loan and will be secured on a subordinate basis by a second lien on certain property of the School. Per the terms of the senior loan, America's Charter School Finance Corporation (an affiliate of Building Hope) and OPCSFS issued credit enhancements of $500,000 each to secure the loans. These credit enhancements will be secured equally between America's Charter School Finance Corporation and OPCSFS by a third lien on the leasehold deed of trust on the Young School leasehold, rents, etc.

Under this arrangement, the maximum combined loan amount approved is $14 million, with $11 million from SunTrust, $1.5 million from Office of Public Charter School Financing (OPCFS) and $1.5 million Building Hope. As of June 30, 2015, the total outstanding debt related to these loans totaled $8,517,544.

NOTE F - DEBT (continued)

The following summarizes long-term debt as of June 30:

	2015	2014
District of Columbia Variable Rate Revenue Bonds (Two Rivers Public Charter School Issue) Series 2013	$ 13,645,654	$ 14,078,203
SunTrust Loan, 2.6%, maturity 3/5/17	5,517,544	-
OPCSFS Loan, 4.5%, maturity 3/5/17	1,500,000	-
Building of Hope Loan, 6.0%, maturity 3/5/17	1,500,000	-
	22,163,198	14,078,203
Less: current maturity	(458,320)	(432,549)
Total long-term debt, net of current portion	$ 21,704,878	$ 13,645,654

Aggregate annual maturities of the debt are as follows for the years ended June 30:

2016	$ 458,320
2017	8,957,685
2018	466,481
2019	478,373
2020	490,568
Thereafter	11,311,771
Total	$ 22,163,198

Derivative Instrument

The School entered into an interest swap agreement effective June 6, 2013 with a termination date of June 1, 2018. The interest rate swap instrument, which has been designated as a cash flow hedge, was determined to be fully effective. The School's interest rate swap had a notional value of $13,645,654 and $14,078,203 which is the full amount of the outstanding debt at June 30, 2015 and 2014, respectively. Under the interest rate swap agreement, the School is to pay a fixed rate of 2.52% per annum on a monthly basis, while receiving the variable rate of the Series 2013 Bonds (see above). Subject to the terms of the agreement, upon an event of default or termination, the non-defaulting party has the option to terminate the agreement prior to the termination date. Monthly net settlement payments are recorded as interest expense in statements of activities. The fair value of the interest rate swap as of June 30, 2015 and 2014, is a liability of $103,055 and $78,279, respectively. Changes in the fair value of the interest rate swap are reported in the statement of activities.

NOTE G – FAIR VALUE MEASUREMENTS

In accordance with the *Fair Value and Measurements* topic of the FASB ASC, investments carried at fair value using quoted prices in active markets for identical obligations. Realized and unrealized gains and losses are reflected in the statement of activities.

Fair value, as defined in the fair value measurement accounting guidance, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or exit price. This guidance was applied prospectively and the adoption did not materially impact the School's financial position, results of activities, or cash flows.

The guidance on fair value measurement accounting requires that the School make assumptions market participants would use in pricing an asset or liability based on the best information available. The School considers factors that were not previously measured when determining the fair value of financial instruments. These factors include nonperformance risk (the risk that the obligation will not be fulfilled) and credit risk, of the reporting entity (for liabilities) and of the counterparty (for assets). The fair value measurement guidance prohibits inclusion of transaction costs and any adjustments for blockage factors in determining the instruments' fair value. The principal or most advantageous market should be considered from the perspective of the reporting entity.

Fair value, where available, is based on observable quoted market prices. Where observable prices or inputs are not available, several valuation models and techniques are applied. These models and techniques attempt to maximize the use of observable inputs and minimize the use of unobservable inputs. The process involves varying levels of management judgment, the degree of which is dependent on the price transparency of the instruments or market and the instruments' complexity.

To increase consistency and enhance disclosure of the fair value of financial instruments, the fair value measurement accounting guidance creates a fair value hierarchy to prioritize the inputs used to measure fair value into three categories. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement, where Level 1 is the highest and Level 3 is the lowest. The three levels are defined as follows:

> *Level 1* – Observable inputs such as quoted prices in active markets. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
>
> *Level 2* – Inputs other than quoted prices in active markets that are either directly or indirectly observable. These include quoted market prices for similar assets or liabilities, quoted market prices for identical or similar assets in markets that are not active, adjusted

NOTE G – FAIR VALUE MEASUREMENTS (continued)

quoted market prices, inputs from observable data such as interest rate and yield curves, volatilities or default rates observable at commonly quoted intervals or inputs derived from observable market data by correlation or other means.

Level 3 – Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. Unobservable inputs should only be used to the extent observable inputs are not available.

The fair value of the School's interest rate swap is based on a calculated mathematical approximation derived from proprietary models of a third party specialist, based on estimated mid-market values of the interest rate swap. Valuations are shown from the counterparty's perspective. The estimate is based on the third party's valuation models and assumptions and available market data. The interest rate swap agreement is subject to changes in interest rates and other market risk, and the value can fluctuate significantly at the measurement date.

The following table summarizes the School's obligations measured at fair value on a recurring basis as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Interest rate swap	$ -	$ -	$ 103,055	$ 103,055
Total Obligations	$ -	$ -	$ 103,055	$ 103,055

The following table sets forth a summary of changes in the fair value of the School's level 3 obligations for the years ended June 30:

	2015	2014
Beginning Balance, July 1,	$ 78,279	$ -
Change in interest rate swap	24,776	78,279
Ending Balance at June 30,	$ 103,055	$ 78,279

NOTE H - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2015 and 2014 were available for:

	2015	2014
PD Program	$ 34,183	$ 15,192
Breakthrough School	64,491	-
Ann Goiser	21,494	-
Literacy Magazine	415	-
Playground	700	-
Action for Healthy Kids	2,500	-
Music Program	-	917
College Preparation	-	500
Total	$ 123,783	$ 16,609

NOTE I – RETIREMENT PLAN

The School maintains a salary reduction plan under Section 403(b) of the Internal Revenue Code named Two Rivers Public Charter School, Inc. 403(b) Plan (“the Plan”). Employees that work 20 or more hours per week are eligible to participate in the plan. The School contributes a percentage of compensation, which is determined annually by the Board of Trustees. For the years ended June 30, 2015 and 2014, the Trustees approved employer contributions of 100% on the first 6% of eligible compensation and 50% of an additional 6% of eligible compensation, which totaled $260,867 and $240,026, respectively.

NOTE J - DONATED SERVICES AND MATERIALS

Donated services and materials are recognized at fair value at the date of the donation. Contributions of services are recognized if the services received create or enhance non-financial assets or require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services and promises to give services that do not meet the above criteria are not recognized. During the year ended June 30, 2015, the School received $7,653 donated services and $35,131 donated goods. During the year ended June 30, 2014, the School received $2,819 services and $14,306 goods. Donated revenue is included in the statement of activities as private gifts and grants. The expenses are allocated on the statement of functional expenses based on how they were used.

NOTE K – CONCENTRATION OF RISK

The School is supported primarily through local appropriations, federal grants, and contracts. For the fiscal years ended June 30, 2015 and 2014 approximately 81% and 89%, respectively, of total revenue was provided through local appropriations from the District of Columbia.

As of June 30, 2015 and 2014, the School had cash that exceeded federally insured limits by approximately $6,207,000 and $3,600,000, respectively. Management has evaluated the financial institutions and does not believe it is exposed to any significant credit risk.

NOTE L - AVERAGE COST PER STUDENT

For the years ended June 30, 2015 and 2014, the average cost per student was approximately $19,927 and $18,245, respectively. This is calculated by dividing total noncapital expenditures, by the school's full-time student enrollment.

NOTE M – COMMITMENTS AND CONTINGENT LIABILITIES

The School receives revenue from government grants and contracts that are subject to inspection and audit by the appropriate funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The School is of the opinion that disallowance, if any, arising from such audits will not have a material effect on the financial statements. The School has no provision for possible disallowance of program costs on its financial statements.

NOTE N – LEASE COMMITMENTS

Effective September 1, 2015, the School entered a lease agreement with the District of Columbia to lease the facility known as Charles Young School. The lease expires in 2040, with an option to renew for an additional 25 years. The annual base rent shall be $471,250 with a 2% increase on each anniversary of the commencement date.

During the initial term of the lease, rent abatement is available in the form of rent credits for construction costs on a dollar for dollar basis, as long as the initial construction project is at least $10 million. As of June 30, 2015 and 2014, the School incurred $11,993,130 and $147,034, respectively, of construction costs on the Charles Young School (Note D), which are included with property and equipment on the statement of financial position and will be amortized over the lease term once construction is complete.

Future minimum lease payments on the net value as of June 30, 2015 totaled $1,755,569 and will begin in 2038, the last three years of the initial 25 year lease life.

NOTE O – CONDITIONAL PROMISE TO GIVE

Conditional promises to give are recognized as contributions when the donor-imposed conditions are substantially met. In July 2014, the School was awarded a $462,500 grant from New Schools Venture Funds to support the mission of the School through expansion and planning, academic systems and performance, and organizational sustainability. The grant will be awarded upon specific agreed-upon conditions that the School meets timely milestones. The first and second milestones were met and the School received payments and therefore recognized revenue totaling $200,000 during the year ended June 30, 2015. The remaining payments are scheduled by additional milestones with the following anticipation dates: $100,000 October 15, 2015, $100,000 October 15, 2016 and $62,500 October 15, 2017.

NOTE P - SUBSEQUENT EVENTS

In July 2015, the Board approved entering into the New Market Tax Credit program ("NMTC"). The NMTC program encourages investment in real estate projects in low-income communities by allowing investors to receive tax credits against their federal income tax return in exchange for making qualified investments in Community Development Entities ("CDE"s). The CDE's purpose is to make loans and investments to the School's Qualified Active Low-Income Community Businesses, to be established as a wholly owned subsidiary of the School.

As required by the *Subsequent Events* topic of the FASB ASC, the School has evaluated the impact of its financial statements and disclosure of certain transactions occurring subsequent to its year end through the date of the auditors' report, which is the date the School's financial statements were available to be issued.

JM&M
JONES, MARESCA & MCQUADE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

1730 Rhode Island Avenue, NW
Suite 800
Washington, DC 20036
(202) 296-3306
Fax: (202) 296-0059

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 Trustees
Two Rivers Public Charter School, Inc.
Washington, DC

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 the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Two Rivers Public Charter School, Inc. ("the School"), which comprise the statements of financial position as of June 30, 2014, and the related statements of activities, and cash flows, for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 financial statements are free of 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 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.

Washington, DC
October 28, 2015

JM&M
JONES, MARESCA & MCQUADE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

1730 Rhode Island Avenue, NW
Suite 800
Washington, DC 20036
(202) 296-3306
Fax: (202) 296-0059

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNALCONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Trustees
Two Rivers Public Charter School, Inc.
Washington, DC

Report on Compliance for Each Major Federal Program

We have audited Two Rivers Public Charter School, Inc. ("the School")'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2015. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, Two Rivers Public Charter School, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Washington, DC
October 28, 2015

TWO RIVERS PUBLIC CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures
U. S. Department of Education			
Pass Through from District of Columbia Office of the State Superintendent of Education (OSSE)			
Title I-A Grants to Local Educational Agencies	84.010	52010A	$ 149,612
Improving Teacher Quality State Grants (Title II)	84.367	52367A	44,689
DC School Choice Incentive Program:	84.370	52370C	810,036
Best Practices Dissemination - Race to the Top - ARRA	84.395		75,253
Special Education Cluster			
Special Education Grants to States	84.027	52027A	99,837
Special Education Preschool Grants	84.173	52173A	1,985
			101,822
Total U.S. Department of Education			1,181,412
U.S. Department of Agriculture - Food and Nutrition Service			
Pass Through from District of Columbia Office of the State Superintendent of Education (OSSE)			
Child Nutrition Cluster			
School Breakfast Program	10.553		33,104
National School Lunch Program	10.555		108,425
Child Nutrition Direct Certification Performance Awards	10.589		10,944
Total U.S. Department of Agriculture			152,473
U.S. Department of Health and Human Services			
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768		19,425
Total U.S. Department of Health and Human Services			19,425
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,353,310

See independent auditor's report and notes to the Schedule of Expenditures of Federal Awards.

TWO RIVERS PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal grant activity of Two Rivers Public Charter School, Inc., and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Government, and Non-Profit Organizations*. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

NOTE B – SUMMARY OF SIGNIFIANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles in *OMB Circular A-122, Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or limited as to reimbursements. Pass-through amounts, programs, agencies, and entity identifying numbers are presented where available.

NOTE C – RECONCILIATION TO THE FINANCIAL STATEMENTS

Expenditures per the Schedule exclude $8,887 of federal funds provided under the Federal Communications Commission E-Rate program, which are reported as federal entitlements and grant revenue in the statement of activities. Funding under the E-Rate program is considered to be federal funds, however, does not qualify as direct financial support, and therefore, is exempt from Single Audit requirements.

TWO RIVERS PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2015

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report issued on the financial statements	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiencies identified that are not considered to be material weakness?	None noted
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
Material weakness identified?	No
Significant deficiencies identified that are not considered to be material weakness?	None noted
Any audit findings disclosed that are required to be reported under section 510(a) of Circular A-133?	No

Major programs

Name of Federal Program:	DC School Choice Incentive Program
CFDA Number	84.370
Dollar threshold used to distinguish between type A and type B programs:	$300,000
Auditee qualified as low-risk auditee?	No

SECTION II – FINANCIAL STATEMENTS FINDINGS

None

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None

SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

None