TWO RIVERS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2016 AND 2015

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. and Subsidiary
Washington, DC

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Two Rivers Public Charter School, Inc. and Subsidiary, (a non profit organization), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Two Rivers Public Charter School, Inc. and Subsidiary as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of financial position and consolidating schedules of activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2016, on our consideration of Two Rivers Public Charter School, Inc. and Subsidiary'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 Two Rivers Public Charter School, Inc. and Subsidiary's internal control over financial reporting and compliance.

Washington, DC
November 8, 2016

TWO RIVERS PUBLIC CHARTER SCHOOL
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

		2016		2015
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	5,619,800	$	6,419,535
Restricted cash and cash equivalents		894,419		587,315
Accounts receivable		53,775		26,135
Grants receivable		341,668		241,944
Pledges receivable, current portion		5,020		6,974
Prepaid expenses		148,925		139,708
Total Current Assets		7,063,607		7,421,611
PROPERTY AND EQUIPMENT, NET		28,107,513		26,792,008
OTHER ASSETS				
Pledges receivable, net of current portion and discount		9,143		13,731
Deposits		41,213		55,000
Debt issuance costs, net		914,314		534,254
Total Other Assets		964,670		602,985
TOTAL ASSETS	$	36,135,790	$	34,816,604
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	$	790,285	$	4,139,275
Accrued expenses		506,374		1,470,946
Deferred rental liability		46,644		-
Accrued interest		80,197		50,411
Current portion of lont-term debt		603,960		458,320
Total Current Liabilities		2,027,460		6,118,952
LONG-TERM LIABILITIES				
Long-term debt, net of current portion		27,408,242		21,704,878
Interest rate swaps		324,827		103,055
Total Long-Term Liabilities		27,733,069		21,807,933
TOTAL LIABILITIES		29,760,529		27,926,885
NET ASSETS				
Unrestricted		6,008,928		6,765,936
Temporarily restricted		366,333		123,783
Total Net Assets		6,375,261		6,889,719
TOTAL LIABILITIES AND NET ASSETS	$	36,135,790	$	34,816,604

The accompanying notes are an integral part of these consolidated financial statements.

TWO RIVERS PUBLIC CHARTER SCHOOL
CONSLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT						
Per pupil local appropriations	$ 9,992,878	$ -	$ 9,992,878	$ 7,706,515	$ -	7,706,515
Per pupil facility allowance	2,171,180	-	2,171,180	1,591,296	-	1,591,296
Federal and entitlement grants	1,149,212	-	1,149,212	1,362,197	-	1,362,197
Private gifts and grants	302,443	393,167	695,610	449,564	123,783	573,347
State and local grants	110,291	-	110,291	58,751	-	58,751
Program service revenue	113,609	-	113,609	72,272	-	72,272
In-kind contributions	349,663	-	349,663	42,784	-	42,784
Investment income, net	16,014	-	16,014	11,862	-	11,862
Loss on disposal of asset	(28,448)	-	(28,448)	-	-	-
Net assets released from restrictions	150,617	(150,617)	-	16,609	(16,609)	-
Total Revenue and Support	14,327,459	242,550	14,570,009	11,311,850	107,174	11,419,024
EXPENSES						
Program and educational services	13,195,290	-	13,195,290	8,951,721	-	8,951,721
General and administrative	1,476,337	-	1,476,337	1,025,809	-	1,025,809
Fundraising	191,068	-	191,068	189,812	-	189,812
Total Expenses	14,862,695	-	14,862,695	10,167,342	-	10,167,342
CHANGE IN NET ASSETS FROM OPERATIONS	(535,236)	242,550	(292,686)	1,144,508	107,174	1,251,682
Change in fair value of interest rate swaps	(221,772)	-	(221,772)	(24,776)	-	(24,776)
CHANGE IN NET ASSETS	(757,008)	242,550	(514,458)	1,119,732	107,174	1,226,906
NET ASSETS, beginning of year	6,765,936	123,783	6,889,719	5,646,204	16,609	5,662,813
NET ASSETS, end of year	$ 6,008,928	$ 366,333	$ 6,375,261	$ 6,765,936	$ 123,783	$ 6,889,719

The accompanying notes are an integral part of these consolidated financial statements.

TWO RIVERS PUBLIC CHARTER SCHOOL
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Program and Educational Services	General and Administrative	Fundraising	Total
Personnel Expenses				
Salaries	$ 6,040,303	$ 795,203	$ 68,343	$ 6,903,849
Employee benefits	939,631	126,713	10,890	1,077,234
Payroll taxes	459,698	61,992	5,329	527,019
Professional development	174,063	-	-	174,063
Travel and meetings	857	-	-	857
Other staff expenses	32,810	-	-	32,810
Total Personnel Expenses	7,647,362	983,908	84,562	8,715,832
Direct Student Costs				
Supplies and materials	145,862	-	-	145,862
Contracted instruction fees	1,120,378	-	-	1,120,378
Food service	294,378	-	-	294,378
Textbooks	7,466	-	-	7,466
Student assessments	43,850	-	-	43,850
Other student costs	258,712	-	-	258,712
Total Direct Student Costs	1,870,646	-	-	1,870,646
Occupancy Expense				
Rent	46,540	104	-	46,644
Maintenance and repairs	36,483	253	81	36,817
Utilities	280,934	1,951	621	283,506
Contracted building services	510,629	3,546	1,128	515,303
Total Occupancy Expense	874,586	5,854	1,830	882,270
Office Expense				
Office supplies and materials	84,458	586	187	85,231
Equipment rental	16,505	116	36	16,657
Telecommunications	57,594	400	127	58,121
Professional fees	156,312	158,709	18,960	333,981
Printing and publications	11,915	83	26	12,024
Postage and shipping	3,918	27	9	3,954
Computer and related	126,105	876	278	127,259
Other office expenses	2,222	20	-	2,242
Total Office Expense	459,029	160,817	19,623	639,469
General Expense				
Insurance	82,608	574	182	83,364
Interest	811,131	5,633	1,792	818,556
Administration fees	131,029	-	-	131,029
Depreciation and amortization	1,295,113	8,993	2,861	1,306,967
Fees and licenses	22,193	154	49	22,396
Consultant - fundraising	-	-	42,403	42,403
Donated services/products	1,593	310,404	37,766	349,763
Total General Expense	2,343,667	325,758	85,053	2,754,478
TOTAL EXPENSES	$ 13,195,290	$ 1,476,337	$ 191,068	$ 14,862,695

The accompanying notes are an integral part of these consolidated financial statements.

TWO RIVERS PUBLIC CHARTER SCHOOL
CONSOLIDATED 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
Food service	194,883	-	-	194,883
Textbooks	10,430	-	-	10,430
Student assessments	34,564	-	-	34,564
Other student costs	178,152	-	-	178,152
Total Direct Student Costs	1,086,883	-	-	1,086,883
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	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
Other general expenses	3,019	-	25,852	28,871
Donated services/products	1,093	3,645	38,046	42,784
Total General Expense	996,987	13,801	65,942	1,076,730
TOTAL EXPENSES	$ 8,951,721	$ 1,025,809	$ 189,812	$ 10,167,342

The accompanying notes are an integral part of these consolidated financial statements.

TWO RIVERS PUBLIC CHARTER SCHOOL
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (514,458)	$ 1,226,906
Adjustments to reconcile change in net assets provided by (used for) operating activities		
Depreciation of property and equipment	952,650	434,763
Amortization of debt issuance costs	354,317	27,680
Loss on disposal of asset	28,448	-
Change in fair value of interest rate swap	221,772	24,776
Decrease (increase) in assets:		
Restricted cash and cash equivalents	(307,104)	40,343
Accounts receivable	(27,640)	(7,021)
Grants receivable	(99,724)	60,079
Pledges receivable	6,542	(20,705)
Prepaid expenses	(9,217)	24,724
Deposits	13,787	(13,749)
Increase (decrease) in liabilities:		
Accounts payable	(3,348,990)	5,051,567
Accrued expenses	(964,572)	-
Deferred rental liability	46,644	(197,372)
Accrued interest	29,786	-
Net Cash (Used For) Provided By Operating Activities	(3,617,759)	6,651,991
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(2,650,920)	(11,988,934)
Net Cash Used For Investing Activities	(2,650,920)	(11,988,934)
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt issuance costs	(380,060)	(346,363)
Borrowings on long-term debt	19,538,309	8,517,544
Payments on long-term debt	(13,689,305)	(432,549)
Net Cash Provided By Financing Activities	5,468,944	7,738,632
NET CHANGE IN CASH AND CASH EQUIVALENTS	(799,735)	2,401,689
CASH AND CASH EQUIVALENTS, beginning of year	6,419,535	4,017,846
CASH AND CASH EQUIVALENTS, end of year	$ 5,619,800	$ 6,419,535
SUPPLEMENTAL INFORMATION		
Interest paid, net of amounts capitalized	$ 788,770	$ 321,442

The accompanying notes are an integral part of these consolidated financial statements.

TWO RIVERS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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.

Two Rivers - Young QALICB, LLC, (Qualified Active Low-Income Community Business – "QALICB") is a District of Columbia limited liability company established to participate in the Internal Revenue Service's New Market Tax Credit program to finance leasehold improvements of the School's facility. The School is a sole member of the QALICB.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The School and QALICB's (collectively, "Two Rivers") consolidated financial statements have been 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.

Principles of Consolidation

Under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic Consolidations, these consolidated financial statements include the accounts of the School and the QALICB. All material inter-organization transactions and balances have been eliminated in consolidation.

Basis of Presentation

Consolidated financial statement presentation follows FASB ASC Topic Not-for-Profit Entities. In accordance with the topic, Two Rivers 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 Two Rivers and/or the passage of time;

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation - continued

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that are permanently maintained by Two Rivers. Two Rivers had no permanently restricted net assets during the years ended June 30, 2016 and 2015.

Use of Estimates

Management uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the consolidated financial statements.

Cash and Cash Equivalents

The term cash and cash equivalents as used in the accompanying consolidated 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.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are amounts restricted by debt agreements and are held by the trustee or authority as a reserve account, debt service, and project account.

Grants and Accounts Receivable

Grants and accounts receivable are claims against third parties that will be settled in cash. Grants and accounts 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 and accounts receivable are written off when internal collection efforts have been unsuccessful in collecting the amount due. As of June 30, 2016 and 2015, the majority of the receivables are due from the federal government and the District of Columbia, which by nature, management believes is fully collectible in one year or less. Therefore, no allowance for doubtful accounts has been provided.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pledges Receivable

Pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on these amounts are computed using a risk free interest rate of 3% applicable to the year in which the contribution was made. Amortization of the discount is included in contribution revenue.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Two Rivers 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 are depreciated over the shorter of the term of the lease or useful life of the asset. Maintenance and repairs 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 is removed from the accounts, and any remaining gain or loss is included in operations. Construction in progress on the Middle and Young School includes ongoing school facility renovations which upon completion will be reclassified to building.

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 consolidated 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 consolidated financial statements because, in the opinion of management, such adjustment, if any, would not have material effect on the consolidated financial statements.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Per pupil appropriated revenue is recognized during the period for which the associated education services are provided. Per pupil appropriations includes $2,501,791 and $2,298,923 for enhancements, such as special education, English language learners, and at-risk students, for the years ended June 30, 2016 and 2015, respectively.

Program service revenue is 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.

In-Kind Contributions

Donated services are recognized at their fair value if the service requires specialized skills and the services would typically need to be purchased, if not donated. Contributed services and promise to give services that do not meet the above criteria are not recognized. During the years ended June 30, 2016 and 2015, the School received in-kind legal services of $315,494 and $7,653, respectively, in-kind goods of $34,169 and $35,131, respectively.

Debt Issuance Costs

Debt issuance costs incurred in securing long-term debt have been capitalized. These costs are amortized by the straight-line method over the remaining period of the long-term debt, which approximates the effective interest method.

Deferred Rental Liability

Two Rivers recognizes rent expenses, including incentives, on a straight-line basis over the term of the lease. Deferred rental liability represents the rent expense recognized on a straight-line basis in excess of cash payments.

Reclassification

Certain items in the 2015 financial statements have been reclassified to conform to the 2016 presentation. The reclassifications had no effect on previously reported net assets or change in net assets.

Functional Allocation of Expenses

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

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 QALICB is a disregarded entity for tax purposes and all its activity is included in the School's informational return.

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 Two Rivers recording a tax liability that would reduce its net assets.

Two Rivers 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 (2013-2015), or expected to be taken in its 2016 tax return. Two Rivers 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:

	2016	2015
Land	$ 5,454,478	$ 5,454,478
Building and improvements	11,131,020	11,061,934
Furniture and equipment	714,988	462,505
Computers	862,408	716,290
Construction in progress - Young School	13,793,597	11,993,130
Construction in progress - Middle School	11,068	11,068
	31,967,559	29,699,405
Less: Accumulated depreciation	(3,860,046)	(2,907,397)
Property and Equipment, Net	$ 28,107,513	$ 26,792,008

Depreciation expense for the years ended June 30, 2016 and 2015 totaled $941,724 and $434,763, respectively.

NOTE E – PLEDGES RECEIVABLE

Pledges are expected to be realized in the following periods:

	2016	2015
In one year or less	$ 5,020	$ 6,974
Between one and five years	10,000	15,146
	15,020	22,120
Less: Discount at 3%	(857)	(1,415)
	$ 14,163	$ 20,705

NOTE F – DEBT ISSUANCE COSTS

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

	2016	2015
Loan fees	$ 1,002,323	$ 614,311
Less allowance for amortization	(88,009)	(80,057)
Debt Issuance Costs, Net	$ 914,314	$ 534,254

Amortization expense for the years ended June 30, 2016 and 2015 totaled $354,317 and $27,680, respectively.

NOTE G – LONG-TERM 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 changes to the maximum federal corporation tax rate, which is currently 35%. The interest rate effective as of June 30, 2016 and 2015 was 1.86% and 1.68% 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.

NOTE G – LONG-TERM DEBT (continued)

Revenue Bonds (continued)

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, 2016 and 2015, the total outstanding debt related to this loan totaled $13,202,078 and $13,645,654, respectively.

Construction Financing

In March 2015, the School entered into a loan agreement with SunTrust, a commercial bank, to finance the construction and renovation of the 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. On December 15, 2015, the School refinanced the senior loan and subordinate loans which reduced the outstanding balance of these loans to $0 (see other financing below).

Other Financing

The New Market Tax Credit ("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 ("CDEs"). The CDEs' purpose is to make loans and investments in low-income communities to QALICBs.

On December 15, 2015, the School entered into a transaction to refinance the senior and subordinate construction loans referred to above. The transaction included loans from Suntrust bank and OPCSFS to the School. The transaction also included loans from the CDEs, Community Urban Revitalization Enterprises VI, LLC ("CURE VI, LLC") and ST CDE XXI, LLC to the QALICB.

NOTE G – LONG-TERM DEBT (continued)

Other Financing (continued)

The following table summarizes the debt assumed by Two Rivers as a result of this transaction.

Two Rivers Public Charter School	
SunTrust Loan A	$ 1,000,000
SunTrust Loan B	3,758,838
OPCSFS Loan	1,284,503
Two Rivers - Young QALICB, LLC	
CURE VI, LLC Loan A	4,081,200
CURE VI, LLC Loan B	1,738,800
ST CDE XXI, LLC Loan A	2,040,600
ST CDE XXI, LLC Loan B	959,400
	$ 14,863,341

The SunTrust Loan A and B require monthly principal payments according to a payment schedule ranging from $9,000 to $13,000. Principal payments are first applied to Loan B until retired and then to Loan A. The loans require a principal balloon payment on the maturity date of December 15, 2020. Loan B is guaranteed by OPCSFS. Loan A and B require monthly interest payments at a rate of one-month LIBOR plus 2.75% per annum. The interest rate effective as of June 30, 2016 on Loan A and B was 3.21% per annum. The School has entered into interest rate swap agreements with a bank that effectively fix the interest rate on these loans at 4.4% per annum through December 15, 2020 (see below). As of June 30, 2016, the total outstanding debt related to Loan A totaled $1,000,000 and Loan B totaled $3,719,723.

The OPCSFS Loan requires monthly principal and interest payments based on a 25 year amortization schedule. The loan bears interest at 4.5% per annum and requires a principal balloon payment on the maturity date of December 15, 2022. As of June 30, 2016, the total outstanding debt related to this loan totaled $1,270,401.

The CURE VI, LLC Loan A requires monthly interest only payments at 4.149% per annum with a principal balloon payment on the maturity date of December 15, 2022. The loan is secured by substantially all of the assets of the QALICB. As of June 30, 2016, the total outstanding debt related to this loan totaled $4,081,200.

The CURE VI, LLC Loan B requires monthly interest only payments at 4.149% per annum until January 1, 2025. Subsequent to January 1, 2025, the loan requires principal and interest payments based on a 182 month amortization schedule. The loan maturity date is February 1, 2040. The loan is secured by substantially all of the assets of the QALICB. As of June 30, 2016, the total outstanding debt related to this loan totaled $1,738,800.

NOTE G – LONG-TERM DEBT (continued)

Loan Covenants (continued)

The ST CDE XXI, LLC Loan A requires monthly interest only payments at 4.149% per annum with a principal balloon payment on the maturity date of December 15, 2022. The loan is secured by substantially all of the assets of the QALICB. As of June 30, 2016, the total outstanding debt related to this loan totaled $2,040,600.

The ST CDE XXI, LLC Loan B requires monthly interest only payments at 4.149% per annum until January 1, 2025. Subsequent to January 1, 2025, the loan requires principal and interest payments based on a 182 month amortization schedule. The loan maturity date is February 1, 2040. The loan is secured by substantially all of the assets of the QALICB. As of June 30, 2016, the total outstanding debt related to this loan totaled $959,400.

Two Rivers has entered into agreements with a bank that contain certain financial and operating covenants. In the opinion of management, Two Rivers has complied with the required covenants for 2016 and 2015.

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

2017	$ 603,960
2018	622,313
2019	641,268
2020	660,447
2021	4,744,936
Thereafter	20,739,278
Total	$ 28,012,202

NOTE G – LONG-TERM DEBT (continued)

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

	2016	2015
Two Rivers Public Charter School, Inc.		
District of Columbia Variable Rate Revenue Bonds (Two Rivers Public Charter School Issue) Series 2013	$ 13,202,078	$ 13,645,654
SunTrust Loan, 2.6%, maturity 3/5/17	-	5,517,544
OPCSFS Loan, 4.5%, maturity 3/5/17	-	1,500,000
Building Hope Loan, 6.0%, maturity 3/5/17	-	1,500,000
SunTrust Loan A	1,000,000	-
SunTrust Loan B	3,719,723	-
OPCSFS Loan	1,270,401	-
Two Rivers - Young QALICB, LLC		
CURE VI, LLC Loan A	4,081,200	-
CURE VI, LLC Loan B	1,738,800	-
ST CDE XXI, LLC Loan A	2,040,600	-
ST CDE XXI, LLC Loan B	959,400	-
	28,012,202	22,163,198
Less: current maturity	(603,960)	(458,320)
Total Long-Term Debt, Net of Current Portion	$ 27,408,242	$ 21,704,878

Derivative Instruments

Two Rivers 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. Two Rivers' interest rate swap related to the Series 2013 Bonds had a notional value of $13,202,078 and $13,645,654 which is the full amount of the related outstanding debt at June 30, 2016 and 2015, respectively. Under the interest rate swap agreement, Two Rivers 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 the consolidated statements of activities.

NOTE G – LONG-TERM DEBT (continued)

Two Rivers entered into two additional interest swap agreements effective December 15, 2015 with a termination date of December 15, 2020. The interest rate swap instruments, which have been designated as cash flow hedges, were determined to be fully effective. Two Rivers' interest rate swap related to SunTrust Loan A had a notional value of $1,000,000 which is the full amount of the related outstanding debt at June 30, 2016. Two Rivers' interest rate swap related to SunTrust Loan B had a notional value of $3,719,723 which is the full amount of the related outstanding debt at June 30, 2016. Under these interest rate swap agreements, Two Rivers is to pay a fixed rate of 4.4% per annum on a monthly basis, while receiving the variable rate of the SunTrust Loan A and B (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 swaps as of June 30, 2016 and 2015 is a liability of $324,827 and $103,055, respectively. Changes in the fair value of the interest rate swap are reported in the consolidated statement of activities.

NOTE H – FAIR VALUE MEASUREMENTS

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 Two Rivers' financial position, results of activities, or cash flows.

The guidance on fair value measurement accounting requires that Two Rivers make assumptions market participants would use in pricing an asset or liability based on the best information available. Two Rivers 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.

NOTE H – FAIR VALUE MEASUREMENTS (continued)

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 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 Two Rivers' interest rate swaps are 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 swaps. Valuations are shown from the counterparty's perspective. The estimate is based on the third party's valuation models and assumptions and available observable market data. The interest rate swap agreements are subject to changes in interest rates and other market risk, and the value can fluctuate significantly at the measurement date.

The following table summarizes Two Rivers' obligations measured at fair value on a recurring basis as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Interest rate swap	$ -	$ 324,827	$ -	$ 324,827
Total Obligations	$ -	$ 324,827	$ -	$ 324,827

NOTE H – FAIR VALUE MEASUREMENTS (continued)

The following table summarizes Two Rivers' 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

NOTE I – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2016 and 2015 were available for:

	2016	2015
PD Program	$ 800	$ 34,183
Breakthrough School	12,089	64,491
Ann Goiser	14,143	21,494
Literacy Magazine	-	415
Playground	-	700
Garden	302	-
Action for Healthy Kids	221	2,500
Parent - teacher	483	-
Drama Room Redesign Program	37,038	-
Fellowships, learning challenge and student assessments	301,257	-
Total Temporarily Restricted	$ 366,333	$ 123,783

NOTE J – 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 are scheduled to 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, 2016 and 2015, the Board of Trustees approved employer contributions of 100% on the first 6% of eligible compensation and 50% of an additional 6% of eligible compensation, which totaled $314,326 and $260,867, respectively.

The Plan also allows for discretionary non-elective employer contribution for returning staff members, to be determined annually, by the Board of Trustees. For the years ended June 30, 2016 and 2015, the Board of Trustees approved a discretionary non-elective employer contribution of $299,422 and $0, respectively.

NOTE J – RETIREMENT PLAN (continued)

The total retirement contributions were $613,748 and $260,867, respectively, for the years ended June 30, 2016 and 2015.

NOTE K – CONCENTRATION OF RISK

Two Rivers is supported primarily through local appropriations, federal grants, and contracts. For the fiscal years ended June 30, 2016 and 2015 approximately 85% and 81%, respectively, of total revenue was provided through local appropriations from the District of Columbia.

As of June 30, 2016 and 2015, Two Rivers had cash that exceeded federally insured limits by approximately $5,000,000 and $6,207,000, respectively. Management has evaluated the financial institutions and does not believe it is exposed to any significant credit risk.

NOTE L – COMMITMENTS AND CONTINGENT LIABILITIES

Two Rivers 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. Two Rivers is of the opinion that disallowance, if any, arising from such audits will not have a material effect on the financial statements. Two Rivers has no provision for possible disallowance of program costs on its financial statements.

NOTE M – LEASE COMMITMENTS

Effective September 1, 2015, the School entered a lease agreement with the District of Columbia to lease the 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, 2016 and 2015, the School incurred $13,793,597 and $11,993,130, respectively, of construction costs on the Young School.

Future minimum lease payments on the net value as of June 30, 2016 totaled $1,755,569 and will begin in 2038, the last three years of the initial 25 year lease life.

NOTE M – LEASE COMMITMENTS (continued)

In order to secure the NMTC financing described in Note G, the School assigned all of its rights, titles and interest of the lease to the QALICB. The QALICB then entered into a sublease agreement with the School for the same facility. The sublease agreement is for a 15 year term, which expires December 31, 2030. Under the terms of the sublease, the School is required to make monthly payments of $29,417, which continue through June 1, 2022. After this time, the sublease payments will be renegotiated since they are based on the interest and loan payments the QALICB is required to pay in accordance with the loan agreement.

NOTE N – 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, second and third milestones were met and the School received payments and therefore recognized revenue totaling $300,000 as of the year ended June 30, 2016. The remaining payments are scheduled by additional milestones with the following anticipation dates: $100,000 October 15, 2016 and $62,500 October 15, 2017.

NOTE O - SUBSEQUENT EVENTS

In preparing these consolidated financial statements Two Rivers' management has evaluated events and transactions through November 8, 2016, the date Two Rivers' consolidated financial statements were available to be issued. There were no additional events or transactions that were discovered during the evaluation that required additional disclosure or recognition.

SUPPLEMENTAL INFORMATION

TWO RIVERS PUBLIC CHARTER SCHOOL INC. AND SUBSDIARY
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
JUNE 30, 2016

	The School	QALICB	Elimination	Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 5,055,189	$ 564,611	$ -	$ 5,619,800
Restricted cash and cash equivalents	522,361	372,058	-	894,419
Accounts receivable	53,775	-	-	53,775
Grants receivable	341,668	-	-	341,668
Pledge receivable, current portion	5,020	-	-	5,020
Prepaid expenses	148,925	-	-	148,925
Total Current Assets	6,126,938	936,669	-	7,063,607
PROPERTY AND EQUIPMENT, NET	14,769,322	13,338,191	-	28,107,513
OTHER ASSETS				
Pledge receivable, net of current portion	9,143	-	-	9,143
Deposits	41,213	-	-	41,213
Debt issuance costs, net	486,711	427,603	-	914,314
Deferred rental asset	-	234,191	(234,191)	-
Investment in QALICB	0	-	-	-
Due from related parties	59,460	-	(59,460)	-
Total Assets	$ 21,492,787	$ 14,936,654	$ (293,651)	$ 36,135,790
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	$ 226,477	$ 563,808	$ -	$ 790,285
Accrued expenses	506,374	-	-	506,374
Deferred rental liability	234,191	46,644	(234,191)	46,644
Accrued interest	49,702	30,495	-	80,197
Current portion of long-term debt	603,960	-	-	603,960
Total Current Liabilities	1,620,704	640,947	(234,191)	2,027,460
LONG-TERM LIABILITIES				
Long-term debt, net of current portion	18,588,242	8,820,000	-	27,408,242
Interest rate swaps	324,827	-	-	324,827
Due to related parties	-	59,460	(59,460)	-
Total Long-Term Liabilities	18,913,069	8,879,460	(59,460)	27,733,069
TOTAL LIABILITIES	20,533,773	9,520,407	(293,651)	29,760,529
NET ASSETS				
Unrestricted	592,681	5,416,247	-	6,008,928
Temporarily restricted	366,333	-	-	366,333
Total Net Assets	959,014	5,416,247	-	6,375,261
TOTAL LIABILITIES AND NET ASSETS	$ 21,492,787	$ 14,936,654	$ (293,651)	$ 36,135,790

TWO RIVERS PUBLIC CHARTER SCHOOL INC. AND SUBSDIARY
CONSOLIDATING SCHEDULE OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	The School	QALICB	Elimination	Total
REVENUE AND SUPPORT				
Per pupil local appropriations	$ 9,992,878	$ -	$ -	$ 9,992,878
Per pupil facility allowance	2,171,180	-	-	2,171,180
Federal and entitlement grants	1,149,212	-	-	1,149,212
Private gifts and grants	695,610	-	-	695,610
State and local grants	110,291	-	-	110,291
Program service revenue	113,609	-	-	113,609
In-kind contributions	349,663	-	-	349,663
Investment loss, net	16,014	-	-	16,014
Loss on disposal of asset	(28,448)	-	-	(28,448)
Rental income	-	351,859	(351,859)	-
Total Revenue and Support	14,570,009	351,859	(351,859)	14,570,009
EXPENSES				
Program and educational services	13,545,129	-	(349,839)	13,195,290
General and administrative	871,369	606,968	(2,000)	1,476,337
Fundraising	191,088	-	(20)	191,068
Total Expenses	14,607,586	606,968	(351,859)	14,862,695
CHANGE IN NET ASSETS FROM OPERATION	(37,577)	(255,109)	-	(292,686)
Change in fair value of interest rate swap	(221,772)	-	-	(221,772)
Assignment of assets to QALICB	(5,671,356)	5,671,356		-
CHANGE IN NET ASSETS	(5,930,705)	5,416,247	-	(514,458)
NET ASSETS, beginning of year	6,889,719	-	-	6,889,719
NET ASSETS, end of year	$ 959,014	$ 5,416,247	$ -	$ 6,375,261

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 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*

The Board of Trustees of
Two Rivers Public Charter School, Inc. and Subsidiary
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 consolidated financial statements of Two Rivers Public Charter School, Inc. and Subsidiary ("Two Rivers"), which comprise the consolidated statements of financial position as of June 30, 2016, and the related consolidated statements of activities, and cash flows, for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 8, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Two Rivers' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Two Rivers' internal control. Accordingly, we do not express an opinion on the effectiveness of the Two Rivers' 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 Two Rivers' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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 organization'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.

Jones Marcus & McQuade PA

Washington, DC
November 8, 2016

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 on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

The Board of Trustees of
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.'s (the "School") compliance with the types of compliance requirements described in the *OMB 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 of compliance, 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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Jones Marsden & McQuade PA

Washington, DC
November 8, 2016

TWO RIVERS PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

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-Grants to Local Educational Agencies	84.010	52010A	$ 159,449
Supporting Effective Instruction State Grant	84.367	52367A	29,489
DC School Choice Incentive Program	84.370	52370C	547,394
Special Education Cluster			
Special Education Grants to States	84.027	52027A	135,198
Special Education Preschool Grants	84.173	52173A	10,830
			146,028
Total U.S. Department of Education			882,360
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		44,054
National School Lunch Program	10.555		159,310
Total U.S. Department of Agriculture			203,364
U.S. Department of Health and Human Services			
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768		51,356
Total U.S. Department of Health and Human Services			51,356
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,137,080

See accompanying notes to the Schedule of Expenditures of Federal Awards.

TWO RIVERS PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the School under programs of the federal government for the year ended June 30, 2016. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein, certain types of expenses are not allowable or are limited as to reimbursement. The School elected not to use the 10 percent de minimus indirect cost rate. Pass through programs, agencies, and entity identifying numbers are presented where available.

NOTE C – RECONCILIATION TO THE FINANCIAL STATEMENTS

Expenditures per the Schedule exclude $12,132 of federal awards provided under the Federal Communications Commission E-Rate program, which are reported as federal entitlements and grant revenue in the consolidated 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 Uniform Guidance requirements.

TWO RIVERS PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016

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 in accordance with 2 CFR Section 200.516(a)?	No

Major program

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:	$750,000
Auditee qualified as low-risk auditee?	Yes

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