TWO RIVERS COMMUNITY SCHOOL

BASIC FINANCIAL STATEMENTS

June 30, 2017

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John Cutler & Associates

Board of Directors
Two Rivers Community School
Glenwood Springs, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Two Rivers Community School (the "School"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Two Rivers Community School as of June 30, 2017, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information on pages 29 - 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

John Cutler & Associates, LLC

October 18, 2017

Two Rivers Community School
Management's Discussion and Analysis
For the year ended in June 30, 2017

As management of Two Rivers Community School (TRCS) we offer readers this narrative as an overview and analysis of the basic financial statements and financial activities of TRCS for the fiscal year ended June 30, 2017.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to Two Rivers Community School's basic financial statements. Two Rivers Community School's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of Two Rivers Community School, in a manner similar to a private-sector business.

The statement of net position presents information on all of Two Rivers Community School's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Two Rivers Community School is improving or deteriorating.

The statement of activities presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected grant expenses and earned but unpaid salary and benefits).

The government-wide statement of activities distinguishes functions/programs of Two Rivers Community School supported primarily by Per Pupil Operating Revenue or other revenues passed through from the Charter School Institute. The governmental activities of Two Rivers Community School include instruction and supporting services. This year, the school's remodel and addition operations were supported by bonds approved in October 2016, reported on the audit under the Building Corporation governmental funds.

The government-wide financial statements, including the building corporation, can be found on pages 1-5 of this report.

Financial Highlights

The year ended June 30, 2017 is the fourth year of operations for TRCS, and the third year of operations using per-pupil as the main source of revenue. As of June 30, 2017, net position decreased to ($1,126,892) based on the implementation of the regulations under the Governmental Accounting Standards Board Statement (GASB) Number 68. Further information about GASB 68 is provided in Note 8 of the financial statements.

At the close of the fiscal year Two Rivers Community School governmental funds reported a combined ending fund balance of $6,263.883 ($851,881 in the general fund, and $5,412,002 in the Building Corporation fund) an increase of $373,892 added to $477,989 from the prior year. The Building Corporation fund amount was due to the construction in progress. The total fund balance represents 18.6% of the total revenues for SY16-17. This unassigned fund balance is aligned with the school's goals to keep cash on hand for its finance obligations to the bondholders.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Two Rivers Community School, like other governmental units or schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Two Rivers Community School are governmental funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the school's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the school's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Two Rivers Community School maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is the one governmental fund.

Two Rivers Community School adopts an annual appropriated budget for the General Fund. Budgetary comparison statements have been provided for the funds to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 3-5 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided in pages 6-28 of this report.

Other information

A budgetary comparison schedule for the General Fund can be found on page 29 of this report. This report shows the adopted budgets compared to actuals and their variance. The “actual” column matches the school’s final profit and loss statement ended June 30th, 2017 on accrual basis.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the school’s financial position. In the case of Two Rivers Community School, liabilities exceeded assets due to the pension liability-reporting requirement under GASB 68 and the long-term liability with the recently acquired construction bonds. The school’s net position of ($1,126,892) in FY 2016-2017 changed from ($385,954) in FY 2015-2016.

Two Rivers Community School's Net Position

	Governmental Activities	
	June 30, 2017	June 30, 2016
ASSETS		
Cash in the bank	$ 986,158	$ 500,816
Accounts Receivable	12,586	33,287
Restricted Cash and Investments	5,691,622	
Capital Assets, Non Depreciated	3,135,118	22,806
Capital Assets, Depreciated	1,891,163	227,330
Rent Deposit		31,300
Total Assets	**11,716,647**	**815,539**
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	2,983,216	1,416,398
LIABILITIES		
Accounts Payable	293,128	8,586
Line of Credit	20,981	20,981
Unearned Revenue	3,887	4,567
Accrued Salaries & Benefits	108,487	53,010
Non-current liabilities due in one year		47,968
Non-current liabilities due in More than one year	10,020,000	109,336
Noncurrent Liability – Net Pension Liability	5,356,072	2,340,008
Total Liabilities	**15,802,555**	**2,584,456**
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions	24,200	33,165
NET POSITION		
Net Investment in Capital Assets	(4,993,719)	70,026
Restricted for Emergencies	59,100	55,500
Unrestricted	3,807,727	(511,480)
Total Net Position	**$ (1,126,892)**	**$ (385,954)**

The largest portion of Two Rivers Community School's assets are related to cash retained by the trustee to cover expenses of construction in progress and the newly acquired land and building. The second largest, not including building related assets, is in cash in the bank at 8.4% of total assets, a change of $485,342 from the previous year.

Two Rivers Community School's Change in Net Position
Governmental Activities

	June 30, 2017	June 30, 2016
Program Revenue:		
Charges for Services	162,805	168,257
Operating Grants and Contributions	138,832	349,251
Capital Grants and Contributions	60,835	52,629
Total Program Revenue	362,472	570,137
General Revenue:		
Per Pupil Revenue	1,646,418	1,484,424
Miscellaneous and Interest	71,816	292
Total General Revenue	1,718,234	1,484,716
Total Revenue	2,080,706	2,054,853
Expenses:		
Current:		
Instruction	1,470,831	1,010,393
Supporting Services	1,324,,027	1,343,649
Interests and other fiscal charges	26,786	6,074
Total Expenses	2,821,644	2,360,116
Increase/(Decrease) in Net Position	(740,938)	(305,263)
Net Position, Beginning - RESTATED	(385,954)	(80,691)
Net Position, Ending	$ (1,126,892)	$(385,954)

The largest portion of Two Rivers Community School's revenues came from per pupil revenue – 81.9% in 2017, an increase of 9% from the previous year due to a reduced number of grants received. We plan to apply for some large grants during SY17-18, including the CCSP expansion grant in the fall of 2018.

Financial Analysis of the Government's Funds
As noted earlier, Two Rivers Community School uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds. The focus of Two Rivers Community School's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources.

Such information is useful in assessing Two Rivers Community School's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the School's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the School's General Fund reported an ending fund balance of $851,881, an increase from $477,989 from the previous year. This increase is again greatly significant since the school was able to retain a little over 42% of its total revenues with previous fund balances combined. Without adding previous years' fund balances, this year we retained 18.6% of the total revenues.

General Fund Budgetary Highlights

The School approves a final budget in June based on enrollment projections for the school year. Before January, after enrollment stabilizes, adjustments are made to the budget. At year-end, the school had some variances between the original budget and actual activities. On the revenue side, the school recognized $33,470 more than expected revenues from the revised budget, and $652,054 less in expenditures. This was the result of the school's ability to raise funds through local fundraising, save cash by carefully spending and hiring only the necessary staff, and by keeping close accounting on all school expenses and revenues.

One budget amendment was made during the 2015-2016 school year on January 23rd, 2017.

Capital Assets & Long-Term Debt

Two Rivers Community School had depreciated capital assets in property acquisition and improvements, and machinery and equipment (three school buses) in the amount of $1,891,163. When the school year ended on June 30th, 2017, Two Rivers Community School was in the process of completing a large addition and remodel to the current facility. See Note 4 for more information.

In October of 2016, the school acquired $10,020,000 in bonds from the Public Finance Authority. Proceeds from these bonds were used to payoff the Alpine Bank loan, and purchase and remodel the building. Most of the remodel will be completed and paid for by the spring of 2018.

Next year's audit will reflect a more accurate assets value. The School will submit the first mortgage payments on behalf of the Two Rivers Building Corporation starting in December 2017. The school negotiated an interest rate of 5.2% but aims to refinance the bonds before the call date of October 2019 hoping to negotiate a lower interest rate. See Note 6 for more information.

Debt-Service Requirements:

Year Ended June 30th 2017

	Principal	Interest	Total
2018		$ 521,040	$ 521,040
2019	$ 150,000	517,140	667,140
2020	160,000	509,080	669,080
2021	170,000	500,000	670,500
2022	180,000	491,400	671,400
2023-2027	1,040,000	2,304,380	3,344,380
2028-2032	1,355,000	1,994,330	3,349,330
2033-2037	1,750,000	1,592,760	3,342,760
2038-2042	2,275,000	1,072,370	3,347,370
2043-2047	2,940,000	398,060	3,338,060
Totals:	**$ 10,020,000**	**$ 9,901,060**	**$ 19,921,060**

The school plans to increase its enrollment to 398 by the SY2019-2020 or sooner. With a refinanced loan, and the increase in enrollment, the school will be able to keep the total facilities debt ratio at 20% or lower and plans to retain at least 90 days of cash on hand at all times.

Economic Factors and Next Year's Budget

The primary factor driving the budget for Two Rivers Community School is student enrollment. Enrollment for the 2017-2018 school year was 300 on count day, 284 funded pupils. Two Rivers Community School will utilize all non-restrictive funds to keep as cash on hand to meet the requirements of the bonds and to provide for unexpected loss of revenue.

Requests for Information

This financial report is designed to provide a general overview of Two Rivers Community School's finances for all those with an interest in the school's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the school:

Two Rivers Community School
Director of Business and Operations
P.O. Box 188
Glenwood Springs, CO. 81602

BASIC FINANCIAL STATEMENTS

TWO RIVERS COMMUNITY SCHOOL

STATEMENT OF NET POSITION
As of June 30, 2017

	Governmental Activities	
	2017	2016
ASSETS		
Cash and Investments	$ 986,158	$ 500,816
Restricted Cash and Investments	5,691,622	-
Accounts Receivable	12,586	33,287
Deposits	-	31,300
Capit Assets, Not Depreciated	3,135,118	22,806
Capital Assets, Depreciated, Net of Accumulated Depreciation	1,891,163	227,330
TOTAL ASSETS	11,716,647	815,539
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	2,983,216	1,416,398
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,983,216	1,416,398
LIABILITIES		
Accounts Payable	293,128	8,586
Accrued Salaries and Benefits	108,487	53,010
Line of Credit	20,981	20,981
Unearned Revenue	3,887	4,567
Noncurrent Liabilities		
Due in One Year	-	47,968
Due in More than One Year	10,020,000	109,336
Net Pension Liability	5,356,072	2,340,008
TOTAL LIABILITIES	15,802,555	2,584,456
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions	24,200	33,165
NET POSITION		
Net Investment in Capital Assets	(8,128,837)	70,026
Restricted for Emergencies	59,100	55,500
Unrestricted	6,942,845	(511,480)
TOTAL NET POSITION	$ (1,126,892)	$ (385,954)

The accompanying notes are an integral part of the financial statements.

TWO RIVERS COMMUNITY SCHOOL

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

		PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION	
			Operating	Capital	Governmental Activities	
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Grants and Contributions	Grants and Contributions	2017	2016
PRIMARY GOVERNMENT						
Governmental Activities						
Instructional	$ 1,470,831	$ -	$ 97,577	$ -	$ (1,373,254)	$ (743,399)
Supporting Services	1,324,027	162,805	41,255	60,835	(1,059,132)	(1,040,506)
Interest and Other Fiscal Charges	26,786	-	-	-	(26,786)	(6,074)
Total Governmental Activities	$ 2,821,644	$ 162,805	$ 138,832	$ 60,835	(2,459,172)	(1,789,979)
		GENERAL REVENUES				
		Per Pupil Revenue			1,646,418	1,484,424
		Interest			71,598	-
		Miscellaneous			218	292
		TOTAL GENERAL REVENUES			1,718,234	1,484,716
		CHANGE IN NET POSITION			(740,938)	(305,263)
		NET POSITION, Beginning			(385,954)	(80,691)
		NET POSITION, Ending			(1,126,892)	$ (385,954)

The accompanying notes are an integral part of the financial statements.

TWO RIVERS COMMUNITY SCHOOL

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	GENERAL FUND	BUILDING CORPORATION	TOTAL GOVERNMENTAL FUNDS 2017	TOTAL GOVERNMENTAL FUNDS 2016
ASSETS				
Cash and Investments	$ 986,158	$ -	$ 986,158	$ 500,816
Restricted Cash and Investments	-	5,691,622	5,691,622	-
Accounts Receivable	12,586	-	12,586	33,287
Deposits	-	-	-	31,300
TOTAL ASSETS	$ 998,744	$ 5,691,622	$ 6,690,366	$ 565,403
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	$ 13,508	$ 279,620	$ 293,128	$ 8,856
Accrued Salaries	108,487	-	108,487	53,010
Line of Credit	20,981	-	20,981	20,981
Unearned Revenues	3,887	-	3,887	4,567
TOTAL LIABILITIES	146,863	279,620	426,483	87,414
FUND BALANCES				
Nonspendable	-	-	-	31,300
Restricted for Emergencies	59,100	-	59,100	55,500
Restricted for Capital Projects	-	5,412,002	5,412,002	-
Unassigned	792,781	-	792,781	391,189
TOTAL FUND BALANCES	851,881	5,412,002	6,263,883	477,989
TOTAL LIABILITIES AND FUND BALANCES	$ 998,744	$ 5,691,622		

Amounts reported for governmental activities in the statement of net position are different because:

	2017	2016
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.	5,026,281	250,136
Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. This amount is comprised of bonds payable.	(10,020,000)	(157,304)
Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. This liability includes net pension liability of ($5,356,072), deferred outflows relates to pension of $2,983,216, and deferred inflows related to pensions of ($24,200).	(2,397,056)	(956,775)
Net Position of governmental activities	$ (1,126,892)	$ (385,954)

The accompanying notes are an integral part of the financial statements.

TWO RIVERS COMMUNITY SCHOOL

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	GENERAL FUND	BUILDING CORPORATION	TOTAL GOVERNMENTAL FUNDS 2017	TOTAL GOVERNMENTAL FUNDS 2016
REVENUES				
Local Sources	$ 1,850,696	$ 71,598	$ 1,922,294	$ 1,735,230
State Sources	119,589	-	119,589	111,880
Federal Sources	38,823	-	38,823	207,743
TOTAL REVENUES	2,009,108	71,598	2,080,706	2,054,853
EXPENDITURES				
Current				
Instruction	678,676	-	678,676	678,676
Supporting Services	878,501	-	878,501	812,901
Bond Issuance Costs	-	241,754	241,754	-
Capital Outlay	39,559	4,292,232	4,331,791	208,726
Debt Service				
Principal	36,762	120,542	157,304	46,361
Interest	1,718	25,068	26,786	6,074
TOTAL EXPENDITURES	1,635,216	4,679,596	6,314,812	1,752,738
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	373,892	(4,607,998)	(4,234,106)	302,115
OTHER FINANCING SOURCES (USES)				
Debt Proceeds	-	10,020,000	10,020,000	-
TOTAL OTHER FINANCING SOURCES (USES)	-	10,020,000	10,020,000	-
NET CHANGE IN FUND BALANCES	373,892	5,412,002	5,785,894	302,115
FUND BALANCES, Beginning	477,989	-	477,989	175,874
FUND BALANCES, Ending	$ 851,881	$ 5,412,002	$ 6,263,883	$ 477,989

The accompanying notes are an integral part of the financial statements.

TWO RIVERS COMMUNITY SCHOOL

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	$	5,785,894
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlay $4,877,631 exceeds depreciation ($101,486) in the current year.		4,776,145
Bond proceeds are reported as financing sources in the governmental funds and increase fund balance. In the government-wide finnancials statements, however, issuing debt increases long-term liabiltities in the statement of net position.		(10,020,000)
Repayment of long-term principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of the principal payment for the year.		157,304
Deferred charges related to pensions are not recognized in the governmental funds. However, for the government-wide funds that amount is capitalized and amortized.		(1,440,281)
Change in net position of governmental activities	$	(740,938)

The accompanying notes are an integral part of the financial statements.

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

Two Rivers Community School (the "School") was formed in 2013 pursuant to the Colorado Charter Schools Act to form and operate a charter school under the guidance of the Charter School Institute. The accounting policies of the School conform to generally accepted accounting principles as applicable to governmental units. Following is a summary of the more significant policies.

Reporting Entity

The financial reporting entity consists of the School and organizations for which the School is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. In addition, any legally separate organizations for which the School is financially accountable are considered part of the reporting entity. Financial accountability exists if the School appoints a voting majority of the organization's governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on the School.

The Two Rivers Building Corporation (the "Building Corporation") is considered to be financially accountable to the School. The purpose of the Building Corporation is to provide a mechanism to issue and pay debt on behalf of the School. The Corporation is considered to be part of the School for financial reporting purposes because its resources are entirely for the direct benefit of the Academy and is blended into the Academy's General Fund financial statements as a special revenue fund. Separate financial statements are not available for the Building Corporation.

Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to students or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*** (Continued)

Government-Wide and Fund Financial Statements (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, not to exceed 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Intergovernmental revenues, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first and the unrestricted resources as they are needed.

The School reports the following major governmental funds:

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

Building Corporation Fund – This fund accounts for the activity of the Two Rivers Building Corporation.

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*** (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and balance sheets will sometimes report a separate section for deferred outflows or resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position and fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources expense/expenditure) until then.

In addition to liabilities, the statement of financial position and balance sheets will sometimes report a separate section for deferred inflows or resources. This separate financial statement element, deferred inflow of resources, represents an acquisition of net position and fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Assets, Liabilities and Fund Balance/Net Position

Investments – Investments are recorded at fair value.

Receivables – Receivables are reported at their gross value, and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable.

Prepaid Expenses – Certain payments to vendors reflect costs applicable to future years and are reported as prepaid expenses.

Capital Assets – Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: buildings and improvement 10 - 45 years, land improvements 15 – 20 years, vehicles and equipment 10 years.

Unearned Revenue– Unearned revenues include grants and donations received before the eligibility requirements by the grantor have been met.

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*** (Continued)

Long Term Obligations - In the government-wide financial statements, and proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences – Employees of the School are allowed to earn paid time off (PTO). However, employees are not paid for the accrued compensated absences upon termination of employment. Therefore, no liability has been reported in the financial statements.

Net Position– The government-wide and business-type fund financial statements utilize a net position presentation. Net position is categorized as investment in capital assets, restricted, and unrestricted.

- Investment in Capital Assets is intended to reflect the portion of net position which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

- Restricted Net Position are liquid assets, which have third party limitations on their use.

- Unrestricted Net Position represents assets that do not have any third party limitation on their use. While the School's management may have categorized and segmented portion for various purposes, the School's Board has the unrestricted right to revisit or alter these managerial decisions.

NOTE 1: ***<u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>*** (Continued)

Assets, Liabilities and Fund Balance/Net Position (Continued)

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

- <u>Nonspendable</u> – This classification includes amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. The School does not report any balances as nonspendable as of June 30, 2017.

- <u>Restricted</u> – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The School has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies. Fund Balance was also restricted in the Building Corporation fund for capital projects.

- <u>Committed</u> – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School did not have any committed resources as of June 30, 2017.

- <u>Unassigned</u> – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The School would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned fund balances.

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*** (Continued)

Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School carries commercial insurance for these risks of loss. Settled claims have not exceeded any coverages in the last three years.

NOTE 2: ***STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY***

Budgets and Budgetary Accounting

A budget is adopted for the General Fund on a basis consistent with generally accepted accounting principles.

Management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1. The budget is adopted by the Board of Directors prior to June 30. Expenditures may not legally exceed appropriations at the fund level. Revisions must be approved by the Board of Directors. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at fiscal year-end.

NOTE 3: ***CASH AND INVESTMENTS***

Cash and Investments at June 30, 2017 consisted of the following:

Deposits	$ 961,158
Investments	5,716,622
Total	**$ 6,677,780**

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At June 30, 2017, State regulatory commissioners have indicated that all financial institutions holding deposits for the School are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA.

NOTE 3: ***CASH AND INVESTMENTS*** (Continued)

Deposits (Continued)

PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The School has no policy regarding custodial credit risk for deposits.

At June 30, 2017, the School had deposits with financial institutions with a carrying amount of $961,158. The bank balances with the financial institutions were $972,397. Of these balances $250,000 were covered by federal depository insurance and $722,397 were covered by collateral held by authorized escrow agents in the financial institutions name (PDPA).

Investments

Credit Risk

Colorado statutes specify in which instruments the units of local government may invest which includes:

- Obligations of the United States and certain U.S. government agency securities
- General obligation and revenue bonds of U.S. local government entities
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

The above investments are authorized for all funds and fund types used by Colorado municipalities.

Interest Rate and Credit Risk Policies

The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, or a formal policy to limit credit risk. However, they follow state statutes regarding investments.

NOTE 3: ***CASH AND INVESTMENTS*** (Continued)

Investments (Continued)

Fair Value

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

The District had invested $5,716,622 in the Colorado Government Liquid Asset Trust (ColoTrust) which has a credit rating of AAAm by Standard and Poor's. ColoTrust is an investment vehicle established for local government entities in Colorado to pool surplus funds and is regulated by the State Securities Commissioner. It operates similarly to a money market fund and each share is equal in value to $1.00. Investments consist of U.S. Treasury and U.S. Agency securities, and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the entities.

ColoTrust is not a 2a7-like external investment pool. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. The government-investor does not "look through" the pool to report a pro rata share of the pool's investments, receivables, and payables. This investment is valued using Level 2 inputs.

Restricted Cash

Cash in the amount of $5,716,622 is restricted for future capital outlay in the Internal Service Fund.

NOTE 4 ***CAPITAL ASSETS***

Capital Assets activity for the year ended June 30, 2017 is summarized below.

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Governmental Activities				
Capital Assets, Not Depreciated				
Construction in progress	$ 22,806	$ 3,112,312	$ -	$ 3,135,118
Total Capital Assets, Not Depreciated	22,806	3,112,312	-	3,135,118
Capital Assets, Depreciated				
Buildings and Land	-	1,730,319	-	1,730,319
Buildings Improvements	275,442	-	-	275,442
Equipment	48,362	35,000	-	83,362
Total Capital Assets, Depreciated	323,804	1,765,319	-	2,089,123
Accumulated Depreciation				
Buildings Improvements	91,814	91,914	-	183,628
Equipment	4,660	9,672	-	14,332
Total Accumulated Depreciation	96,474	101,486	-	197,960
Net Capital Assets, Depreciated	227,330	1,663,833	-	1,891,163
Net Capital Assets	**$ 250,136**	**$ 4,776,145**	**$ -**	**$ 5,026,281**

Depreciation has been charged to the Supporting Services program of the School.

NOTE 5: ***ACCRUED SALARIES AND BENEFITS***

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from August to July, but are earned during a school year of nine months. The salaries and benefits earned, but unpaid, as of June 30, 2017, were $108,487 in the General Fund.

NOTE 6: ***LONG-TERM DEBT***

Following is a summary of the School's long-term debt transactions for the year ended June 30, 2017:

	Balance June 30, 2016	Additions	Payments	Balance June 30, 2017	Due In One Year
Alpine Mortgage	$ 157,304	$ -	$ 157,304	$ -	$ -
2016 Bonds Payable	-	10,020,000	-	10,020,000	-
Total	**$ 157,304**	**$10,020,000**	**$ 157,304**	**$ 10,020,000**	**$ -**

Mortgage – Alpine Bank

In July 2014, the School obtained a loan payable to Alpine Bank in the amount of $230,000. This loan carries an interest rate of 3.3% per year. The School is required to make monthly principal and interest payments in the amount of $4,370 through July 2017, with a final payment in the amount of $105,670 due in August 2017.

2016 Bonds Payable

In October 2016, the Public Finance Authority issued $10,020,000 Charter School Revenue Bonds, Series 2016. Proceeds from the bonds were used to pay off the Alpine Bank Mortgage and to purchase and remodel a building. The School is required to make lease payments to the Two Rivers Building Corporation for the use of the building. The Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds. Interest accrues at a rate of 5.20% per year. Interest payments are due semi-annually on June 1 and December 5 and principal payments were due annually on December 1 through 2046.

NOTE 6: *LONG-TERM DEBT* (Continued)

Future debt service requirements are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	$ -	$ 521,040	$ 521,040
2019	150,000	517,140	667,140
2020	160,000	509,080	669,080
2021	170,000	500,500	670,500
2022	180,000	491,400	671,400
2023-2027	1,040,000	2,304,380	3,344,380
2028-2032	1,355,000	1,994,330	3,349,330
2033-2037	1,750,000	1,592,760	3,342,760
2038-2042	2,275,000	1,072,370	3,347,370
2043-2047	2,940,000	398,060	3,338,060
Total	**$ 10,020,000**	**$ 9,901,060**	**$ 19,921,060**

NOTE 7: *DEFINED BENEFIT PENSION PLAN*

Summary of Significant Accounting Policies

Pensions. The School participates in the School Division Trust Fund (SCHDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the SCHDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan description. Eligible employees of the School are provided with pensions through the School Division Trust Fund (SCHDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

NOTE 7: *DEFINED BENEFIT PENSION PLAN* (Continued)

General Information about the Pension Plan (Continued)

Benefits provided. PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA benefit structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit

- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SCHDTF.

NOTE 7: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

General Information about the Pension Plan (Continued)

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contributions. Eligible employees and School are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2017
Employer contribution rate[1]	10.15%	10.15%
Amount of employer contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) [1]	(1.02) %	(1.02) %
Amount apportioned to the SCHDTF[1]	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 [1]	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 [1]	4.50%	5.00%
Total employer contribution rate to the SCHDTF[1]	**18.13%**	**18.63%**

[1]Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from School were $164,032 for the year ended June 30, 2017.

NOTE 7: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the School reported a liability of $5,356,072 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll-forward the total pension liability to December 31, 2016. The School's proportion of the net pension liability was based on School's contributions to the SCHDTF for the calendar year 2016 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2016, the School's proportion was 0.01799%, which was an increase of 0.00269% from its proportion measured as of December 31, 2015.

For the year ended June 30, 2017, the School recognized pension expense of $1,604,315 At June 30, 2017; the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$179,096	-
Changes of assumptions or other inputs	$1,737,934	$24,153
Net difference between projected and actual earnings on pension plan investments	$66,959	$47
Changes in proportion and differences between contributions recognized and proportionate share of contributions	$913,755	-
Contributions subsequent to the measurement date	$85,472	-
Total	$2,983,216	$24,200

NOTE 7: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

$85,472 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,:	
2018	$1,393,014
2019	$924,824
2020	$471,004
2021	$83,883
2022	$819

Actuarial assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 10.10 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.50 percent
Discount rate	7.50 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the

Annual Increase Reserve

NOTE 7: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Based on the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic assumptions were adopted by PERA's Board on November 18, 2016 and effective as of December 31, 2016. These revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2015 to December 31, 2016:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 – 9.70 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	5.26 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Mortality rates used in the December 31, 2015 valuation were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years. Active member mortality was based upon the same mortality rates but adjusted to 55 percent of the base rate for males and 40 percent of the base rate for females. For disabled retirees, the RP-2000 Disabled Mortality Table (set back 2 years for males and set back 2 years for females) was assumed.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

NOTE 7: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

As a result of the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic actuarial assumptions including withdrawal rates, retirement rates for early reduced and unreduced retirement, disability rates, administrative expense load, and pre- and post-retirement and disability mortality rates were adopted by PERA's Board on November 18, 2016 to more closely reflect PERA's actual experience. As the revised economic and demographic assumptions are effective as of the measurement date, December 31, 2016, these revised assumptions were reflected in the total pension liability roll-forward procedures.

Healthy mortality assumptions for active members reflect the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions reflect the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 93 percent factor applied to rates for ages less than 80, a 113 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 68 percent factor applied to rates for ages less than 80, a 106 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

NOTE 7: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016. As a result of the October 28, 2016 actuarial assumptions workshop and the November 18, 2016 PERA Board meeting, the economic assumptions changed, effective December 31, 2016, as follows:

- Investment rate of return assumption decreased from 7.50 percent per year, compounded annually, net of investment expenses to 7.25 percent per year, compounded annually, net of investment expenses.

- Price inflation assumption decreased from 2.80 percent per year to 2.40 percent per year.

- Real rate of investment return assumption increased from 4.70 percent per year, net of investment expenses, to 4.85 percent per year, net of investment expenses.

- Wage inflation assumption decreased from 3.90 percent per year to 3.50 percent per year.

Several factors were considered in evaluating the long-term rate of return assumption for the SCHDTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

NOTE 7: *DEFINED BENEFIT PENSION PLAN* (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

As of the November 18, 2016 adoption of the current long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	**Target Allocation**	**30 Year Expected Geometric Real Rate of Return**
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non-U.S. Equity – Developed	18.55%	5.20%
Non-U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non-U.S. Fixed Income – Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	**100.00%**	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

Discount rate. The discount rate used to measure the total pension liability was 5.26 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated economic and demographic actuarial assumptions adopted by PERA's Board on November 18, 2016.

NOTE 7: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.

- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.

- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.

- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.

- Benefit payments and contributions were assumed to be made at the end of the month.

NOTE 7: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Based on the above assumptions and methods, the projection test indicates the SCHDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2041 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System, was applied to periods on and after 2041 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.86 percent, resulting in a discount rate of 5.26 percent.

As of the prior measurement date, the projection test indicated the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments of 7.50 percent was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination did not use a municipal bond index rate and the discount rate was 7.50 percent, 2.24 percent higher compared to the current measurement date.

Sensitivity of the School *proportionate share of the net pension liability to changes in the discount rate.* The following presents the proportionate share of the net pension liability calculated using the discount rate of 5.26 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.26 percent) or 1-percentage-point higher (6.26 percent) than the current rate:

	1% Decrease (4.26%)	Current Discount Rate (5.26%)	1% Increase (6.26%)
Proportionate share of the net pension liability	$6,735,089	$5,356,072	$4,232,913

Pension plan fiduciary net position. Detailed information about the SCHDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

NOTE 7: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

Other Post-Employment Benefits

Health Care Trust Fund

Plan Description – The School contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy – The School is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2017, 2016 and 2015 the School's contributions to the HCTF were $8,621, $7,724 and $5,621, respectively, equal to their required contribution for each year.

NOTE 8: ***COMMITMENTS AND CONTINGENCIES***

Claims and Judgments

The School participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the School may be required to reimburse the grantor government. As of June 30, 2017, significant amounts of grant expenditures have not been audited, but the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

NOTE 8: ***COMMITMENTS AND CONTINGENCIES*** (Continued)

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The School believes it has complied with the Amendment. As required by the Amendment, the School has established a reserve for emergencies. At June 30, 2017, the reserve of $59,100 was recorded as a reservation of fund balance in the General Fund.

NOTE 9: ***DEFICIT NET POSITION***

The net position of the governmental activities is in a deficit position of $1,126,892 due to the School including its Net Pension Liability per the requirements of GASB Statement No. 68.

REQUIRED SUPPLEMENTARY INFORMATION

TWO RIVERS COMMUNITY SCHOOL

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2017

	2017				
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)	2016 ACTUAL
REVENUES					
Local Sources					
Per Pupil Revenue	$ 1,632,102	$ 1,646,429	$ 1,646,418	$ (11)	$ 1,484,424
Tuition and Fees	159,298	152,230	162,805	10,575	168,257
Contributions	390,400	40,400	41,255	855	82,257
Other	-	-	218	218	292
State Sources					
Grants and Donations	115,308	112,072	119,589	7,517	111,880
Federal Sources					
Grants and Donations	11,469	24,507	38,823	14,316	207,743
TOTAL REVENUES	2,308,577	1,975,638	2,009,108	33,470	2,054,853
EXPENDITURES					
Salaries	909,956	921,200	908,121	13,079	804,968
Employee Benefits	286,536	288,942	255,871	33,071	217,757
Purchased Services	315,582	340,063	270,827	69,236	310,444
Supplies and Materials	98,070	128,550	119,933	8,617	123,395
Property	365,550	59,000	39,559	19,441	208,726
Other	6,060	6,060	2,425	3,635	35,013
Debt Service					
Principal	52,428	17,500	36,762	(19,262)	46,361
Interest	7,440	21,200	1,718	19,482	6,074
Reserves	452,422	504,755		504,755	-
TOTAL EXPENDITURES	2,494,044	2,287,270	1,635,216	652,054	1,752,738
NET CHANGE IN FUND BALANCES	(185,467)	(311,632)	373,892	685,524	302,115
FUND BALANCES, Beginning	400,000	477,989	477,989	-	175,874
FUND BALANCE, Ending	$ 214,533	$ 166,357	$ 851,881	$ 685,524	$ 477,989

See the accompanying independent auditors' report.

TWO RIVERS COMMUNITY SCHOOL

SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
SCHOOL DISTRICT TRUST FUND

Years Ended December 31,

	2014	2015	2016
School's proportionate share of the Net Pension Liability	0.013%	0.015%	0.018%
School's proportionate share of the Net Pension Liability	$ 1,743,898	$ 2,340,008	$ 5,356,072
School's covered-employee payroll	$ 262,921	$ 793,194	$ 807,386
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	663.3%	295.0%	663.4%
Plan fiduciary net position as a percentage of the total pension liability	62.8%	59.2%	43.1%

See the accompanying independent auditors' report.

TWO RIVERS COMMUNITY SCHOOL

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
SCHOOL DISTRICT TRUST FUND

Years Ended June 30,

	2015	2016	2017
Statutorily required contributions	$ 105,208	$ 142,114	$ 164,032
Contributions in relation to the Statutorily required contributions	105,208	142,114	164,032
Contribution deficiency (excess)	$ -	$ -	$ -
School's covered-employee payroll	$ 551,065	$ 757,284	$ 845,207
Contributions as a percentage of covered-employee payroll	19.09%	18.77%	19.41%

See the accompanying independent auditors' report.