

TAPESTRY CHARTER SCHOOL

Financial Statements

Years Ended June 30, 2016 and 2015

(With Independent Auditor's Report Thereon)

TAPESTRY CHARTER SCHOOL

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Independent Auditor's Report

To the Board of Trustees
Tapestry Charter School
Buffalo, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Tapestry Charter School (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tapestry Charter School 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2016, on our consideration of Tapestry Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Tapestry Charter School's internal control over financial reporting and compliance.

Amato, Fox & Company, P.C.

Tonawanda, New York
October 21, 2016

TAPESTRY CHARTER SCHOOL
Statements of Financial Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Current assets:		
Cash	\$ 3,600,297	\$ 2,791,720
Accounts receivable	104,043	112,946
Prepaid expenses	32,682	30,441
Total current assets	3,737,022	2,935,107
Property and equipment, net of accumulated depreciation of \$4,399,136 and \$3,736,364 in 2016 and 2015, respectively	12,986,113	14,130,235
Construction in progress	43,272	12,641
Deferred loan fees, net of accumulated amortization of \$5,900 and \$2,196 in 2016 and 2015, respectively	95,153	3,294
Security deposit	250	250
Total assets	\$ 16,861,810	\$ 17,081,527
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 271,215	\$ 92,562
Revolving line of credit	-	10,869
Accrued expenses	1,516,233	1,561,842
Equipment lease obligation, current portion	5,378	5,091
Deferred revenue	40,388	960
Current maturities of long-term debt	650,860	258,940
Total current liabilities	2,484,074	1,930,264
Equipment lease obligation, less current portion	4,307	9,685
Long-term debt, net of current maturities	11,808,686	412,527
Property lease obligation	-	12,891,311
Total liabilities	14,297,067	15,243,787
Net assets:		
Unrestricted	2,537,014	1,807,245
Temporarily restricted	27,729	30,495
Total net assets	2,564,743	1,837,740
Total liabilities and net assets	\$ 16,861,810	\$ 17,081,527

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

TAPESTRY CHARTER SCHOOL
Statement of Activities
Year Ended June 30, 2016
(with comparative totals for 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2016</u>	<u>2015</u>
Revenue:				
Public school district:				
Resident students enrollment	\$ 10,042,478	\$ -	\$ 10,042,478	\$ 9,645,305
Students with disabilities	817,645	-	817,645	683,653
Cafeteria income	292,711	-	292,711	242,713
Grants and contracts	303,748	-	303,748	259,477
Contributions	222,670	7,274	229,944	33,045
Fundraising, net of direct expenses of \$25,726 in 2016 and \$6,071 in 2015	18,064	-	18,064	3,812
Rental of facilities	4,175	-	4,175	20,760
Interest	6,632	-	6,632	6,777
Miscellaneous	151,682	-	151,682	124,170
Net assets released from restrictions	10,040	(10,040)	-	-
Total revenue	<u>11,869,845</u>	<u>(2,766)</u>	<u>11,867,079</u>	<u>11,019,712</u>
Expenses:				
Program services:				
Regular education	7,131,864	-	7,131,864	7,226,327
Special education	687,784	-	687,784	627,645
Other programs	1,302,808	-	1,302,808	1,143,319
Total program services	9,122,456	-	9,122,456	8,997,291
Supporting services:				
Management and general	2,012,432	-	2,012,432	1,792,566
Development activities	5,188	-	5,188	40,303
Total expenses	<u>11,140,076</u>	<u>-</u>	<u>11,140,076</u>	<u>10,830,160</u>
Change in net assets	729,769	(2,766)	727,003	189,552
Net assets at beginning of year	<u>1,807,245</u>	<u>30,495</u>	<u>1,837,740</u>	<u>1,648,188</u>
Net assets at end of year	<u>\$ 2,537,014</u>	<u>\$ 27,729</u>	<u>\$ 2,564,743</u>	<u>\$ 1,837,740</u>

The accompanying notes are an integral part of this financial statement.

TAPESTRY CHARTER SCHOOL
Statement of Activities
Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue:			
Public school district:			
Resident students enrollment	\$ 9,645,305	\$ -	\$ 9,645,305
Students with disabilities	683,653	-	683,653
Cafeteria income	242,713	-	242,713
Grants and contracts	259,477	-	259,477
Contributions	22,568	10,477	33,045
Fundraising, net of direct expenses of \$6,071	3,812	-	3,812
Rental of facilities	20,760	-	20,760
Interest	6,777	-	6,777
Miscellaneous	124,170	-	124,170
Net assets released from restrictions	3,539	(3,539)	-
Total revenue	<u>11,012,774</u>	<u>6,938</u>	<u>11,019,712</u>
Expenses:			
Program services:			
Regular education	7,226,327	-	7,226,327
Special education	627,645	-	627,645
Other programs	1,143,319	-	1,143,319
Total program services	8,997,291	-	8,997,291
Supporting services:			
Management and general	1,792,566	-	1,792,566
Development activities	40,303	-	40,303
Total expenses	<u>10,830,160</u>	<u>-</u>	<u>10,830,160</u>
Change in net assets	182,614	6,938	189,552
Net assets at beginning of year	<u>1,624,631</u>	<u>23,557</u>	<u>1,648,188</u>
Net assets at end of year	<u>\$ 1,807,245</u>	<u>\$ 30,495</u>	<u>\$ 1,837,740</u>

The accompanying notes are an integral part of this financial statement.

TAPESTRY CHARTER SCHOOL
Statement of Functional Expenses
Year Ended June 30, 2016
(With Comparative Totals for 2015)

	Number of staff	Program services			Supporting services		2016	2015	
		Regular education	Special education	Other programs	Total	Management and general			Development activities
Salaries and wages:									
Instrucional	98	\$ 3,833,382	\$ 418,073	\$ -	4,251,455	\$ -	\$ -	\$ 4,251,455	\$ 3,949,742
Non-instructional	9	-	-	614,859	614,859	-	-	614,859	514,201
Administrative	23	-	-	-	-	1,082,193	-	1,082,193	963,393
Total salaries	<u>130</u>	<u>3,833,382</u>	<u>418,073</u>	<u>614,859</u>	<u>4,866,314</u>	<u>1,082,193</u>	<u>-</u>	<u>5,948,507</u>	<u>5,427,336</u>
Payroll taxes		304,547	33,214	48,848	386,609	85,976	-	472,585	443,754
Employee benefits		754,186	82,252	120,968	957,406	212,914	-	1,170,320	1,243,585
Food service		-	-	178,065	178,065	-	-	178,065	168,248
Accounting and legal		-	-	-	-	139,802	-	139,802	103,674
Books and instructional material		25,550	-	-	25,550	-	-	25,550	17,005
Instructional consultants		52,000	41,147	-	93,147	-	-	93,147	109,630
Contracted services		-	-	-	-	117,805	-	117,805	111,607
Travel and conferences		7,422	-	-	7,422	-	-	7,422	12,476
Utilities		75,297	4,706	4,706	84,709	8,471	941	94,121	104,994
Classroom supplies		75,004	-	-	75,004	-	-	75,004	43,530
Arts, dance and music		-	-	26,461	26,461	-	-	26,461	21,385
Postage		8,672	542	542	9,756	976	108	10,840	9,112
Student services		-	-	7,802	7,802	-	-	7,802	5,441
Staff development		48,169	-	-	48,169	-	-	48,169	30,543
Interest expense		830,445	51,903	51,903	934,251	103,805	-	1,038,056	1,349,280
Office expense		-	-	-	-	76,512	-	76,512	24,039
Advertising and promotion		-	-	-	-	14,398	-	14,398	16,247
Maintenance and repairs		217,441	13,590	13,590	244,621	24,462	2,718	271,801	264,896
Telephone		36,139	2,259	2,259	40,657	4,065	452	45,174	32,482
Technology expense		216,767	-	-	216,767	-	-	216,767	220,883
Field trips and activities		-	-	146,352	146,352	-	-	146,352	110,663
Student testing and assessment		5,268	-	-	5,268	-	-	5,268	6,153
Sports expenses		-	-	46,355	46,355	-	-	46,355	31,984
Insurance		77,348	4,834	4,834	87,016	8,702	967	96,685	99,750
Vehicle expense		5,076	317	317	5,710	635	-	6,345	9,213
Mobile classroom		-	-	-	-	61,694	-	61,694	39,384
Miscellaneous		25,970	1,623	1,623	29,216	3,375	2	32,593	28,203
Depreciation and amortization		533,181	33,324	33,324	599,829	66,647	-	666,476	744,663
Total		<u>\$ 7,131,864</u>	<u>\$ 687,784</u>	<u>\$ 1,302,808</u>	<u>\$ 9,122,456</u>	<u>\$ 2,012,432</u>	<u>\$ 5,188</u>	<u>\$ 11,140,076</u>	<u>\$ 10,830,160</u>

The accompanying notes are an integral part of this financial statement.

TAPESTRY CHARTER SCHOOL
Statement of Functional Expenses
Year Ended June 30, 2015

	Number of staff	Program services			Supporting services			
		Regular education	Special education	Other programs	Total	Management and general	Development activities	Total
Salaries and wages:								
Instrucional	98	\$3,570,631	\$ 379,111	\$ -	\$3,949,742	\$ -	\$ -	\$ 3,949,742
Non-instrucional	9	-	-	514,201	514,201	-	-	514,201
Administrative	23	-	-	-	-	930,863	32,530	963,393
Total salaries	<u>130</u>	<u>3,570,631</u>	<u>379,111</u>	<u>514,201</u>	<u>4,463,943</u>	<u>930,863</u>	<u>32,530</u>	<u>5,427,336</u>
Payroll taxes		291,945	30,997	42,042	364,984	76,110	2,660	443,754
Employee benefits		818,151	86,867	117,821	1,022,839	220,746	-	1,243,585
Food service		-	-	168,248	168,248	-	-	168,248
Accounting and legal		-	-	-	-	103,674	-	103,674
Books and instructional material		17,005	-	-	17,005	-	-	17,005
Instructional consultants		73,776	35,854	-	109,630	-	-	109,630
Contracted services		-	-	-	-	111,607	-	111,607
Travel and conferences		12,476	-	-	12,476	-	-	12,476
Utilities		83,995	5,250	5,250	94,495	9,449	1,050	104,994
Classroom supplies		43,530	-	-	43,530	-	-	43,530
Arts, dance and music		-	-	21,385	21,385	-	-	21,385
Postage		7,289	456	456	8,201	820	91	9,112
Student services		-	-	5,441	5,441	-	-	5,441
Staff development		30,543	-	-	30,543	-	-	30,543
Interest expense		1,079,424	67,464	67,464	1,214,352	134,928	-	1,349,280
Office expense		-	-	-	-	24,039	-	24,039
Advertising and promotion		-	-	-	-	16,247	-	16,247
Maintenance and repairs		211,916	13,245	13,245	238,406	23,841	2,649	264,896
Telephone		25,986	1,624	1,624	29,234	2,923	325	32,482
Technology expense		220,883	-	-	220,883	-	-	220,883
Field trips and activities		-	-	110,663	110,663	-	-	110,663
Student testing and assessment		6,153	-	-	6,153	-	-	6,153
Sports expenses		-	-	31,984	31,984	-	-	31,984
Insurance		79,800	4,988	4,988	89,776	8,976	998	99,750
Vehicle expense		7,370	461	461	8,292	921	-	9,213
Mobile classroom		-	-	-	-	39,384	-	39,384
Miscellaneous		21,240	1,328	1,328	23,896	4,307	-	28,203
Depreciation and amortization		624,214	-	36,718	660,932	83,731	-	744,663
Total		<u>\$7,226,327</u>	<u>\$ 627,645</u>	<u>\$1,143,319</u>	<u>\$8,997,291</u>	<u>\$1,792,566</u>	<u>\$ 40,303</u>	<u>\$ 10,830,160</u>

The accompanying notes are an integral part of this financial statement.

TAPESTRY CHARTER SCHOOL
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from public school districts	\$ 10,898,142	\$ 10,344,771
Cash received from grants	319,029	272,880
Cash received from contributions	29,944	33,045
Cash received from cafeteria	291,600	238,560
Cash received from other sources	359,087	154,655
Payments to employees for services and benefits	(7,620,458)	(6,961,513)
Payments to vendors and suppliers	<u>(2,886,715)</u>	<u>(3,139,742)</u>
Net cash provided by operating activities	<u>1,390,629</u>	<u>942,656</u>
Cash flows from investing activities:		
Construction in progress payments	(30,631)	567
Purchase of property and equipment	<u>(164,984)</u>	<u>(92,933)</u>
Net cash used in investing activities	<u>(195,615)</u>	<u>(92,366)</u>
Cash flows from financing activities:		
Payments on revolving line of credit	(10,869)	(8,038)
Payments on equipment lease obligation	(5,091)	(4,597)
Payment of loan fees	-	(2,950)
Principal payments on long-term debt	(294,921)	(388,817)
Payment made to purchase property and terminate the property lease obligation	<u>(75,556)</u>	<u>-</u>
Net cash used in financing activities	<u>(386,437)</u>	<u>(391,767)</u>
Net increase in cash	808,577	458,523
Cash at beginning of year	<u>2,791,720</u>	<u>2,333,197</u>
Cash at end of year	<u><u>\$ 3,600,297</u></u>	<u><u>\$ 2,791,720</u></u>

Continued

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

TAPESTRY CHARTER SCHOOL
Statements of Cash Flows, Continued
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of change in net assets		
to net cash provided by operating activities:		
Change in net assets	\$ 727,003	\$ 189,552
Adjustments to reconcile change in net assets		
to net cash provided by operating activities:		
Non-cash contribution	(200,000)	-
Interest	50,865	42,896
Depreciation and amortization	666,476	744,663
Changes in operating assets and liabilities:		
Increase in receivables	8,903	30,156
(Decrease) increase in prepaid expenses	(2,241)	1,649
Increase (decrease) in accounts payable	145,804	(213,465)
(Decrease) increase in accrued expenses	(45,609)	153,162
Increase (decrease) in deferred revenue	39,428	(5,957)
Net cash provided by operating activities	<u>\$ 1,390,629</u>	<u>\$ 942,656</u>
Supplemental schedule of cash flow information:		
Cash paid for interest	<u>\$ 956,908</u>	<u>\$ 1,301,788</u>
Property and equipment purchases financed with		
accounts payable	<u>\$ 38,849</u>	<u>\$ 6,000</u>
Transactions related to the purchase of property and		
the termination of the property lease obligation:		
Reduction in property valuation	<u>\$ 679,183</u>	<u>\$ -</u>
Increase in deferred loan fees	<u>\$ 95,563</u>	<u>\$ -</u>
Increase in mortgage note payable	<u>\$ 10,243,000</u>	<u>\$ -</u>
Increase in note payable	<u>\$ 1,840,000</u>	<u>\$ -</u>
Termination of property lease obligation	<u>\$ 12,815,755</u>	<u>\$ -</u>

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

TAPESTRY CHARTER SCHOOL
Notes to Financial Statements
June 30, 2016 and 2015

Note 1 - Organization and Summary of Significant Accounting Policies

Organization - The mission of Tapestry Charter School (the School) is to educate and inspire a diverse community of K-12 learners by engaging them in rigorous real-world learning experiences which prioritize intellectual, social and emotional growth. The School provides an environment where students are encouraged to become self directed, independent learners. Progressive, interdisciplinary teaching techniques are utilized along with the best resources available to fit the individual learning style of each student. Parent involvement is a significant component in the success of the School. The School enrolls students from families of diverse cultural, racial and socio-economic backgrounds.

The School received a provisional charter on April 24, 2001 from the Education Department of the State of New York. This charter has been renewed and extended through April 24, 2021 in accordance with the provisions of Article 5b of the Education Law.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) Topic 958-205-45. Under ASC Topic 958-205-45, the School is required to report information regarding its financial position and activities according to separate unrestricted, temporarily restricted, and permanently restricted classes of net assets. The School did not have any permanently restricted net assets at June 30, 2016 or 2015. Accordingly, net assets of the School and changes therein are classified and reported as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations and may be used for any purpose designated by the School’s Board of Trustees.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the School and/or the passage of time.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Equivalents - For purposes of the statements of cash flows, the School considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Receivables – Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. There was no valuation allowance at June 30, 2016 or 2015.

TAPESTRY CHARTER SCHOOL
Notes to Financial Statements, Continued
June 30, 2016 and 2015

Note 1 - Organization and Summary of Significant Accounting Policies, Continued

Property and Equipment - Property and equipment are stated at cost, except for donated property and equipment, which is stated at the estimated fair market value at date of receipt. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Depreciation of property and equipment is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Upon disposal of property and equipment, the appropriate property and equipment accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statements of activities. Estimated service lives are as follows:

- | | |
|------------------------------|---------------|
| • Land improvements | 10 – 15 years |
| • Buildings and improvements | 5 – 30 years |
| • Equipment | 3 – 7 years |
| • Vehicles | 5 years |

Long-Lived Assets – The School reviews the carrying values of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. At June 30, 2016, no impairment in value has been recognized.

Promises to Give – Contributions are recognized when the donor makes an unconditional promise to give to the School. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the period in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Grant awards are classified as refundable advances until expended for the purposes of the grant since they are conditional promises to give.

Functional Allocation of Expenses - The costs of various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising - The School follows the policy of charging the costs of advertising to expense as incurred. Advertising and promotional expense for the years ending June 30, 2016 and 2015 was \$14,398 and \$16,247, respectively.

Income Taxes - The School is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code, and is classified as "other than a private foundation". Therefore, no provision for income taxes is reflected in the financial statements.

Uncertain Tax Positions – The School discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable that a liability has been incurred for unrecognized income taxes. Management has concluded that the School has taken no uncertain tax positions that require adjustment in its financial statements. U.S. forms 990 filed by the School are subject to examination by taxing authorities generally for three years after they were filed.

TAPESTRY CHARTER SCHOOL
Notes to Financial Statements, Continued
June 30, 2016 and 2015

Note 1 - Organization and Summary of Significant Accounting Policies, Continued

Subsequent Events - The School has evaluated events and transactions after June 30, 2016, and through October 21, 2016, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

Reclassifications – Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation. The reclassifications have no effect on the reported amounts of total net assets or changes in total net assets.

Note 2 - Property and Equipment

Property and equipment at June 30, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Land and improvements	\$ 1,440,171	\$ 1,440,171
Building	12,967,615	13,646,797
Building improvements	1,308,827	1,224,103
Office equipment	202,667	166,105
Instructional equipment	1,156,336	1,079,790
Kitchen equipment	171,087	171,087
Library equipment	74,356	74,356
Maintenance equipment	4,240	4,240
Vehicles	59,950	59,950
	17,385,249	17,866,599
Less accumulated depreciation	(4,399,136)	(3,736,364)
	\$ 12,986,113	\$ 14,130,235

An adjustment of \$679,183 was made in 2016 to reduce the carrying value of the School's property in conjunction with purchasing the property and terminating the property lease obligation (Note 6).

Note 3 - Revolving Lines of Credit

The School has a \$20,000 revolving line of credit with a bank. Advances on the credit line are payable on demand with interest at 14.9%. Any outstanding balance is secured by a general security interest in all assets of the School. There was no outstanding balance on this agreement at June 30, 2016. The outstanding balance at June 30, 2015 was \$10,869.

The School also has a \$300,000 line of credit with a bank. Advances on the credit line are payable on demand with interest at the Wall Street Journal prime rate plus 1%. Any outstanding balance is secured by a general security interest in all assets of the School. There was no outstanding balance on this agreement at June 30, 2016 or 2015.

TAPESTRY CHARTER SCHOOL
Notes to Financial Statements, Continued
June 30, 2016 and 2015

Note 4 - Long-term Debt

Long-term debt as of June 30, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Note payable to Northwest Savings Bank in 84 monthly installments of \$2,043 plus interest at a variable rate of interest equivalent to the bank's prime rate plus 100 basis points (5.00% at June 30, 2012) to finance land acquisition.	\$ 18,385	\$ 42,898
Note payable to Northwest Savings Bank in 36 monthly installments of \$17,193 including interest at a fixed interest rate of 4.5%.	393,652	577,938
Mortgage note payable to Northwest Savings Bank in monthly installments of \$48,673 including interest at a fixed rate of 2.975%. This note matures in April 2023 at which time a balloon payment of the outstanding principle balance is due.	10,220,577	-
Note payable to Northwest Savings Bank in monthly installments of \$17,783 including interest at a fixed rate of 2.975%. This note matures in April 2023 at which time a balloon payment of the outstanding principle balance is due.	1,826,932	-
Note payable to Northwest Savings Bank in 60 monthly installments of \$11,234, including interest at a fixed interest rate of 6.5%.	-	34,939
Note payable to Northwest Savings Bank in 60 monthly installments of \$3,862, including interest at a fixed interest rate of 6.5%.	-	15,692
	12,459,546	671,467
Less: current maturities	(650,860)	(258,940)
	\$ 11,808,686	\$ 412,527

Continued

TAPESTRY CHARTER SCHOOL
Notes to Financial Statements, Continued
June 30, 2016 and 2015

Note 4 - Long-term Debt, Continued

Principal maturities:	
2017	\$ 650,860
2018	654,543
2019	467,278
2020	481,569
2021	496,298
Thereafter	<u>9,708,998</u>
	<u>\$ 12,459,546</u>

Note 5 - Equipment Lease Obligation

During the year ended June 30, 2013, the School entered into an agreement to lease certain office equipment. The School accounted for this transaction as a capital lease and capitalized the equipment and recorded the related debt in the amount of \$25,785. The agreement requires monthly payments of \$528 through February 2018. The equipment lease obligation at June 30, 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Current portion	\$ 5,378	\$ 5,091
Remaining balance	<u>4,307</u>	<u>9,685</u>
	<u>\$ 9,685</u>	<u>\$ 14,776</u>

Note 6 – Property Lease Obligation

The School occupies property, located at 65 Great Arrow Avenue in Buffalo, New York, that was financed under a lease agreement. The School accounted for this as a capital lease. The principal balance of this lease obligation was \$12,891,311 at June 30, 2015. Under the lease agreement and lease amendment, the School had the option to buy out its leasehold interest and improvements in the property. The buyout price represented the amount due on the landlord’s mortgage plus the landlord’s required equity contribution to the project including a 2.5% inflationary factor. On April 19, 2016, the School exercised the buyout and purchased the property thereby terminating the lease agreement. The purchase transaction included a \$200,000 reduction in the lease buyout price which was considered a donation made to the School. The School reduced the carrying value of the property by \$679,183 due to the difference between the property’s purchase price and the carrying amount of the lease obligation. The School financed the purchase of the property and the termination of the property lease obligation with a bank mortgage loan of \$10,243,000 and a bank term loan of \$1,840,000. Capitalized loan closing costs amounted to \$95,563.

TAPESTRY CHARTER SCHOOL
Notes to Financial Statements, Continued
June 30, 2016 and 2015

Note 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 and 2015 are contributions received restricted for the following purposes:

	<u>2016</u>	<u>2015</u>
Student scholarships	\$ 11,120	\$ 12,945
Other purposes	<u>16,609</u>	<u>17,550</u>
	<u>\$ 27,729</u>	<u>\$ 30,495</u>

Note 8 - Public School District Revenue

The School receives public school district funds for regular student enrollment. The rate per student is mandated by the State of New York Education Department. The rate paid by the Buffalo school district was \$12,355 and \$12,255 per student for the years ended June 30, 2016 and 2015, respectively. The School had 821 and 800 enrolled students at June 30, 2016 and 2015, respectively, with the majority of students coming from the Buffalo school district. Total public school district revenue amounted to \$10,860,123 and \$10,328,958 for the years ended June 30, 2016 and 2015, respectively.

Note 9 - Retirement Plan

The School participates in the New York State Teachers' Retirement System (TRS), a cost sharing multiple employer, defined benefit pension plan. TRS offers a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability. TRS is administered by the New York State Teachers' Retirement Board and provides retirement, disability, withdrawal and death benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. TRS issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report can be found on the TRS website at www.nystrs.org/main/library/annual-report.htm.

TRS requires employee contributions of 3% of their annual salary for the first 10 years of service for those employees who joined the Plan between July 1976 and December 2009. Participants hired after January 1, 2010 are required to contribute 3.5% of their annual salary throughout their active membership in TRS. No employee contribution is required for those hired prior to July 1976. Pursuant to Article 11 of the Education Law, an actuarially determined contribution rate is established annually by the New York State Teachers' Retirement Board. The rate for the years ended June 30, 2016 and 2015 is 13.26% and 17.53% of the annual covered payroll, respectively. The School's required contribution was \$660,228 and \$795,213 for the years ended June 30, 2016 and 2015, respectively.

TAPESTRY CHARTER SCHOOL
Notes to Financial Statements, Continued
June 30, 2016 and 2015

Note 10 - Concentration of Credit Risk

The School maintains its cash balances at financial institutions within the Buffalo, New York area, which at times exceed amounts covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC), up to \$250,000 per institution. As of June 30, 2016, the maximum loss that would have resulted from that risk totaled \$3,318,540. The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

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**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***

To the Board of Trustees
Tapestry Charter School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Tapestry Charter School (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Tapestry Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not to for the purpose of expressing an opinion on the effectiveness of Tapestry Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tapestry Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this report

The purpose of this report is solely to describe the scope of testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or 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.

Amato, Fox & Company, P.C.

Tonawanda, New York
October 21, 2016