

TAPESTRY CHARTER SCHOOL

FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

(With Independent Auditor's Report Thereon)

TAPESTRY CHARTER SCHOOL

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INDEPENDENT AUDITORS REPORT

The Board of Directors
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, 2015 and 2014, 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 of 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.

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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, 2015 and 2014, 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 23, 2015, 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 considered Tapestry Charter School's internal control over financial reporting and compliance.

Amato, Fox & Company, P.C.

October 23, 2015

TAPESTRY CHARTER SCHOOL

**Statements of Financial Position
June 30, 2015 and 2014**

	2015	2014
<u>ASSETS</u>		
Current assets:		
Cash	\$ 2,791,720	\$ 2,333,197
Accounts receivable	112,946	143,102
Prepaid expenses	30,441	32,090
Total current assets	2,935,107	2,508,389
Property and equipment, net of accumulated		
depreciation of \$3,736,364 and \$3,001,995 in 2015 and 2014	14,130,235	14,771,672
Other assets:		
Deferred loan fees, net	3,294	10,638
Security deposit	250	250
Construction in progress	12,641	13,208
Total assets	\$ 17,081,527	\$ 17,304,157
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 92,562	\$ 297,989
Revolving lines of credit	10,869	18,907
Accrued expenses	1,561,842	1,408,680
Capital lease payable, current portion	14,776	19,373
Deferred revenue	960	6,917
Current maturities of long-term debt	258,940	353,428
Total current liabilities	1,939,949	2,105,294
Long term liabilities:		
Capital lease obligation, less current portion	12,891,311	12,843,819
Long-term debt, net of current maturities	412,527	706,856
Total long term liabilities	13,303,838	13,550,675
Total liabilities	15,243,787	15,655,969
Net assets:		
Unrestricted	1,807,245	1,624,631
Temporarily restricted	30,495	23,557
Total net assets	1,837,740	1,648,188
Total liabilities and net assets	\$ 17,081,527	\$ 17,304,157

The accompanying notes are an integral part of these financial statements

TAPESTRY CHARTER SCHOOL

**Statement of Activities
Year Ended June 30, 2015**

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support:			
Public School District:			
Revenue - Resident student enrollment	\$ 9,645,305	\$ -	\$ 9,645,305
Revenue - Students with disabilities	683,653	-	683,653
Grants and contracts	-	259,477	259,477
Cafeteria income	242,713	-	242,713
Contributions	22,568	10,477	33,045
Fundraising income, net of direct expenses of \$25,726	3,812	-	3,812
Other income	124,170	-	124,170
Rental income	20,760	-	20,760
Interest income	6,777	-	6,777
Net assets released from restrictions:			
Satisfaction of program restrictions	263,016	(263,016)	-
Total revenues, gains and other support	11,012,774	6,938	11,019,712
Expenses and Losses:			
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 and losses	10,830,160	-	10,830,160
Change in net assets	182,614	6,938	189,552
Net assets at beginning of year	1,624,631	23,557	1,648,188
Net assets at end of year	\$ 1,807,245	\$ 30,495	\$ 1,837,740

The accompanying notes are an integral part of this financial statement

TAPESTRY CHARTER SCHOOL

**Statement of Activities
Year Ended June 30, 2014**

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support:			
Public School District:			
Revenue - Resident student enrollment	\$ 9,454,519	\$ -	\$ 9,454,519
Revenue - Students with disabilities	776,543	-	776,543
Grants and contracts	-	326,232	326,232
Cafeteria income	250,174	-	250,174
Contributions	41,965	4,895	46,860
Fundraising income, net of direct expenses of \$6,071	10,090	-	10,090
Other income	111,839	-	111,839
Interest income	6,113	-	6,113
Net assets released from restrictions:			
Satisfaction of program restrictions	329,517	(329,517)	-
Total revenues, gains and other support	10,980,760	1,610	10,982,370
Expenses and Losses:			
Program services:			
Regular education	6,985,363	-	6,985,363
Special education	721,966	-	721,966
Other programs	1,150,218	-	1,150,218
Total program services	8,857,547	-	8,857,547
Supporting services:			
Management and general	1,711,224	-	1,711,224
Development activities	72,910	-	72,910
Total expenses and losses	10,641,681	-	10,641,681
Change in net assets	339,079	1,610	340,689
Net assets at beginning of year	1,285,552	21,947	1,307,499
Net assets at end of year	\$ 1,624,631	\$ 23,557	\$ 1,648,188

The accompanying notes are an integral part of this financial statement

TAPESTRY CHARTER SCHOOL

**Statement of Functional Expenses
Year Ended June 30, 2015**

	No. of Positions	Program Services			Supporting Services		Total	
		Regular Education	Special Education	Other Programs	Total	Management and General		Development Activities
Salaries and wages:								
Administrative staff	23	\$ -	\$ -	\$ -	\$ -	\$ 930,863	\$ 32,530	\$ 963,393
Instrucional	98	3,570,631	379,111	-	3,949,742	-	-	3,949,742
Non-instructional	9	-	-	514,201	514,201	-	-	514,201
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
Contracted services and consultants		73,776	35,854	-	109,630	111,607	-	221,237
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
Dues and subscriptions		2,431	152	152	2,735	303	-	3,038
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		18,809	1,176	1,176	21,161	2,351	-	23,512
Property taxes		-	-	-	-	1,653	-	1,653
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

**Statement of Functional Expenses
Year Ended June 30, 2014**

	No. of Positions	Program Services			Supporting Services		Total	
		Regular Education	Special Education	Other Programs	Total	Management and General		Development Activities
Salaries and wages:								
Administrative staff	19	\$ -	\$ -	\$ -	\$ -	\$ 843,439	\$ 62,108	\$ 905,547
Instrucional	90	3,309,759	404,673	-	3,714,432	-	-	3,714,432
Non-instructional	14	-	-	493,358	493,358	-	-	493,358
Total salaries	<u>123</u>	<u>3,309,759</u>	<u>404,673</u>	<u>493,358</u>	<u>4,207,790</u>	<u>843,439</u>	<u>62,108</u>	<u>5,113,337</u>
Payroll taxes		278,888	34,099	41,571	354,558	71,070	5,233	430,861
Employee benefits		752,137	91,961	112,115	956,213	205,784	-	1,161,997
Food service		-	-	136,105	136,105	-	-	136,105
Accounting and legal		-	-	-	-	99,979	-	99,979
Books and instructional material		13,358	-	-	13,358	-	-	13,358
Contracted services and consultants		54,584	92,928	-	147,512	111,124	-	258,636
Travel and conferences		21,495	-	-	21,495	-	-	21,495
Utilities		93,318	5,832	5,833	104,983	10,498	1,166	116,647
Classroom supplies		46,663	-	-	46,663	-	-	46,663
Arts, dance and music		-	-	24,458	24,458	-	-	24,458
Postage		8,376	524	524	9,424	942	105	10,471
Student services		-	-	6,861	6,861	-	-	6,861
Staff development		35,895	-	-	35,895	-	-	35,895
Interest expense		1,091,807	68,238	68,238	1,228,283	136,476	-	1,364,759
Office expense		-	-	-	-	31,773	-	31,773
Advertising and promotion		-	-	-	-	9,439	-	9,439
Maintenance and repairs		224,404	14,025	14,025	252,454	25,245	2,805	280,504
Telephone		25,117	1,570	1,570	28,257	2,826	314	31,397
Technology expense		239,579	-	-	239,579	-	-	239,579
Field trips and activities		-	-	128,665	128,665	-	-	128,665
School store expense		-	-	4,283	4,283	-	-	4,283
Student testing and assessment		29,811	-	-	29,811	-	-	29,811
Sports expenses		-	-	35,200	35,200	-	-	35,200
Dues and subscriptions		10,141	634	634	11,409	1,268	-	12,677
Insurance		94,312	5,895	5,895	106,102	10,610	1,179	117,891
Vehicle expense		4,578	286	286	5,150	572	-	5,722
Mobile classroom		-	-	-	-	69,678	-	69,678
Miscellaneous		20,822	1,301	1,301	23,424	2,728	-	26,152
Property taxes		-	-	-	-	22,855	-	22,855
Depreciation and amortization		630,319	-	69,296	699,615	54,918	-	754,533
Total		\$ 6,985,363	\$ 721,966	\$ 1,150,218	\$ 8,857,547	\$ 1,711,224	\$ 72,910	\$ 10,641,681

The accompanying notes are an integral part of this financial statement

TAPESTRY CHARTER SCHOOL

Statements of Cash Flows Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash received from public school districts	\$ 10,344,771	\$ 10,193,981
Cash received from federal grants	272,880	370,931
Cash received from contributions	33,045	46,872
Cash received from cafeteria	238,560	241,996
Cash received from other sources	154,655	133,412
Payments to employees for services and benefits	(6,961,513)	(6,521,971)
Payments to vendors and suppliers	(3,182,638)	(2,971,100)
Net cash provided by operating activities	899,760	1,494,121
Cash flows from investing activities:		
Construction in progress payments	567	(13,208)
Purchase of property and equipment	(92,933)	(281,620)
Net cash used in investing activities	(92,366)	(294,828)
Cash flows from financing activities:		
Payment of loan fees	(2,950)	-
Principal payments on capital lease obligation	42,895	41,118
Principal payments on long-term debt	(388,817)	(367,538)
Net cash used in financing activities	(348,872)	(326,420)
Net increase in cash	458,523	872,873
Cash at beginning of period	2,333,197	1,460,324
Cash at end of period	\$ 2,791,720	\$ 2,333,197
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 189,552	\$ 340,689
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	744,663	754,533
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables	30,156	285
Prepaid expenses	1,649	(7,462)
Increase (decrease) in:		
Accounts payable	(213,465)	217,315
Accrued expenses	153,162	184,224
Deferred revenue	(5,957)	4,537
Net cash provided by operating activities	\$ 899,760	\$ 1,494,121

The accompanying notes are an integral part of these financial statements

TAPESTRY CHARTER SCHOOL

Notes to Financial Statements June 30, 2015 and 2014

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 Tapestry Charter 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 for an initial period of five years. The charter was renewed in May 2011 for a term of five years through April 24, 2016 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 and accordingly reflect all significant receivables, payables and other liabilities.

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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

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

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. Depreciation of property and equipment is recorded on the straight-line method based on the estimated useful lives of the assets.

TAPESTRY CHARTER SCHOOL

Notes to Financial Statements June 30, 2015 and 2014

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

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 - Management has determined that the School does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. The School's Return of Organization Exempt from Income Tax Returns (Form 990) for tax years 2013, 2012 and 2011 are subject to examination by the Internal Revenue Service (IRS), generally for three years after they were filed.

Restricted and Unrestricted Support and Revenue - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Grant awards are classified as refundable advances until expended for the purposes of the grant since they are conditioned promises to give.

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, 2015 and 2014 was \$15,119 and \$9,356, respectively.

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.

Subsequent Events - The School has evaluated events and transactions for potential recognition or disclosure in the financial statements through October 23, 2015 (the date the financial statements were available to be issued).

TAPESTRY CHARTER SCHOOL

**Notes to Financial Statements
June 30, 2015 and 2014**

Note 2 - Property and Equipment

Property and equipment at June 30, 2015 and 2014 consists of the following:

	<u>2015</u>	<u>2014</u>
Land and improvements	\$ 1,440,171	\$ 1,436,738
Building	13,646,797	13,645,223
Building improvements	1,224,103	1,220,195
Office equipment	166,105	166,105
Instructional equipment	1,079,790	1,027,598
Kitchen equipment	171,087	156,012
Library equipment	74,356	74,356
Maintenance equipment	4,240	4,240
Vehicles	59,950	43,200
	<u>17,866,599</u>	<u>17,773,667</u>
Less accumulated depreciation	<u>3,736,364</u>	<u>3,001,995</u>
	<u>\$ 14,130,235</u>	<u>\$ 14,771,672</u>

Note 3 - Revolving Lines of Credit

The School has various revolving lines of credit available for operating expenses. The balances outstanding as of June 30, 2015 and 2014 are as follows:

	<u>Credit Limit</u>	<u>Interest Rate</u>	<u>2015</u>	<u>2014</u>
Capital One	20,000	14.90%	\$ 10,869	\$ 18,126
Sam's Club	2,000	21.90%	-	781
			<u>\$ 10,869</u>	<u>\$ 18,907</u>

The School pays the entire balance on its outstanding credit cards in an effort to avoid finance charges. No finance charges were incurred for the years ended June 30, 2015 and 2014.

TAPESTRY CHARTER SCHOOL

**Notes to Financial Statements
June 30, 2015 and 2014**

Note 4 - Long-term Debt

Long-term debt as of June 30, 2015 and 2014 consists of the following:

	2015	2014
Northwest Savings Bank term note payable in monthly installments of \$11,238 including interest at a fixed rate of 4.75%	\$ -	\$ 635,774
Northwest Savings Bank term note payable in 60 monthly installments of \$11,234, including interest at a fixed interest rate of 6.5%.	34,939	162,503
Northwest Savings Bank term note payable 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.	42,898	67,412
Northwest Savings Bank term note payable in 60 monthly installments of \$3,862, including interest at a fixed interest rate of 6.5%.	15,692	59,313
Northwest Savings Bank term note payable in 36 monthly installments of \$17,193 including interest at a fixed interest rate of 4.5%.	577,938	-
Northwest Savings Bank term note payable in 60 monthly installments of \$4,903, including interest at a fixed interest rate of 6.5%.	-	135,282
	671,467	1,060,284
Less: current maturities	258,940	353,428
Net long-term debt	\$ 412,527	\$ 706,856

TAPESTRY CHARTER SCHOOL

**Notes to Financial Statements
June 30, 2015 and 2014**

Note 4 - Long-term Debt (Continued)

Principal maturities of long-term debt are as follows:

2016	\$	258,940
2017		210,904
2018		201,623
	\$	671,467

Note 5 - Temporarily Restricted Net Assets

Temporarily restricted net assets are funds restricted by the donor for educational purposes or specific grant programs. Temporarily restricted net assets at June 30, 2015 and 2014 are available for the following purposes:

	2015	2014
Educational and arts programs	\$ 7,165	\$ 4,010
Private donations	5,493	613
Scholarships	12,945	13,433
Pepper Grove project	15	625
Athletics programs	4,877	4,876
	\$ 30,495	\$ 23,557

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	2015	2014
Regular education	\$ 246,736	\$ 290,537
Educational and arts programs and equipment	15,670	38,980
Building and improvements	610	-
	\$ 263,016	\$ 329,517

TAPESTRY CHARTER SCHOOL

Notes to Financial Statements June 30, 2015 and 2014

Note 6 - Note Payable

The School has a \$300,000 line of credit with a local bank with an interest rate floating at the Wall Street Journal prime rate plus 1%. The note is due on demand and was renewed on April 30, 2011. The bank may withdraw its commitment to extend the line of credit at any time. The note was secured by the assets of the School. The balance outstanding as of June 30, 2015 and 2014 was \$-0-.

Note 7 - 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. For the years ended June 30, 2015 and 2014, the Buffalo School District rate was \$12,255 per student. The School had 800 and 783 students enrolled during the 2015 and 2014 school years, respectively, with the majority from the Buffalo School District. Total public school district revenue for the years ended June 30, 2015 and 2014 was \$10,328,958 and \$10,231,062, respectively.

Note 8 - 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, 2015 and 2014 is 17.53% and 16.25% of the annual covered payroll, respectively. The School's required contribution was \$820,163 and \$699,616 for the years ended June 30, 2015 and 2014, respectively.

TAPESTRY CHARTER SCHOOL

**Notes to Financial Statements
June 30, 2015 and 2014**

Note 9 - Capital Lease Payable

During the year ended June 30, 2013, the School acquired equipment under a capital lease obligation. The lease payments relating to the equipment have been capitalized and included in equipment on the accompanying financial statements. The leased equipment has a cost of \$25,785.

Future minimum lease payments under this capital lease are as follows:

2016	\$	6,333
2017		6,333
2018		4,222
		<hr/>
		16,888
Less: amount attributable to interest		<hr/>
		(2,112)
		<hr/>
Total	\$	14,776

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, 2015 and 2014, the maximum loss that would have resulted from that risk totaled approximately \$2,757,285 and \$2,301,216 respectively. The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

TAPESTRY CHARTER SCHOOL

Notes to Financial Statements June 30, 2015 and 2014

Note 11 - Lease Commitment

In November 2009, the School entered into an agreement with 1238 Group, LLC (“landlord”) to rehabilitate and build a high school on the property at 65 Great Arrow in Buffalo, New York. As part of this proposal, the landlord will lease the building from the School for an annual rate of \$1 per year. The landlord will in turn make approximately \$5.7 million in leasehold improvements and sublease the property back to the School under an absolute triple net lease. As part of the absolute triple net lease, the School will be responsible for all maintenance, structure, insurance and upkeep of the building. The School has adopted Financial Accounting Standards Board (FASB) Accounting Codification (ASC) 840-10-25-1 which requires the lease be considered a capital lease since certain criteria have been satisfied. Accordingly, the School has recorded a capital asset with a carrying cost of \$4,848,248 less accumulated depreciation of \$781,107 for a net book value of \$4,067,141 at June 30, 2015. Also as part of the proposed “initial” lease agreement, the mortgage note with Allentown Properties in the amount of \$840,000 as of November 1, 2009 was assumed and paid off by the landlord. The mortgage note was refinanced with a capital lease obligation; therefore the capital lease obligation was recorded at the carrying costs of the asset \$4,848,248 plus the \$940,000 mortgage note assumed by the landlord.

In October 2010, the School entered into a lease amendment with the landlord to construct a building for grades K to 8 with an estimated cost of \$6.9 million (“Phase II”). The School took possession of the K to 8 building in September 2011 and began paying and amortizing the lease amendment in September 2011. The School recorded a capital asset with a carrying cost of \$6,914,575 less accumulated depreciation of \$883,529 for a net book value of \$6,031,046 at June 30, 2015.

The minimum future rental payments under the capital lease and the net present value of those payments at June 30, 2015 are summarized as follows:

Years ended June 30:

2016	\$ 1,203,861
2017	1,319,608
2018	1,387,778
2019	1,401,408
2020	1,401,408
Thereafter	<u>25,585,745</u>
	32,299,808
Less: amount representing interest	<u>(19,408,497)</u>
Present value of future minimum capital lease payments	<u><u>\$ 12,891,311</u></u>

TAPESTRY CHARTER SCHOOL

**Notes to Financial Statements
June 30, 2015 and 2014**

Note 11 - Lease Commitment (Continued)

Under the lease agreement and lease amendment, the School has the option to buyout its leasehold interest and improvements in the property and building after October 2014. The buyout price will be equal to the sum of the amount due on the landlord's mortgage plus the "Tapestry Buyout" pursuant to the lease agreement which represents the landlord's required equity contribution to the project plus a 2.5% inflationary factor.

During 2012, the School entered into an agreement to purchase approximately 7 acres of land and a building for a purchase price of \$900,000. An earnest money deposit in the amount of \$20,000 was paid in February 2012. The School closed on the purchase of the land in December 2012, the purchase price and closing costs of which amounted to \$1,021,916 at June 30, 2015 and are included in property and equipment in the accompanying Statement of Financial Position.

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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**

The Board of Directors
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, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2015.

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.

October 23, 2015