

TAPESTRY CHARTER SCHOOL

FINANCIAL STATEMENTS

Years Ended June 30, 2010 and 2009

(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

We have audited the accompanying statements of financial position of Tapestry Charter School (a nonprofit organization) as of June 30, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Tapestry Charter School's management. 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 Audit 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2010, 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* and should be considered in assessing the results of our audits.

Amato, Fox & Company, P.C.

October 15, 2010

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TAPESTRY CHARTER SCHOOL

Statements of Financial Position June 30, 2010 and 2009

	2010	2009
<u>ASSETS</u>		
Current assets:		
Cash	\$ 403,834	\$ 258,298
Accounts receivable	67,589	386,707
Prepaid expenses	61,996	82,951
Total current assets	533,419	727,956
Property and equipment , net of accumulated depreciation of \$570,888 in 2010 and \$507,756 in 2009	2,289,319	2,346,952
Other assets:		
Construction in progress	1,288,131	369,607
Deferred loan fees, net	1,051	-
Security deposit	11,250	11,250
Total assets	\$ 4,123,170	\$ 3,455,765
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Note payable	\$ -	\$ 200,000
Revolving lines of credit	6,310	7,705
Accounts payable	637,101	226,678
Accrued expenses	632,277	547,609
Capital lease payable	5,869	-
Deferred revenue	4,550	55,586
Current maturities of long-term debt	169,258	399,012
Total current liabilities	1,455,365	1,436,590
Long-term debt , net of current maturities	1,356,219	804,922
Total liabilities	2,811,584	2,241,512
Net assets:		
Unrestricted	1,297,405	1,188,036
Temporarily restricted	14,181	26,217
Total net assets	1,311,586	1,214,253
Total liabilities and net assets	\$ 4,123,170	\$ 3,455,765

The accompanying notes are an integral part of these financial statements

TAPESTRY CHARTER SCHOOL

**Statement of Activities
Year Ended June 30, 2010**

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support:			
Public School District:			
Revenue - Resident student enrollment	\$ 5,283,361	\$ -	\$ 5,283,361
Revenue - Students with disabilities	468,267	-	468,267
Grants and contracts	-	294,748	294,748
Contributions	41,036	9,672	50,708
Cafeteria income	140,044	-	140,044
Interest income	8,052	-	8,052
Fundraising income, net of direct expenses of \$6,182	9,717	-	9,717
Other income	100,734	-	100,734
Net assets released from restrictions:			
Satisfaction of program restrictions	316,456	(316,456)	-
Total revenues, gains and other support	6,367,667	(12,036)	6,355,631
Expenses and Losses:			
Program services:			
Regular and special education	4,688,640	-	4,688,640
Supporting services:			
Management and general	1,154,996	-	1,154,996
Total expenses	5,843,636	-	5,843,636
Loss on disposal of equipment	67,278	-	67,278
Non-recurring loss from disposal of construction costs	347,384	-	347,384
Total expenses and losses	6,258,298	-	6,258,298
Change in net assets	109,369	(12,036)	97,333
Net assets at beginning of year	1,188,036	26,217	1,214,253
Net assets at end of year	\$ 1,297,405	\$ 14,181	\$ 1,311,586

The accompanying notes are an integral part of this financial statement

TAPESTRY CHARTER SCHOOL

**Statement of Activities
Year Ended June 30, 2009**

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support:			
Public School District:			
Revenue - Resident student enrollment	\$ 4,434,704	\$ -	\$ 4,434,704
Revenue - Students with disabilities	349,484	-	349,484
Grants and contracts	-	499,077	499,077
Contributions	37,870	9,385	47,255
Cafeteria income	132,428	-	132,428
Interest income	2,202	-	2,202
Fundraising income, net of direct expenses of \$7,621	7,425	-	7,425
Other income	33,138	-	33,138
Net assets released from restrictions:			
Satisfaction of program restrictions	483,503	(483,503)	-
Total revenues, gains and other support	5,480,754	24,959	5,505,713
Expenses:			
Program services:			
Regular and special education	3,944,381	-	3,944,381
Supporting services:			
Management and general	1,084,081	-	1,084,081
Total expenses	5,028,462	-	5,028,462
 Change in net assets	 452,292	 24,959	 477,251
Net assets at beginning of year	735,744	1,258	737,002
Net assets at end of year	\$ 1,188,036	\$ 26,217	\$ 1,214,253

The accompanying notes are an integral part of this financial statement

TAPESTRY CHARTER SCHOOL

**Statement of Functional Expenses
Year Ended June 30, 2010**

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Regular and Special Education</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 2,570,969	\$ 642,693	\$ 3,213,662
Payroll taxes	221,633	55,408	277,041
Employee benefits	353,365	88,341	441,706
Food service	97,925	-	97,925
Accounting and legal	76,620	97,732	174,352
Books and instructional material	34,387	-	34,387
Contracted services and consultants	140,003	90,771	230,774
Travel and conferences	21,518	5,545	27,063
Rent	337,080	37,453	374,533
Utilities	128,747	14,305	143,052
Classroom supplies	44,072	-	44,072
Postage	6,055	673	6,728
Printing	1,561	173	1,734
Nurse office expense	3,164	-	3,164
Staff development	85,499	21,375	106,874
Interest expense	-	35,306	35,306
Office expense	20,988	2,332	23,320
Advertising and promotion	-	6,961	6,961
Maintenance and repairs	121,699	13,522	135,221
Property taxes	38,595	4,288	42,883
Telephone	18,946	2,105	21,051
Technology expense	7,957	884	8,841
Field trips and activities	113,444	-	113,444
School store expense	8,646	-	8,646
Student testing and assessment	25,708	-	25,708
Sports expenses	24,401	-	24,401
Dues and subscriptions	5,356	595	5,951
Insurance	57,698	6,411	64,109
Miscellaneous	15,619	1,735	17,354
Moving and storage	-	14,501	14,501
Depreciation and amortization	106,985	11,887	118,872
Total	<u>\$ 4,688,640</u>	<u>\$ 1,154,996</u>	<u>\$ 5,843,636</u>

The accompanying notes are an integral part of this financial statement

TAPESTRY CHARTER SCHOOL

**Statement of Functional Expenses
Year Ended June 30, 2009**

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Regular and Special Education</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 2,097,667	\$ 600,505	\$ 2,698,172
Payroll taxes	173,460	48,925	222,385
Employee benefits	288,126	81,266	369,392
Food service	154,399	-	154,399
Accounting and legal	46,256	50,003	96,259
Books and instructional material	38,413	-	38,413
Contracted services and consultants	100,118	103,356	203,474
Travel and conferences	26,749	7,062	33,811
Rent	339,926	37,770	377,696
Utilities	96,631	10,737	107,368
Classroom supplies	46,117	-	46,117
Postage	5,510	612	6,122
Printing	5,150	572	5,722
Nurse office expense	652	-	652
Staff development	35,689	10,066	45,755
Interest expense	-	85,779	85,779
Office expense	24,832	2,759	27,591
Advertising and promotion	-	3,826	3,826
Maintenance and repairs	81,375	9,042	90,417
Property taxes	69,679	7,742	77,421
Telephone	8,833	982	9,815
Technology expense	10,435	1,159	11,594
Field trips and activities	57,154	-	57,154
Student testing and assessment	9,276	-	9,276
Sports expenses	30,678	-	30,678
Dues and subscriptions	5,891	655	6,546
Insurance	60,345	6,705	67,050
Miscellaneous	9,959	1,107	11,066
Depreciation and amortization	121,061	13,451	134,512
Total	<u>\$ 3,944,381</u>	<u>\$ 1,084,081</u>	<u>\$ 5,028,462</u>

The accompanying notes are an integral part of this financial statement

TAPESTRY CHARTER SCHOOL

**Statements of Cash Flows
Years Ended June 30, 2010 and 2009**

	2010	2009
Cash flows from operating activities:		
Increase in net assets	\$ 97,333	\$ 477,251
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	118,872	134,512
Non-recurring loss from disposal of construction costs	347,384	-
Loss on disposal of equipment	67,278	-
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables	319,118	(248,357)
Prepaid expenses	20,955	(47,578)
Increase (decrease) in:		
Accounts payable	409,028	108,227
Accrued expenses	84,668	137,566
Deferred revenue	(51,036)	49,767
Net cash provided by operating activities	1,413,600	611,388
Cash flows from investing activities:		
Construction in progress payments	(1,265,908)	(25,548)
Purchase of property and equipment	(119,408)	(1,638,434)
Net cash used in investing activities	(1,385,316)	(1,663,982)
Cash flows from financing activities:		
Proceeds from (payments on) line of credit	(200,000)	200,000
Proceeds from long-term debt	545,261	1,300,000
Payment of loan fees	(1,090)	-
Principal payments on capital lease obligation	(3,201)	-
Principal payments on long-term debt	(223,718)	(234,853)
Net cash provided by financing activities	117,252	1,265,147
Net increase in cash	145,536	212,553
Cash at beginning of period	258,298	45,745
Cash at end of period	\$ 403,834	\$ 258,298
Supplemental disclosures of cash flow information:		
Interest paid	\$ 35,306	\$ 85,779
Construction in progress financed through accounts payable	\$ 379,546	\$ -

The accompanying notes are an integral part of these financial statements

TAPESTRY CHARTER SCHOOL

Notes to Financial Statements June 30, 2010 and 2009

Note 1 - Organization and Summary of Significant Accounting Policies

Organization - The mission of Tapestry Charter School (the School) is to provide a learning center that offers challenging educational opportunities in a multi-age setting. 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 January 15, 2006 for a term of five years until April 24, 2011 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 in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, 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.

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.

TAPESTRY CHARTER SCHOOL

Notes to Financial Statements June 30, 2010 and 2009

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

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.

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 15, 2010 (the date the financial statements were available to be issued).

Note 2 - Property and Equipment

Property and equipment at June 30, 2010 and 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
Building	\$ 1,568,714	\$ 1,568,714
Building improvements	603,668	724,112
Office equipment	68,351	68,351
Instructional equipment	509,808	436,574
Kitchen equipment	25,962	16,453
Library equipment	40,504	40,504
Vehicles	43,200	-
	<u>2,860,207</u>	<u>2,854,708</u>
Less accumulated depreciation	<u>570,888</u>	<u>507,756</u>
	<u><u>\$ 2,289,319</u></u>	<u><u>\$ 2,346,952</u></u>

TAPESTRY CHARTER SCHOOL

Notes to Financial Statements June 30, 2010 and 2009

Note 3 - Construction in Progress

As detailed in note 13, the School has entered into an agreement to purchase a building for its operations. During the years ended June 30, 2010 and 2009, the School has expended \$1,288,131 and \$369,607 respectively for architectural and other expenses relating to the purchase and rehabilitation of the property. These costs have been capitalized and will be depreciated over the life of the building upon completion. In 2010, \$347,384 of construction costs that were being carried in construction in progress were written off.

Note 4 - 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, 2010 and 2009, the Buffalo School District rate was \$10,429 per student. The School had 505 and 425 students enrolled during the 2010 and 2009 school years, respectively, with the majority from the Buffalo School District. Total public school district revenue for the years ended June 30, 2010 and 2009 was \$5,751,628 and \$4,784,188, respectively.

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, 2010 and 2009 are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Purchase of equipment	\$ 800	\$ -
Educational and arts programs	8,576	18,632
Capital campaign	3,000	6,500
Scholarships	1,805	1,085
	<u>\$ 14,181</u>	<u>\$ 26,217</u>

TAPESTRY CHARTER SCHOOL

**Notes to Financial Statements
June 30, 2010 and 2009**

Note 5 - Temporarily Restricted Net Assets (Continued)

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

	<u>2010</u>	<u>2009</u>
Regular education	\$ 248,752	\$ 99,777
Educational programs and equipment	57,204	33,726
Building acquisition and financing	<u>10,500</u>	<u>350,000</u>
	<u>\$ 316,456</u>	<u>\$ 483,503</u>

Note 6 - Operating Lease Agreement

The School has a five-year non-cancelable operating lease for its facility expiring in June 2011. The School has two five-year options to renew at the end of the lease term. The School also entered into a 1-year lease agreement with the City of Buffalo for rent of School 36 for the high school expiring July 15, 2010. Rent expense for the years ended June 30, 2010 and 2009 was \$374,533 and \$377,696, respectively.

Total future minimum rental payments required under this lease are as follows:

2011	<u>\$ 271,249</u>
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Note 7 - Note Payable

The School had 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 renewed on April 30, 2010. 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, 2010 and 2009 was \$-0- and \$200,000, respectively.

TAPESTRY CHARTER SCHOOL

**Notes to Financial Statements
June 30, 2010 and 2009**

Note 8 - Long-term Debt

Long-term debt as of June 30, 2010 and 2009 consists of the following:

	2010	2009
First Niagara Bank term loan payable in 48 monthly payments of \$5,255 including interest at 7.10%	\$ -	\$ 83,934
Northwest Savings Bank term note payable in 24 installments of \$2,514 plus interest at a variable rate of interest equivalent to the bank's prime rate plus 100 basis points (5.00% at June 30, 2010)	45,254	-
Allentown Properties, LLC mortgage loan, payable in 24 monthly principle payments of \$20,000 plus interest at 8.00%, maturing October 1, 2010	-	1,020,000
Ellicott Development Company mortgage loan refinanced with a capital lease obligation (see Note 13)	940,000	-
Local Initiatives Support Corporation non-interest bearing note, maturing December 1, 2009	-	100,000
Northwest Savings Bank Term note payable with interest only payments until September 2010 at a variable rate of interest equivalent to the bank's prime rate plus 100 basis points (5.00% at June 30, 2010). Beginning in September 2010, the principal will be payable in 60 installments plus interest at a fixed rate based upon the weekly average yield on United States Treasury Securities (6.5% at June 30, 2010).	374,757	-
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, 2010) to finance land acquisition.	165,466	-
	1,525,477	1,203,934
Less: current maturities	169,258	399,012
Net long-term debt	\$ 1,356,219	\$ 804,922

TAPESTRY CHARTER SCHOOL

**Notes to Financial Statements
June 30, 2010 and 2009**

Note 8 - Long-term Debt (Continued)

Principal maturities of long-term debt are as follows:

2011	\$	169,258	
2012		154,174	
2013		139,089	
2014		996,442	
2015		25,413	
Thereafter		41,101	
			\$ 1,525,477

Note 9 - Retirement Plan

The School makes contributions to the New York State Teachers' Retirement System (the Plan), a cost sharing multiple employer defined benefit pension plan administered by the New York State Teachers' Retirement Board. The Plan 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. Plan members who joined the Plan prior to July 27, 1976 are not required to make contributions. Members joining after who have less than ten years of service or membership are required to contribute three percent of their annual salary. Employers are required to contribute at an actuarially determined rate, currently 6.19 % of the annual payroll for covered employees. The School's required contribution was \$244,750 and \$162,153 for the years ended June 30, 2010 and 2009, respectively.

Note 10 - Revolving Lines of Credit

The School has various revolving lines of credit available for operating expenses. The balances outstanding as of June 30, 2010 and 2009 are as follows:

	Credit Limit	Interest Rate	2010	2009
American Express	\$ 15,000	15.24%	\$ 3,894	\$ 3,010
First Bankcard Visa	10,000	11.99%	2,039	4,222
Sam's Club	1,000	17.87%	377	473
			\$ 6,310	\$ 7,705

The School pays the entire balance on its outstanding credit cards in an effort to avoid finance charges. The finance charges incurred for the years ended June 30, 2010 and 2009 amounted to \$240 and \$1 respectively.

TAPESTRY CHARTER SCHOOL

Notes to Financial Statements June 30, 2010 and 2009

Note 11 - Capital Lease Obligation

During the year ended June 30, 2010, 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 \$9,070.

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

2011	\$	3,201
2012		3,201
		<hr/>
		6,402
Less: amount attributable to interest		<hr/>
		533
Total	\$	<hr/> <hr/>
		5,869

Note 12 - 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, 2010 and 2009, the maximum loss that would have resulted from that risk totaled approximately \$201,595 and \$109,067 respectively. The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

Note 13 - Lease Commitment

In November 2009, the School entered into an agreement with Ellicott Development Company ("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 at a rate of \$569,750 annually, \$47,479 per month 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. As of June 30, 2010, construction of the project was not completed. The School has incurred costs related to construction in the amount of \$1,288,131 through June 30, 2010, which are included in construction in progress on the accompanying financial statements. In late August 2010, the School took possession of the building ("delivery date") and began amortizing and paying the required lease payments ("rental commencement date"). The lease term is 25 years expiring in October 2034 with two renewal periods of twelve years.

TAPESTRY CHARTER SCHOOL

**Notes to Financial Statements
June 30, 2010 and 2009**

Note 13 – Lease Commitment (Continued)

The minimum future rental payments under the lease for the next five years and thereafter are as follows:

2011	\$ 474,792
2012	569,750
2013	569,750
2014	569,750
2015	569,750
Thereafter	<u>9,260,273</u>
	 <u>\$ 12,014,065</u>

The School is currently in the process of negotiating a lease amendment with the landlord which will include an additional estimated \$6.9 million of construction costs to construct a building for grades K to 8.

Also, as part of the proposed “initial” lease agreement, the mortgage with Allentown Properties in the amount of \$940,000 as of November 1, 2009 was assumed and paid off by the landlord. The mortgage has been refinanced with a capital lease obligation. Under the proposed agreement, the School will be allowed the option to buyout its leasehold interest and improvements in the property and building after year 4 of the lease with 180 days prior written notice. The buyout price will be equal to the sum of the amount due on the landlord’s mortgage plus the landlord’s equity contribution to the project plus a 2.5% inflationary factor.

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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 the financial statements of Tapestry Charter School (a nonprofit organization) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tapestry Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tapestry Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Amato, Fox & Company, P.C.

October 15, 2010