

**TAPESTRY CHARTER SCHOOL**

**FINANCIAL STATEMENTS**

**Years Ended June 30, 2011 and 2010**

**(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, 2011 and 2010, 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, 2011 and 2010, 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 26, 2011, 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 26, 2011

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**TAPESTRY CHARTER SCHOOL**

**Statements of Financial Position  
June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b><u>ASSETS</u></b>		
<b>Current assets:</b>		
Cash	\$ 965,744	\$ 403,834
Accounts receivable	111,667	67,589
Prepaid expenses	33,799	61,996
Total current assets	1,111,210	533,419
<b>Property and equipment</b> , net of accumulated depreciation of \$807,259 in 2011 and \$570,888 in 2010	7,930,238	2,289,319
<b>Other assets:</b>		
Construction in progress	6,324	1,288,131
Deferred loan fees, net	2,131	1,051
Security deposit	11,250	11,250
<b>Total assets</b>	<b>\$ 9,061,153</b>	<b>\$ 4,123,170</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 195,762	\$ 637,101
Revolving lines of credit	10,500	6,310
Accrued expenses	771,675	632,277
Capital lease payable, current portion	5,869	5,869
Deferred revenue	1,550	4,550
Current maturities of long-term debt	213,840	169,258
Total current liabilities	1,199,196	1,455,365
<b>Long term liabilities:</b>		
Capital lease obligation, less current portion	5,813,403	-
Long-term debt, net of current maturities	690,485	1,356,219
Total long term liabilities	6,503,888	1,356,219
Total liabilities	7,703,084	2,811,584
<b>Net assets:</b>		
Unrestricted	1,325,293	1,297,405
Temporarily restricted	32,776	14,181
Total net assets	1,358,069	1,311,586
<b>Total liabilities and net assets</b>	<b>\$ 9,061,153</b>	<b>\$ 4,123,170</b>

The accompanying notes are an integral part of these financial statements

**TAPESTRY CHARTER SCHOOL**

**Statement of Activities  
Year Ended June 30, 2011**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Revenues, Gains and Other Support:</b>			
Public School District:			
Revenue - Resident student enrollment	\$ 6,567,014	\$ -	\$ 6,567,014
Revenue - Students with disabilities	614,650	-	614,650
Grants and contracts	-	196,919	196,919
Cafeteria income	143,115	-	143,115
Contributions	33,853	34,243	68,096
Fundraising income, net of direct expenses of \$6,071	1,628	-	1,628
Other income	145,727	-	145,727
Interest income	6,157	-	6,157
Net assets released from restrictions:			
Satisfaction of program restrictions	212,567	(212,567)	-
Total revenues, gains and other support	7,724,711	18,595	7,743,306
<b>Expenses:</b>			
Program services:			
Regular education	4,428,497	-	4,428,497
Special education	425,107	-	425,107
Other programs	1,044,604	-	1,044,604
Total program services	5,898,208	-	5,898,208
Supporting services:			
Management and general	1,374,102	-	1,374,102
Total expenses	7,272,310	-	7,272,310
Loss on disposal of assets	424,513	-	424,513
Total expenses and losses	7,696,823	-	7,696,823
Change in net assets	27,888	18,595	46,483
<b>Net assets at beginning of year</b>	1,297,405	14,181	1,311,586
<b>Net assets at end of year</b>	<b>\$ 1,325,293</b>	<b>\$ 32,776</b>	<b>\$ 1,358,069</b>

The accompanying notes are an integral part of this financial statement

**TAPESTRY CHARTER SCHOOL**

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

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Revenues, Gains and Other Support:</b>			
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
<b>Expenses and Losses:</b>			
Program services:			
Regular education	3,524,581	-	3,524,581
Special education	333,982	-	333,982
Other programs	762,429	-	762,429
Total program services	4,620,992	-	4,620,992
Supporting services:			
Management and general	1,222,644	-	1,222,644
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
<b>Net assets at beginning of year</b>	1,188,036	26,217	1,214,253
<b>Net assets at end of year</b>	<b>\$ 1,297,405</b>	<b>\$ 14,181</b>	<b>\$ 1,311,586</b>

The accompanying notes are an integral part of this financial statement

# TAPESTRY CHARTER SCHOOL

## Statement of Functional Expenses Year Ended June 30, 2011

	Program Services				Supporting Services	Total
	Regular Education	Special Education	Other Programs	Total	Management and General	
Salaries and wages	\$ 2,214,178	\$ 289,852	\$ 413,647	\$ 2,917,677	\$ 765,265	\$ 3,682,942
Payroll taxes	192,831	25,243	36,024	254,098	66,646	320,744
Employee benefits	344,900	45,150	64,433	454,483	119,205	573,688
Food service	-	-	131,260	131,260	-	131,260
Accounting and legal	-	-	-	-	132,199	132,199
Books and instructional material	38,215	-	-	38,215	-	38,215
Contracted services and consultants	116,945	-	-	116,945	90,294	207,239
Travel and conferences	28,339	-	-	28,339	-	28,339
Rent	203,437	13,562	27,125	244,124	27,125	271,249
Utilities	115,648	7,710	15,420	138,778	15,419	154,197
Classroom supplies	27,645	284	18,604	46,533	-	46,533
Postage	6,402	427	854	7,683	853	8,536
Printing	744	50	99	893	99	992
Nurse office expense	-	-	5,066	5,066	-	5,066
Staff development	94,066	-	-	94,066	-	94,066
Interest expense	442,301	29,487	58,974	530,762	58,974	589,736
Office expense	-	-	-	-	37,854	37,854
Advertising and promotion	-	-	-	-	14,016	14,016
Maintenance and repairs	88,071	5,871	11,743	105,685	11,743	117,428
Property taxes	30,333	2,022	4,044	36,399	4,044	40,443
Telephone	10,550	703	1,407	12,660	1,407	14,067
Technology expense	11,366	-	-	11,366	-	11,366
Field trips and activities	-	-	161,161	161,161	-	161,161
School store expense	-	-	5,158	5,158	-	5,158
Student testing and assessment	24,941	-	-	24,941	-	24,941
Sports expenses	-	-	46,633	46,633	-	46,633
Dues and subscriptions	7,066	471	942	8,479	942	9,421
Insurance	47,662	3,177	6,355	57,194	6,355	63,549
Miscellaneous	16,464	1,098	2,195	19,757	2,195	21,952
Moving and storage	-	-	-	-	5,959	5,959
Depreciation and amortization	366,393	-	33,460	399,853	13,508	413,361
<b>Total</b>	<b>\$ 4,428,497</b>	<b>\$ 425,107</b>	<b>\$ 1,044,604</b>	<b>\$ 5,898,208</b>	<b>\$ 1,374,102</b>	<b>\$ 7,272,310</b>

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>Total</u>
	<u>Regular Education</u>	<u>Special Education</u>	<u>Other Programs</u>	<u>Total</u>	<u>Management and General</u>	
Salaries and wages	\$ 1,986,465	\$ 239,733	\$ 344,771	\$ 2,570,969	\$ 642,693	\$ 3,213,662
Payroll taxes	171,248	20,667	29,722	221,637	55,404	277,041
Employee benefits	273,032	32,950	47,388	353,370	88,336	441,706
Food service	-	-	97,925	97,925	-	97,925
Accounting and legal	-	-	-	-	174,352	174,352
Books and instructional material	34,387	-	-	34,387	-	34,387
Contracted services and consultants	140,003	-	-	140,003	90,771	230,774
Travel and conferences	27,063	-	-	27,063	-	27,063
Rent	280,900	18,727	37,453	337,080	37,453	374,533
Utilities	107,289	7,153	14,305	128,747	14,305	143,052
Classroom supplies	44,072	-	-	44,072	-	44,072
Postage	5,046	336	673	6,055	673	6,728
Printing	1,301	87	173	1,561	173	1,734
Nurse office expense	-	-	3,164	3,164	-	3,164
Staff development	106,874	-	-	106,874	-	106,874
Interest expense	-	-	-	-	35,306	35,306
Office expense	-	-	-	-	23,320	23,320
Advertising and promotion	-	-	-	-	6,961	6,961
Maintenance and repairs	101,416	6,761	13,522	121,699	13,522	135,221
Property taxes	32,163	2,144	4,288	38,595	4,288	42,883
Telephone	15,788	1,053	2,105	18,946	2,105	21,051
Technology expense	8,841	-	-	8,841	-	8,841
Field trips and activities	-	-	113,444	113,444	-	113,444
School store expense	-	-	8,646	8,646	-	8,646
Student testing and assessment	25,708	-	-	25,708	-	25,708
Sports expenses	-	-	24,401	24,401	-	24,401
Dues and subscriptions	4,463	298	595	5,356	595	5,951
Insurance	48,082	3,205	6,411	57,698	6,411	64,109
Miscellaneous	13,016	868	1,735	15,619	1,735	17,354
Moving and storage	-	-	-	-	14,501	14,501
Depreciation and amortization	97,424	-	11,708	109,132	9,740	118,872
<b>Total</b>	<b>\$ 3,524,581</b>	<b>\$ 333,982</b>	<b>\$ 762,429</b>	<b>\$ 4,620,992</b>	<b>\$ 1,222,644</b>	<b>\$ 5,843,636</b>

The accompanying notes are an integral part of this financial statement



# TAPESTRY CHARTER SCHOOL

## Statements of Cash Flows Years Ended June 30, 2011 and 2010

	2011	2010
<b>Cash flows from operating activities:</b>		
Increase in net assets	\$ 46,483	\$ 97,333
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	413,361	118,872
Non-recurring loss from disposal of construction costs	-	347,384
Loss on disposal of equipment	424,513	67,278
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables	(44,078)	319,118
Prepaid expenses	28,197	20,955
Increase (decrease) in:		
Accounts payable	(437,149)	409,028
Accrued expenses	139,398	84,668
Deferred revenue	(3,000)	(51,036)
Net cash provided by operating activities	567,725	1,413,600
<b>Cash flows from investing activities:</b>		
Construction in progress payments	(44,402)	(1,265,908)
Purchase of property and equipment	(303,966)	(119,408)
Net cash used in investing activities	(348,368)	(1,385,316)
<b>Cash flows from financing activities:</b>		
Proceeds from (payments on) line of credit	-	(200,000)
Proceeds from long-term debt	493,310	545,261
Payment of loan fees	(1,450)	(1,090)
Principal payments on capital lease obligation	25,155	(3,201)
Principal payments on long-term debt	(174,462)	(223,718)
Net cash provided by financing activities	342,553	117,252
Net increase in cash	561,910	145,536
<b>Cash at beginning of period</b>	403,834	258,298
<b>Cash at end of period</b>	<b>\$ 965,744</b>	<b>\$ 403,834</b>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	\$ 503,530	\$ 35,306
Property and equipment purchased through capital lease obligation	\$ 4,848,248	\$ 379,546
Mortgage note refinanced with capital lease obligation	\$ 4,848,248	\$ 379,546

The accompanying notes are an integral part of these financial statements

# TAPESTRY CHARTER SCHOOL

## Notes to Financial Statements June 30, 2011 and 2010

### **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 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 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, 2011 and 2010**

**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.

*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, 2011 and 2010 was \$14,016 and \$6,961, respectively.

*Reclassifications* - Certain amounts in the 2010 financial statements have been reclassified to conform with the 2011 presentation with no effect on previously reported change in net assets.

*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 26, 2011 (the date the financial statements were available to be issued).

**Note 2 - Property and Equipment**

Property and equipment at June 30, 2011 and 2010 consists of the following:

	<b>2011</b>	<b>2010</b>
Land and improvements	\$ 197,233	\$ -
Building	6,722,177	1,568,714
Building improvements	792,690	603,668
Office equipment	109,380	68,351
Instructional equipment	673,138	509,808
Kitchen equipment	137,549	25,962
Library equipment	61,325	40,504
Maintenance equipment	805	-
Vehicles	43,200	43,200
	8,737,497	2,860,207
Less accumulated depreciation	807,259	570,888
	<b>\$ 7,930,238</b>	<b>\$ 2,289,319</b>

# TAPESTRY CHARTER SCHOOL

## Notes to Financial Statements June 30, 2011 and 2010

### 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, 2011 and 2010, the School has expended \$6,324 and \$1,288,131 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, 2011 and 2010, the Buffalo School District rate was \$12,005 and \$10,429 per student, respectively. The School had 549 and 505 students enrolled during the 2011 and 2010 school years, respectively, with the majority from the Buffalo School District. Total public school district revenue for the years ended June 30, 2011 and 2010 was \$7,181,664 and \$5,751,628, 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, 2011 and 2010 are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Purchase of equipment	\$ -	\$ 800
Educational and arts programs	7,652	8,576
Capital campaign	13,300	3,000
Scholarships	2,525	1,805
Playground project	9,299	-
	<u>\$ 32,776</u>	<u>\$ 14,181</u>

**TAPESTRY CHARTER SCHOOL**

**Notes to Financial Statements  
June 30, 2011 and 2010**

**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:

	<b>2011</b>	<b>2010</b>
Regular education	\$ 186,234	\$ 248,752
Educational programs and equipment	26,333	57,204
Building acquisition and financing	-	10,500
	<b>\$ 212,567</b>	<b>\$ 316,456</b>

**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 which they have not exercised. During 2010, the School entered into a 1-year lease agreement with the City of Buffalo for rent of School 36 for the high school which expired July 15, 2010. Rent expense for the years ended June 30, 2011 and 2010 was \$271,249 and \$374,533, respectively.

**Note 7 - Revolving Lines of Credit**

The School has various revolving lines of credit available for operating expenses. The balances outstanding as of June 30, 2011 and 2010 are as follows:

	<b>Credit Limit</b>	<b>Interest Rate</b>	<b>2011</b>	<b>2010</b>
American Express	\$ 15,000	15.24%	\$ 7,657	\$ 3,894
First Bankcard Visa	10,000	11.99%	2,843	2,039
Sam's Club	1,000	17.87%	-	377
			<b>\$ 10,500</b>	<b>\$ 6,310</b>

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, 2011 and 2010 amounted to \$-0- and \$240 respectively.

**TAPESTRY CHARTER SCHOOL**

**Notes to Financial Statements  
June 30, 2011 and 2010**

**Note 8 - Long-term Debt**

Long-term debt as of June 30, 2011 and 2010 consists of the following:

	<b>2011</b>	<b>2010</b>
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, 2011)	\$ 15,085	\$ 45,254
Ellicott Development Company mortgage loan refinanced with a capital lease obligation (see Note 13)	-	940,000
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 is payable in 60 monthly installments of \$11,234, including interest at a fixed interest rate of 6.5%.	498,097	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, 2011) to finance land acquisition.	140,952	165,466
Northwest Savings Bank term note payable in 60 monthly installments of \$3,862, including interest at a fixed interest rate of 6.5%.	174,107	-
Northwest Savings Bank term note payable in 36 monthly installments of \$2,718 plus interest at a variable rate of interest equivalent to the bank's prime rate plus 100 basis points (5.00% at June 30, 2011).	76,084	-
	904,325	1,525,477
Less: current maturities	213,840	169,258
<b>Net long-term debt</b>	<b>\$ 690,485</b>	<b>\$ 1,356,219</b>

**TAPESTRY CHARTER SCHOOL**

**Notes to Financial Statements  
June 30, 2011 and 2010**

**Note 8 - Long-term Debt (Continued)**

Principal maturities of long-term debt are as follows:

2012	\$	213,840
2013		208,240
2014		196,597
2015		196,543
2016		89,105
		<hr/>
	<b>\$</b>	<b><u>904,325</u></b>

**Note 9 - 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 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, 2011 and 2010 was \$-0-.

**Note 10 - 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. The System issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, New York 12211-2395. Plan members who joined the Plan prior to July 27, 1976 are not required to make contributions. Members joining after July 27, 1976 and before January 1, 2010 with less than ten years of membership are required to contribute three percent of their annual salary. Those joining after January 1, 2010 are required to contribute three and one-half percent of their annual salary. Employers are required to contribute at an actuarially determined rate, currently 8.62 % of the annual covered payroll for the fiscal year ended June 30, 2011. The School's required contribution was \$243,155 and \$244,750 for the years ended June 30, 2011 and 2010, respectively.

**TAPESTRY CHARTER SCHOOL**

**Notes to Financial Statements  
June 30, 2011 and 2010**

**Note 11 - Capital Lease Payable**

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:

2012	\$	6,402
Less: amount attributable to interest		<u>533</u>
Total	<u>\$</u>	<u><b>5,869</b></u>

**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, 2011 and 2010, the maximum loss that would have resulted from that risk totaled approximately \$714,744 and \$153,834 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 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 \$134,674 for a net book value of \$4,713,574 at June 30, 2011. 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.



# TAPESTRY CHARTER SCHOOL

## Notes to Financial Statements June 30, 2011 and 2010

### Note 13 - Lease Commitment (Continued)

The minimum future rental payments under the capital lease and the net present value of those payments at June 30, 2011 are summarized as follows:

Years ended June 30:		
2012	\$	522,269
2013		569,748
2014		569,748
2015		569,748
2016		626,628
Thereafter		<u>13,923,053</u>
		16,781,194
Less: amount representing interest		<u>(10,967,791)</u>
Present value of future minimum capital lease payments	\$	<u><u>5,813,403</u></u>

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 has incurred costs related to Phase II construction in the amount of \$6,324 through June 30, 2011, which are included in construction in progress on the accompanying financial statements. 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 additional incremental future minimum rental payments related to the lease amendment for Phase II are as follows:

Years ended June 30:		
2012	\$	567,920
2013		681,504
2014		681,504
2015		681,504
2016		681,504
Thereafter		<u>17,174,957</u>
	\$	<u><u>20,468,893</u></u>

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.

\* \* \* \* \*

**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, 2011, and have issued our report thereon dated October 26, 2011. 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 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 26, 2011