

TAPESTRY CHARTER SCHOOL

FINANCIAL STATEMENTS

Years Ended June 30, 2013 and 2012

(With Independent Auditor's Report Thereon)

TAPESTRY CHARTER SCHOOL

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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*** 18-19

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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, 2013 and 2012, 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.

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, 2013 and 2012, 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 18, 2013, 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 18, 2013

TAPESTRY CHARTER SCHOOL

**Statements of Financial Position
June 30, 2013 and 2012**

	2013	2012
<u>ASSETS</u>		
Current assets:		
Cash	\$ 1,460,324	\$ 1,340,871
Accounts receivable	143,387	96,448
Prepaid expenses	24,628	10,503
Total current assets	1,628,339	1,447,822
Property and equipment, net of accumulated depreciation of \$2,251,748 and \$1,494,180 in 2013 and 2012		
	15,267,195	14,798,644
Other assets:		
Deferred loan fees, net	14,925	4,040
Security deposit	250	21,916
Other assets	-	20,000
	-	20,000
Total assets	\$ 16,910,709	\$ 16,292,422
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 88,665	\$ 145,613
Revolving lines of credit	10,916	19,804
Accrued expenses	1,224,456	1,108,279
Capital lease payable, current portion	48,094	3,020
Deferred revenue	2,380	750
Current maturities of long-term debt	292,770	253,475
Total current liabilities	1,667,281	1,530,941
Long term liabilities:		
Capital lease obligation, less current portion	12,800,877	12,762,049
Long-term debt, net of current maturities	1,135,052	667,284
Total long term liabilities	13,935,929	13,429,333
Total liabilities	15,603,210	14,960,274
Net assets:		
Unrestricted	1,285,552	1,324,755
Temporarily restricted	21,947	7,393
Total net assets	1,307,499	1,332,148
Total liabilities and net assets	\$ 16,910,709	\$ 16,292,422

The accompanying notes are an integral part of these financial statements

TAPESTRY CHARTER SCHOOL

**Statement of Activities
Year Ended June 30, 2013**

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support:			
Public School District:			
Revenue - Resident student enrollment	\$ 8,745,761	\$ -	\$ 8,745,761
Revenue - Students with disabilities	680,829	-	680,829
Grants and contracts	-	292,116	292,116
Cafeteria income	238,722	-	238,722
Contributions	36,220	27,795	64,015
Fundraising income, net of direct expenses of \$25,726	19,254	-	19,254
Other income	172,316	-	172,316
Interest income	5,600	-	5,600
Net assets released from restrictions:			
Satisfaction of program restrictions	305,357	(305,357)	-
Total revenues, gains and other support	10,204,059	14,554	10,218,613
Expenses and Losses:			
Program services:			
Regular education	6,720,216	-	6,720,216
Special education	639,739	-	639,739
Other programs	1,143,753	-	1,143,753
Total program services	8,503,708	-	8,503,708
Supporting services:			
Management and general	1,650,321	-	1,650,321
Development activities	89,233	-	89,233
Total expenses and losses	10,243,262	-	10,243,262
Change in net assets	(39,203)	14,554	(24,649)
Net assets at beginning of year	1,324,755	7,393	1,332,148
Net assets at end of year	\$ 1,285,552	\$ 21,947	\$ 1,307,499

The accompanying notes are an integral part of this financial statement

TAPESTRY CHARTER SCHOOL

**Statement of Activities
Year Ended June 30, 2012**

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support:			
Public School District:			
Revenue - Resident student enrollment	\$ 8,062,383	\$ -	\$ 8,062,383
Revenue - Students with disabilities	670,981	-	670,981
Grants and contracts	-	339,693	339,693
Cafeteria income	223,524	-	223,524
Contributions	58,593	9,589	68,182
Fundraising income, net of direct expenses of \$6,071	10,334	-	10,334
Other income	161,380	-	161,380
Interest income	6,415	-	6,415
Net assets released from restrictions:			
Satisfaction of program restrictions	374,665	(374,665)	-
Total revenues, gains and other support	9,568,275	(25,383)	9,542,892
Expenses and Losses:			
Program services:			
Regular education	6,184,008	-	6,184,008
Special education	591,703	-	591,703
Other programs	1,276,459	-	1,276,459
Total program services	8,052,170	-	8,052,170
Supporting services:			
Management and general	1,509,617	-	1,509,617
Total expenses	9,561,787	-	9,561,787
Loss on disposal of assets	7,026	-	7,026
Total expenses and losses	9,568,813	-	9,568,813
Change in net assets	(538)	(25,383)	(25,921)
Net assets at beginning of year	1,325,293	32,776	1,358,069
Net assets at end of year	\$ 1,324,755	\$ 7,393	\$ 1,332,148

The accompanying notes are an integral part of this financial statement

TAPESTRY CHARTER SCHOOL

Statement of Functional Expenses Year Ended June 30, 2013

	Program Services				Supporting Services		Total
	Regular Education	Special Education	Other Programs	Total	Management and General	Development Activities	
Salaries and wages	\$ 3,254,688	\$ 379,166	\$ 507,215	\$ 4,141,069	\$ 897,745	\$ 28,025	\$ 5,066,839
Payroll taxes	268,125	31,236	41,785	341,146	73,957	2,309	417,412
Employee benefits	605,144	70,498	94,306	769,948	172,128	-	942,076
Food service	-	-	128,348	128,348	-	-	128,348
Accounting and legal	-	-	-	-	118,995	-	118,995
Books and instructional material	19,048	-	-	19,048	-	-	19,048
Contracted services and consultants	52,028	63,567	-	115,595	92,741	53,925	262,261
Travel and conferences	18,781	-	-	18,781	-	-	18,781
Utilities	80,247	5,015	5,015	90,277	9,028	1,003	100,308
Classroom supplies	61,112	-	-	61,112	-	-	61,112
Arts, dance and music	-	-	30,656	30,656	-	-	30,656
Postage	7,005	438	438	7,881	788	88	8,757
Nurse office expense	-	-	7,052	7,052	-	-	7,052
Staff development	71,871	-	-	71,871	-	-	71,871
Interest expense	1,089,741	68,109	68,109	1,225,959	136,218	-	1,362,177
Office expense	-	-	-	-	34,093	-	34,093
Advertising and promotion	-	-	-	-	11,918	-	11,918
Maintenance and repairs	213,189	13,324	13,324	239,837	23,984	2,665	266,486
Telephone	21,390	1,337	1,337	24,064	2,407	267	26,738
Technology expense	149,151	-	-	149,151	-	-	149,151
Field trips and activities	-	-	159,222	159,222	-	-	159,222
School store expense	-	-	2,501	2,501	-	-	2,501
Student testing and assessment	17,225	-	-	17,225	-	-	17,225
Sports expenses	-	-	37,713	37,713	-	-	37,713
Dues and subscriptions	9,598	600	600	10,798	1,200	-	11,998
Insurance	76,084	4,755	4,755	85,594	8,559	951	95,104
Vehicle expense	4,125	258	258	4,641	516	-	5,157
Miscellaneous	22,981	1,436	1,436	25,853	2,873	-	28,726
Property taxes	-	-	-	-	21,091	-	21,091
Depreciation and amortization	678,683	-	39,683	718,366	42,080	-	760,446
Total	\$ 6,720,216	\$ 639,739	\$ 1,143,753	\$ 8,503,708	\$ 1,650,321	\$ 89,233	\$ 10,243,262

The accompanying notes are an integral part of this financial statement

TAPESTRY CHARTER SCHOOL

Statement of Functional Expenses Year Ended June 30, 2012

	Program Services			Total	Supporting Services	Total
	Regular Education	Special Education	Other Programs		Management and General	
Salaries and wages	\$ 3,028,518	\$ 384,243	\$ 497,813	\$ 3,910,574	\$ 821,486	\$ 4,732,060
Payroll taxes	255,861	32,444	42,067	330,372	69,402	399,774
Employee benefits	538,191	68,283	88,465	694,939	145,984	840,923
Food service	-	-	164,610	164,610	-	164,610
Accounting and legal	-	-	-	-	117,111	117,111
Books and instructional material	92,281	-	-	92,281	-	92,281
Contracted services and consultants	38,420	-	-	38,420	78,286	116,706
Travel and conferences	18,079	-	-	18,079	-	18,079
Rent	8,438	563	1,125	10,126	1,124	11,250
Utilities	75,811	5,054	10,108	90,973	10,108	101,081
Classroom supplies	57,840	18,657	-	76,497	-	76,497
Arts, dance and music	-	-	37,199	37,199	-	37,199
Postage	8,482	565	1,131	10,178	1,131	11,309
Nurse office expense	-	-	3,661	3,661	-	3,661
Staff development	110,327	-	-	110,327	-	110,327
Interest expense	966,233	64,416	128,831	1,159,480	128,830	1,288,310
Office expense	-	-	-	-	41,090	41,090
Advertising and promotion	-	-	-	-	13,579	13,579
Maintenance and repairs	169,046	11,270	22,540	202,856	22,539	225,395
Telephone	17,387	1,159	2,318	20,864	2,318	23,182
Technology expense	56,193	-	-	56,193	-	56,193
Field trips and activities	-	-	182,332	182,332	-	182,332
School store expense	-	-	3,774	3,774	-	3,774
Student testing and assessment	31,901	-	-	31,901	-	31,901
Sports expenses	-	-	40,648	40,648	-	40,648
Dues and subscriptions	8,608	574	1,148	10,330	1,148	11,478
Insurance	44,484	2,966	5,931	53,381	5,931	59,312
Vehicle expense	2,795	186	373	3,354	373	3,727
Miscellaneous	19,843	1,323	2,646	23,812	2,646	26,458
Moving and storage	-	-	-	-	15,540	15,540
Depreciation and amortization	635,270	-	39,739	675,009	30,991	706,000
Total	\$ 6,184,008	\$ 591,703	\$ 1,276,459	\$ 8,052,170	\$ 1,509,617	\$ 9,561,787

The accompanying notes are an integral part of this financial statement

TAPESTRY CHARTER SCHOOL

**Statements of Cash Flows
Years Ended June 30, 2013 and 2012**

	2013	2012
Cash flows from operating activities:		
Decrease in net assets	\$ (24,649)	\$ (25,921)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	760,445	706,000
Loss on disposal of equipment	-	7,026
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables	(46,939)	15,219
Prepaid expenses	27,541	(7,370)
Increase (decrease) in:		
Accounts payable	(65,836)	(40,845)
Accrued expenses	116,177	336,604
Deferred revenue	1,630	(800)
Net cash provided by operating activities	768,369	989,913
 Cash flows from investing activities:		
Purchase of property and equipment	(1,173,438)	(660,087)
Net cash used in investing activities	(1,173,438)	(660,087)
 Cash flows from financing activities:		
Proceeds from long-term debt	800,000	250,000
Payment of loan fees	(13,762)	(2,355)
Principal payments on capital lease obligation	31,220	31,222
Principal payments on long-term debt	(292,937)	(233,566)
Net cash provided by financing activities	524,521	45,301
 Net increase in cash	119,453	375,127
 Cash at beginning of period	1,340,871	965,744
Cash at end of period	\$ 1,460,324	\$ 1,340,871
 Supplemental disclosures of cash flow information:		
Interest paid	\$ 1,362,177	\$ 1,288,310
 Property and equipment purchased through capital lease obligation	\$ -	\$ 6,914,575

The accompanying notes are an integral part of these financial statements

TAPESTRY CHARTER SCHOOL

Notes to Financial Statements June 30, 2013 and 2012

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 (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.

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, 2013 and 2012

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

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 2011, 2010 and 2009 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, 2013 and 2012 was \$11,918 and \$13,579, 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 18, 2013 (the date the financial statements were available to be issued).

TAPESTRY CHARTER SCHOOL

**Notes to Financial Statements
June 30, 2013 and 2012**

Note 2 - Property and Equipment

Property and equipment at June 30, 2013 and 2012 consists of the following:

	2013	2012
Land and improvements	\$ 1,436,737	\$ 396,867
Building	13,645,223	13,645,223
Building improvements	1,092,636	1,037,289
Office equipment	193,002	140,320
Instructional equipment	879,496	801,276
Kitchen equipment	156,012	156,012
Library equipment	71,832	71,832
Maintenance equipment	805	805
Vehicles	43,200	43,200
	17,518,943	16,292,824
Less accumulated depreciation	2,251,748	1,494,180
	\$ 15,267,195	\$ 14,798,644

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, 2013 and 2012 are as follows:

	Credit Limit	Interest Rate	2013	2012
American Express	\$ 28,000	19.24%	\$ 3,118	\$ 10,099
Capital One	20,000	14.90%	7,798	8,805
			\$ 10,916	\$ 18,904

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, 2013 and 2012.

TAPESTRY CHARTER SCHOOL

**Notes to Financial Statements
June 30, 2013 and 2012**

Note 4 - Long-term Debt

Long-term debt as of June 30, 2013 and 2012 consists of the following:

	2013	2012
Northwest Savings Bank term note payable in monthly installments of \$11,238 including interest at a fixed rate of 4.75%	\$ 759,458	\$ -
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, 2011). 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%.	281,967	393,858
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.	91,925	116,439
Northwest Savings Bank term note payable in 60 monthly installments of \$3,862, including interest at a fixed interest rate of 6.5%.	100,166	138,429
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, 2012).	10,852	43,468
Northwest Savings Bank term note payable in 60 monthly installments of \$4,903, including interest at a fixed interest rate of 6.5%.	183,454	228,565
	1,427,822	920,759
Less: current maturities	292,770	253,475
Net long-term debt	\$ 1,135,052	\$ 667,284

TAPESTRY CHARTER SCHOOL

**Notes to Financial Statements
June 30, 2013 and 2012**

Note 4 - Long-term Debt (Continued)

Principal maturities of long-term debt are as follows:

2014	\$	345,305
2015		353,428
2016		238,298
2017		162,643
2018		328,148
		328,148
	\$	1,427,822

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, 2013 and 2012 are available for the following purposes:

	2013	2012
Educational and arts programs	\$ 4,060	\$ 3,731
Private donations	473	-
Scholarships	11,913	2,037
Pepper Grove project	625	625
Athletics programs	4,876	1,000
	\$ 21,947	\$ 7,393
	\$ 21,947	\$ 7,393

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

	2013	2012
Regular education	\$ 292,116	\$ 180,901
Educational and arts programs and equipment	12,868	114,916
Building and improvements	373	78,848
	\$ 305,357	\$ 374,665
	\$ 305,357	\$ 374,665

TAPESTRY CHARTER SCHOOL

Notes to Financial Statements June 30, 2013 and 2012

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, 2013 and 2012 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, 2013 and 2012, the Buffalo School District rate was \$12,005 per student. The School had 731 and 674 students enrolled during the 2013 and 2012 school years, respectively, with the majority from the Buffalo School District. Total public school district revenue for the years ended June 30, 2013 and 2012 was \$9,426,590 and \$8,733,364, respectively.

Note 8 - Retirement Plan

The School participates in the New York State Teachers' Retirement System (TRS), a cost sharing multiple employer, public employee retirement system. 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 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 may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, New York 12211-2395.

TRS requires employee contributions of 3% of 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 compensation 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, 2013 and 2012 is 11.84% and 11.11% of the annual covered payroll, respectively. The School's required contribution was \$530,445 and \$462,189 for the years ended June 30, 2013 and 2012, respectively.

TAPESTRY CHARTER SCHOOL

**Notes to Financial Statements
June 30, 2013 and 2012**

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 \$52,682.

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

2014	\$	12,939
2015		12,939
2016		12,939
2017		12,939
2018		8,626
		<hr/> 60,382
Less: amount attributable to interest		<hr/> (12,288)
Total	\$	<u><u>48,094</u></u>

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, 2013 and 2012, the maximum loss that would have resulted from that risk totaled approximately \$1,360,123 and \$1,253,864 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, 2013 and 2012

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 \$457,890 for a net book value of \$4,390,358 at June 30, 2013. 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 \$422,557 for a net book value of \$6,492,018 at June 30, 2013.

The minimum future rental payments under the capital lease and the net present value of those payments at June 30, 2013 are summarized as follows:

Years ended June 30:	
2014	\$ 1,146,981
2015	1,251,252
2016	1,308,132
2017	1,319,608
2018	1,387,778
Thereafter	28,388,561
	<hr/>
	34,802,312
Less: amount representing interest	<u>(22,001,435)</u>
Present value of future minimum capital lease payments	<u><u>\$ 12,800,877</u></u>

TAPESTRY CHARTER SCHOOL

**Notes to Financial Statements
June 30, 2013 and 2012**

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 and is included in other assets in the accompanying Statement of Financial Position at June 30, 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, 2013 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, 2013, 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 18, 2013.

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 18, 2013