

TAPESTRY CHARTER SCHOOL

FINANCIAL STATEMENTS

Years Ended June 30, 2012 and 2011

(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, 2012 and 2011, 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, 2012 and 2011, 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 9, 2012, 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 9, 2012

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TAPESTRY CHARTER SCHOOL

**Statements of Financial Position
June 30, 2012 and 2011**

	2012	2011
<u>ASSETS</u>		
Current assets:		
Cash	\$ 1,340,871	\$ 965,744
Accounts receivable	96,448	111,667
Prepaid expenses	10,503	33,799
Total current assets	1,447,822	1,111,210
Property and equipment, net of accumulated		
depreciation of \$1,494,180 and \$807,259 in 2012 and 2011	14,798,644	7,930,238
Other assets:		
Construction in progress	-	6,324
Deferred loan fees, net	4,040	2,131
Security deposit	21,916	11,250
Other assets	20,000	-
Total assets	\$ 16,292,422	\$ 9,061,153
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 145,613	\$ 195,762
Revolving lines of credit	19,804	10,500
Accrued expenses	1,108,279	771,675
Capital lease payable, current portion	3,020	5,869
Deferred revenue	750	1,550
Current maturities of long-term debt	253,475	213,840
Total current liabilities	1,530,941	1,199,196
Long term liabilities:		
Capital lease obligation, less current portion	12,762,049	5,813,403
Long-term debt, net of current maturities	667,284	690,485
Total long term liabilities	13,429,333	6,503,888
Total liabilities	14,960,274	7,703,084
Net assets:		
Unrestricted	1,324,755	1,325,293
Temporarily restricted	7,393	32,776
Total net assets	1,332,148	1,358,069
Total liabilities and net assets	\$ 16,292,422	\$ 9,061,153

The accompanying notes are an integral part of these financial statements

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 \$6,175	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 Activities
Year Ended June 30, 2011**

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support:			
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
Expenses and Losses:			
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
Net assets at beginning of year	1,297,405	14,181	1,311,586
Net assets at end of year	\$ 1,325,293	\$ 32,776	\$ 1,358,069

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				Supporting Services	Total
	Regular Education	Special Education	Other Programs	Total	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

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	-	27,929	-	27,929
Arts, dance and music	-	-	18,604	18,604	-	18,604
Postage	6,402	427	854	7,683	853	8,536
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	744	50	99	893	37,953	38,846
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
Total	<u>\$ 4,428,497</u>	<u>\$ 425,107</u>	<u>\$ 1,044,604</u>	<u>\$ 5,898,208</u>	<u>\$ 1,374,102</u>	<u>\$ 7,272,310</u>

The accompanying notes are an integral part of this financial statement

TAPESTRY CHARTER SCHOOL

Statements of Cash Flows Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (25,921)	\$ 46,483
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	706,000	413,361
Loss on disposal of equipment	7,026	424,513
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables	15,219	(44,078)
Prepaid expenses	(7,370)	28,197
Increase (decrease) in:		
Accounts payable	(40,845)	(437,149)
Accrued expenses	336,604	139,398
Deferred revenue	(800)	(3,000)
Net cash provided by operating activities	989,913	567,725
 Cash flows from investing activities:		
Construction in progress payments	-	(44,402)
Purchase of property and equipment	(660,087)	(303,966)
Net cash used in investing activities	(660,087)	(348,368)
 Cash flows from financing activities:		
Proceeds from long-term debt	250,000	493,310
Payment of loan fees	(2,355)	(1,450)
Principal payments on capital lease obligation	31,222	25,155
Principal payments on long-term debt	(233,566)	(174,462)
Net cash provided by financing activities	45,301	342,553
 Net increase in cash	375,127	561,910
 Cash at beginning of period	965,744	403,834
 Cash at end of period	\$ 1,340,871	\$ 965,744
 Supplemental disclosures of cash flow information:		
Interest paid	\$ 1,288,310	\$ 589,736
 Property and equipment purchased through capital lease obligation	\$ 6,914,575	\$ 4,848,248
 Mortgage note refinanced with capital lease obligation	\$ -	\$ 940,000

The accompanying notes are an integral part of these financial statements

TAPESTRY CHARTER SCHOOL

Notes to Financial Statements June 30, 2012 and 2011

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, 2012 and 2011

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.

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, 2012 and 2011 was \$13,579 and \$14,016, respectively.

Reclassifications - Certain amounts in the 2011 financial statements have been reclassified to conform with the 2012 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 9, 2012 (the date the financial statements were available to be issued).

Note 2 - Construction in Progress

As detailed in note 13, the School entered into an agreement to purchase a building for its operations. During the years ended June 30, 2012 and 2011, the School has expended \$0 and \$6,324 respectively for architectural and other expenses relating to the purchase and rehabilitation of the property. These costs have been capitalized and are being depreciated over the life of the building.

TAPESTRY CHARTER SCHOOL

Notes to Financial Statements June 30, 2012 and 2011

Note 3 - Property and Equipment

Property and equipment at June 30, 2012 and 2011 consists of the following:

	2012	2011
Land and improvements	\$ 396,867	\$ 197,233
Building	13,645,223	6,722,177
Building improvements	1,037,289	792,690
Office equipment	140,320	109,380
Instructional equipment	801,276	673,138
Kitchen equipment	156,012	137,549
Library equipment	71,832	61,325
Maintenance equipment	805	805
Vehicles	43,200	43,200
	16,292,824	8,737,497
Less accumulated depreciation	1,494,180	807,259
	\$ 14,798,644	\$ 7,930,238

Note 4 - Revolving Lines of Credit

The School has various revolving lines of credit available for operating expenses. The balances outstanding as of June 30, 2012 and 2011 are as follows:

	Credit Limit	Interest Rate	2012	2011
American Express	\$ 28,000	19.24%	\$ 10,099	\$ 7,657
Capital One	20,000	14.90%	8,805	2,843
			\$ 18,904	\$ 10,500

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, 2012 and 2011.

TAPESTRY CHARTER SCHOOL

**Notes to Financial Statements
June 30, 2012 and 2011**

Note 5 - Long-term Debt

Long-term debt as of June 30, 2012 and 2011 consists of the following:

	2012	2011
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	\$ -	\$ 15,085
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%.	393,858	498,097
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.	116,439	140,952
Northwest Savings Bank term note payable in 60 monthly installments of \$3,862, including interest at a fixed interest rate of 6.5%.	138,429	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, 2012).	43,468	76,084
Northwest Savings Bank term note payable in 60 monthly installments of \$4,903, including interest at a fixed interest rate of 6.5%.	228,565	-
	920,759	904,325
Less: current maturities	253,475	213,840
Net long-term debt	\$ 667,284	\$ 690,485

TAPESTRY CHARTER SCHOOL

**Notes to Financial Statements
June 30, 2012 and 2011**

Note 5 - Long-term Debt (Continued)

Principal maturities of long-term debt are as follows:

2013	\$	253,475
2014		244,860
2015		248,038
2016		127,737
2017		46,649
		46,649
	\$	920,759
		920,759

Note 6 - 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, 2012 and 2011 are available for the following purposes:

	2012	2011
Educational and arts programs	\$ 3,731	\$ 7,652
Capital campaign	-	13,300
Scholarships	2,037	2,525
Playground project	625	9,299
Athletics programs	1,000	-
	\$ 7,393	\$ 32,776
	7,393	32,776

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

	2012	2011
Regular education	\$ 180,901	\$ 186,234
Educational and arts programs and equipment	114,916	26,333
Building and improvements	78,848	-
	\$ 374,665	\$ 212,567
	374,665	212,567

TAPESTRY CHARTER SCHOOL

Notes to Financial Statements June 30, 2012 and 2011

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 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, 2012 and 2011 was \$-0-.

Note 8 - Public School District Revenue

The School receives public school district funds for regular student enrollment. The rate per student is mandated by the State of New York Education Department. For the years ended June 30, 2012 and 2011, the Buffalo School District rate was \$12,005 per student. The School had 674 and 549 students enrolled during the 2012 and 2011 school years, respectively, with the majority from the Buffalo School District. Total public school district revenue for the years ended June 30, 2012 and 2011 was \$8,733,364 and \$7,181,664, respectively.

Note 9 - 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, 2012 and 2011 is 11.11% and 8.62% of the annual covered payroll, respectively. The School's required contribution was \$462,189 and \$277,884 for the years ended June 30, 2012 and 2011, respectively.

TAPESTRY CHARTER SCHOOL

Notes to Financial Statements June 30, 2012 and 2011

Note 10 - Operating Lease Agreement

The School has a five-year non-cancelable operating lease for its facility that expired in June 2011. The School had two five-year options to renew at the end of the lease term which they did not exercise. Rent expense for the years ended June 30, 2012 and 2011 was \$11,250 and \$271,249, respectively.

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:

2013	\$	3,201
Less: amount attributable to interest		<u>181</u>
Total	\$	<u><u>3,020</u></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, 2012 and 2011, the maximum loss that would have resulted from that risk totaled approximately \$1,253,864 and \$714,744 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, 2012 and 2011

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 \$296,282 for a net book value of \$4,551,966 at June 30, 2012. 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 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 School recorded a capital asset with a carrying cost of \$6,914,575 less accumulated depreciation of \$192,072 for a net book value of \$6,722,503 at June 30, 2012.

The minimum future rental payments under the capital lease and the net present value of those payments at June 30, 2012 are summarized as follows:

Years ended June 30:	
2013	\$ 1,146,981
2014	1,251,252
2015	1,251,252
2016	1,308,132
2017	1,319,608
Thereafter	<u>29,776,339</u>
	36,053,564
Less: amount representing interest	<u>(23,291,515)</u>
Present value of future minimum capital lease payments	<u><u>\$ 12,762,049</u></u>

TAPESTRY CHARTER SCHOOL

Notes to Financial Statements June 30, 2012 and 2011

Note 13 - 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. The purchase is contingent upon environmental testing and demolition of certain buildings and foundation pursuant to such agreement. If the School finds that environmental issues exist, a summary of such environmental issues, along with all supporting documents must be presented to the Seller. Thereafter, the Seller shall have 60 days from the receipt of same to secure an estimate of the cost of the environmental remediation. The School and Seller agree to share the cost on a 50/50 basis of any surface or subsurface environmental remediation necessary. In the event the environmental remediation exceeds \$150,000, the School may elect to cancel the purchase agreement and said earnest money deposit in the amount of \$20,000 will be refunded. The Seller shall be solely responsible for the cost and performance of the demolition contemplated up to \$100,000. All demolition and demolition related costs in excess of \$100,000 shall be borne equally by the Seller and the School on a 50/50 basis. In the event demolition costs exceed \$150,000 either party, at its option, may elect to cancel the contract by written notice. Upon such cancellation of the contract, the deposit, i.e. \$20,000, shall be returned by the Seller to the School; and thereafter both parties shall be fully released and relieved from all further liability and obligation hereunder and appropriate releases exchanged.

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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, 2012, and have issued our report thereon dated October 9, 2012. 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

Management of Tapestry Charter School is responsible for establishing and maintaining effective 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 School'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 9, 2012