

TAPESTRY CHARTER SCHOOL

Financial Statements

Years Ended June 30, 2017 and 2016

(With Independent Auditor's Report Thereon)

TAPESTRY CHARTER SCHOOL

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Independent Auditor's Report

To 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, 2017 and 2016, 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 from 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, 2017 and 2016, 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 27, 2017, 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 considering Tapestry Charter School's internal control over financial reporting and compliance.

Amato, Fox & Company, P.C.

Tonawanda, New York

October 27, 2017

TAPESTRY CHARTER SCHOOL
Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
<u>ASSETS</u>		
Current assets:		
Cash	\$ 3,375,597	\$ 3,600,297
Accounts receivable	522,505	104,043
Prepaid expenses	22,075	32,682
Total current assets	3,920,177	3,737,022
Property and equipment, net of accumulated		
depreciation of \$5,039,002 and \$4,399,136 in 2017 and 2016	12,829,012	12,986,113
Other assets:		
Deferred loan fees, net	80,619	95,153
Security deposit	250	250
Construction in progress	77,953	43,272
Total assets	\$ 16,908,011	\$ 16,861,810
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 134,110	\$ 271,215
Accrued expenses	1,585,969	1,516,233
Capital lease payable, current portion	-	5,378
Deferred revenue	62,944	40,388
Current maturities of long-term debt	654,724	650,860
Total current liabilities	2,437,747	2,484,074
Long term liabilities:		
Capital lease obligation, less current portion	-	4,307
Long-term debt, net of current maturities	11,153,976	11,808,686
Total long term liabilities	11,153,976	11,812,993
Total liabilities	13,591,723	14,297,067
Net assets:		
Unrestricted	3,278,852	2,537,014
Temporarily restricted	37,436	27,729
Total net assets	3,316,288	2,564,743
Total liabilities and net assets	\$ 16,908,011	\$ 16,861,810

The accompanying notes are an integral part of these financial statements.

TAPESTRY CHARTER SCHOOL
Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support:			
Public School District:			
Revenue - Resident student enrollment	\$ 10,655,049	\$ -	\$ 10,655,049
Revenue - Students with disabilities	660,398	-	660,398
Grants and contracts	-	286,827	286,827
Cafeteria income	318,704	-	318,704
Contributions	3,804	14,563	18,367
Fundraising income, net of direct expenses of \$21,708	19,086	-	19,086
Rental of facilities	4,140	-	4,140
Interest income	5,415	-	5,415
Miscellaneous income	145,219	-	145,219
Net assets released from restrictions:			
Satisfaction of program restrictions	291,683	(291,683)	-
Total revenues, gains and other support	12,103,498	9,707	12,113,205
Expenses and Losses:			
Program services:			
Regular education	7,215,532	-	7,215,532
Special education	708,209	-	708,209
Other programs	1,200,583	-	1,200,583
Total program services	9,124,324	-	9,124,324
Supporting services:			
Management and general	2,232,231	-	2,232,231
Development activities	5,105	-	5,105
Total expenses and losses	11,361,660	-	11,361,660
Change in net assets	741,838	9,707	751,545
Net assets at beginning of year	2,537,014	27,729	2,564,743
Net assets at end of year	\$ 3,278,852	\$ 37,436	\$ 3,316,288

The accompanying notes are an integral part of this financial statement.

TAPESTRY CHARTER SCHOOL
Statement of Activities
Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, Gains and Other Support:			
Public School District:			
Resident student enrollment	10,042,478	\$ -	\$ 10,042,478
Students with disabilities	817,645	-	817,645
Grants and contracts	-	303,748	303,748
Cafeteria income	292,711	-	292,711
Contributions	222,670	7,274	229,944
Fundraising income, net of direct expenses of \$20,120	18,064	-	18,064
Rental of facilities	4,175	-	4,175
Interest income	6,632	-	6,632
Miscellaneous income	151,682	-	151,682
Net assets released from restrictions:			
Satisfaction of program restrictions	313,788	(313,788)	-
Total revenues, gains and other support	<u>11,869,845</u>	<u>(2,766)</u>	<u>11,867,079</u>
Expenses and Losses:			
Program services:			
Regular education	7,131,864	-	7,131,864
Special education	687,784	-	687,784
Other programs	1,302,808	-	1,302,808
Total program services	<u>9,122,456</u>	<u>-</u>	<u>9,122,456</u>
Supporting services:			
Management and general	2,012,432	-	2,012,432
Development activities	5,188	-	5,188
Total expenses and losses	<u>11,140,076</u>	<u>-</u>	<u>11,140,076</u>
Change in net assets	729,769	(2,766)	727,003
Net assets at beginning of year	<u>1,807,245</u>	<u>30,495</u>	<u>1,837,740</u>
Net assets at end of year	<u>\$ 2,537,014</u>	<u>\$ 27,729</u>	<u>\$ 2,564,743</u>

The accompanying notes are an integral part of this financial statement.

TAPESTRY CHARTER SCHOOL
Statement of Functional Expenses
Year Ended June 30, 2017

	<u>No. of Positions</u>	<u>Program Services</u>			<u>Supporting Services</u>			
		<u>Regular Education</u>	<u>Special Education</u>	<u>Other Programs</u>	<u>Total</u>	<u>Management and General</u>	<u>Development Activities</u>	<u>Total</u>
Salaries and wages:								
Administrative staff	20	\$ -	\$ -	\$ -	\$ -	\$ 922,772	\$ -	\$ 922,772
Instrucional	108	4,452,619	486,472	-	4,939,091	-	-	4,939,091
Non-instructional	9	-	-	701,129	701,129	-	-	701,129
Total salaries	<u>137</u>	<u>4,452,619</u>	<u>486,472</u>	<u>701,129</u>	<u>5,640,220</u>	<u>922,772</u>	<u>-</u>	<u>6,562,992</u>
Payroll taxes		331,855	36,257	52,255	420,367	68,774	-	489,141
Employee benefits		805,707	88,027	126,870	1,020,604	166,977	-	1,187,581
Food service		-	-	155,379	155,379	-	-	155,379
Accounting and legal		-	-	-	-	191,570	-	191,570
Books and instructional material		6,093	-	-	6,093	-	-	6,093
Instructional consultants		61,020	37,969	-	98,989	-	-	98,989
Contracted services		-	-	-	-	173,289	-	173,289
Travel and conferences		5,423	-	-	5,423	-	-	5,423
Utilities		-	-	-	-	99,701	-	99,701
Classroom supplies		77,475	-	-	77,475	-	-	77,475
Arts, dance and music		23,407	-	-	23,407	-	-	23,407
Postage		-	-	-	-	7,907	-	7,907
Student services		8,334	-	2,122	10,456	-	-	10,456
Staff development		52,388	-	-	52,388	-	-	52,388
Interest expense		-	-	-	-	370,626	-	370,626
Office expense		-	-	-	-	63,743	-	63,743
Advertising and promotion		-	-	-	-	19,331	-	19,331
Maintenance and repairs		279,198	17,450	17,450	314,098	31,410	3,490	348,998
Telephone		31,181	1,949	1,949	35,079	3,507	390	38,976
Technology expense		191,852	-	-	191,852	-	-	191,852
Field trips and activities		89,178	-	45,258	134,436	-	-	134,436
Student testing and assessment		44,925	-	-	44,925	-	-	44,925
Sports expenses		-	-	53,248	53,248	-	-	53,248
Insurance		97,997	6,125	6,124	110,246	11,025	1,225	122,496
Vehicle expense		-	-	4,839	4,839	-	-	4,839
Mobile classroom		113,515	-	-	113,515	-	-	113,515
Miscellaneous		-	-	-	-	33,679	-	33,679
Depreciation and amortization		543,365	33,960	33,960	611,285	67,920	-	679,205
Total		<u>\$7,215,532</u>	<u>\$ 708,209</u>	<u>\$1,200,583</u>	<u>\$9,124,324</u>	<u>\$2,232,231</u>	<u>\$ 5,105</u>	<u>\$11,361,660</u>

The accompanying notes are an integral part of this financial statement.

TAPESTRY CHARTER SCHOOL
Statement of Functional Expenses
Year Ended June 30, 2016

	<u>No. of Position</u>	<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>		<u>Development Activities</u>
Salaries and wages:								
Administrative staff	23	\$ -	\$ -	\$ -	\$ -	\$1,082,193	\$ -	\$ 1,082,193
Instrucional	98	3,833,382	418,073	-	4,251,455	-	-	4,251,455
Non-instructional	9	-	-	614,859	614,859	-	-	614,859
Total salaries	<u>130</u>	<u>3,833,382</u>	<u>418,073</u>	<u>614,859</u>	<u>4,866,314</u>	<u>1,082,193</u>	<u>-</u>	<u>5,948,507</u>
Payroll taxes		304,547	33,214	48,848	386,609	85,976	-	472,585
Employee benefits		754,186	82,252	120,968	957,406	212,914	-	1,170,320
Food service		-	-	178,065	178,065	-	-	178,065
Accounting and legal		-	-	-	-	139,802	-	139,802
Books and instructional material		25,550	-	-	25,550	-	-	25,550
Instructional consultants		52,000	41,147	-	93,147	-	-	93,147
Contracted services		-	-	-	-	117,805	-	117,805
Travel and conferences		7,422	-	-	7,422	-	-	7,422
Utilities		75,297	4,706	4,706	84,709	8,471	941	94,121
Classroom supplies		75,004	-	-	75,004	-	-	75,004
Arts, dance and music		-	-	26,461	26,461	-	-	26,461
Postage		8,672	542	542	9,756	976	108	10,840
Student services		-	-	7,802	7,802	-	-	7,802
Staff development		48,169	-	-	48,169	-	-	48,169
Interest expense		830,445	51,903	51,903	934,251	103,805	-	1,038,056
Office expense		-	-	-	-	76,512	-	76,512
Advertising and promotion		-	-	-	-	14,398	-	14,398
Maintenance and repairs		217,441	13,590	13,590	244,621	24,462	2,718	271,801
Telephone		36,139	2,259	2,259	40,657	4,065	452	45,174
Technology expense		216,767	-	-	216,767	-	-	216,767
Field trips and activities		-	-	146,352	146,352	-	-	146,352
Student testing and assessment		5,268	-	-	5,268	-	-	5,268
Sports expenses		-	-	46,355	46,355	-	-	46,355
Insurance		77,348	4,834	4,834	87,016	8,702	967	96,685
Vehicle expense		5,076	317	317	5,710	635	-	6,345
Mobile classroom		-	-	-	-	61,694	-	61,694
Miscellaneous		25,970	1,623	1,623	29,216	3,375	2	32,593
Depreciation and amortization		533,181	33,324	33,324	599,829	66,647	-	666,476
Total		\$ 7,131,864	\$ 687,784	\$ 1,302,808	\$ 9,122,456	\$ 2,012,432	\$ 5,188	\$ 11,140,076

The accompanying notes are an integral part of this financial statement.

TAPESTRY CHARTER SCHOOL
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from public school districts	\$ 10,798,050	\$ 10,898,142
Cash received from grants	360,943	319,029
Cash received from contributions	18,367	29,944
Cash received from cafeteria	318,269	291,600
Cash received from other sources	159,885	196,598
Payments to employees for services and benefits	(8,216,911)	(7,620,458)
Payments to vendors and suppliers	(2,460,521)	(2,724,226)
Net cash provided by operating activities	978,082	1,390,629
Cash flows from investing activities:		
Construction in progress payments	(34,681)	(30,631)
Purchase of property and equipment	(507,570)	(164,984)
Net cash used in investing activities	(542,251)	(195,615)
Cash flows from financing activities:		
Payments on revolving lines of credit	-	(10,869)
Payments on equipment lease obligation	(9,685)	(5,091)
Principal payments on long-term debt	(650,846)	(294,921)
Payments made to purchase property and terminate property lease obligation	-	(75,556)
Net cash used in financing activities	(660,531)	(386,437)
Net increase in cash	(224,700)	808,577
Cash at beginning of period	3,600,297	2,791,720
Cash at end of period	\$ 3,375,597	\$ 3,600,297

The accompanying notes are an integral part of these financial statements.

TAPESTRY CHARTER SCHOOL
Statements of Cash Flows, Continued
Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of change in net assets		
to net cash provided by operating activities:		
Change in net assets	\$ 751,545	\$ 727,003
Adjustments to reconcile change in net assets		
to net cash provided by operating activities:		
Depreciation and amortization	679,205	666,476
Non-cash contribution	-	(200,000)
Non-cash interest expense	-	50,865
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables	(418,462)	8,903
Prepaid expenses	10,607	(2,241)
Increase (decrease) in:		
Accounts payable	(137,105)	145,804
Accrued expenses	69,736	(45,609)
Deferred revenue	22,556	39,428
	\$ 978,082	\$ 1,390,629
Supplemental schedule of cash flow information:		
Cash paid for interest	\$ 371,732	\$ 956,908
Property and equipment purchases financed with		
accounts payable	\$ -	\$ 38,849
Transactions related to the purchase of property and		
the termination of the property lease obligation:		
Reduction in property valuation	\$ -	\$ 679,183
Increase in deferred loan fees	\$ -	\$ 95,563
Increase in mortgage note payable	\$ -	\$ 10,243,000
Increase in note payable	\$ -	\$ 1,840,000
Termination of property lease obligation	\$ -	\$ 12,815,755

The accompanying notes are an integral part of these financial statements.

TAPESTRY CHARTER SCHOOL
Notes to Financial Statements
June 30, 2017

Note 1 - Organization and Summary of Significant Accounting Policies

Organization - The mission of Tapestry Charter School (the School) is to educate and inspire a diverse community of K-12 learners by engaging them in rigorous real-world learning experiences which prioritize intellectual, social and emotional growth. The School provides an environment where students are encouraged to become self directed, independent learners. Progressive, interdisciplinary teaching techniques are utilized along with the best resources available to fit the individual learning style of each student. Parent involvement is a significant component in the success of the 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. This charter has been renewed and extended through April 24, 2021 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 in accordance with accounting principles generally accepted in the United States of America.

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 separate unrestricted, temporarily restricted, and permanently restricted classes of net assets. The School did not have any permanently restricted net assets at June 30, 2017 and 2016. Accordingly, net assets of the School and changes therein are classified and reported as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations and may be used for any purpose designated by the School’s Board of Trustees.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the School and/or the passage of time.

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

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

Receivables – Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. There was no valuation allowance at June 30, 2017 and 2016.

TAPESTRY CHARTER SCHOOL
Notes to Financial Statements, Continued
June 30, 2017

Note 1 - Organization and Summary of Significant Accounting Policies, Continued

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. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Depreciation of property and equipment is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Upon disposal of property and equipment, the appropriate property and equipment accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statements of activities. Estimated service lives are as follows:

• Land improvements	10 – 15 years
• Buildings and improvements	5 – 30 years
• Equipment	3 – 7 years
• Vehicles	5 years

Long-Lived Assets – The School reviews the carrying values of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. At June 30, 2017, no impairment in value has been recognized.

Promises to Give – Contributions are recognized when the donor makes an unconditional promise to give to the School. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the period in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Grant awards are classified as refundable advances until expended for the purposes of the grant since they are conditional promises to give.

Functional Allocation of Expenses - The costs of various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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, 2017 and 2016 was \$19,331 and \$14,398, respectively.

Income Taxes - The School is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code, and is classified as "other than a private foundation". Therefore, no provision for income taxes is reflected in the financial statements.

Uncertain Tax Positions – The School discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable that a liability has been incurred for unrecognized income taxes. Management has concluded that the School has taken no uncertain tax positions that require adjustment in its financial statements. U.S. forms 990 filed by the School are subject to examination by taxing authorities generally for three years after they were filed.

TAPESTRY CHARTER SCHOOL
Notes to Financial Statements, Continued
June 30, 2017

Note 1 - Organization and Summary of Significant Accounting Policies, Continued

Subsequent Events - The School has evaluated events and transactions after June 30, 2017, and through October 27, 2017, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements. Note 11 details subsequent events which require disclosure.

Reclassifications – Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation. The reclassifications have no effect on the reported amounts of total net assets or changes in total net assets.

Note 2 - Property and Equipment

Property and equipment at June 30, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 1,440,171	\$ 1,440,171
Building	12,967,615	12,967,615
Building improvements	1,759,484	1,308,827
Office equipment	178,451	202,667
Instructional equipment	1,212,660	1,156,336
Kitchen equipment	171,087	171,087
Library equipment	74,356	74,356
Maintenance equipment	4,240	4,240
Vehicles	59,950	59,950
	<u>17,868,014</u>	<u>17,385,249</u>
Less accumulated depreciation	<u>(5,039,002)</u>	<u>(4,399,136)</u>
	<u>\$ 12,829,012</u>	<u>\$ 12,986,113</u>

An adjustment of \$679,183 was made in 2016 to reduce the carrying value of the School's property in conjunction with purchasing the property and terminating the property lease obligation (See Note 6).

Note 3 - Revolving Lines of Credit

The School has a \$20,000 revolving line of credit with a bank. Advances on the credit line are payable on demand with interest at 14.9%. Any outstanding balance is secured by a general security interest in all assets of the School. There was no outstanding balance on this agreement at June 30, 2017 and 2016.

The School also has a \$300,000 line of credit with a bank. Advances on the credit line are payable on demand with interest at the Wall Street Journal prime rate plus 1%. Any outstanding balance is secured by a general security interest in all assets of the School. There was no outstanding balance on this agreement at June 30, 2017 and 2016.

TAPESTRY CHARTER SCHOOL
Notes to Financial Statements, Continued
June 30, 2017

Note 4 - Long-term Debt

Long-term debt as of June 30, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
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.	\$ -	\$ 18,385
Northwest Savings Bank term note payable in 36 monthly installments of \$17,193 including interest at a fixed interest rate of 4.5%.	201,313	393,652
Mortgage note payable to Northwest Savings Bank in monthly installments of \$48,673 including interest at a fixed rate of 2.975%. This note matures in April 2023 at which time a balloon payment of the outstanding principle balance is due.	9,940,953	10,220,577
Note payable to Northwest Savings Bank in monthly installments of \$17,783 including interest at a fixed rate of 2.975%. This note matures in April 2023 at which time a balloon payment of the outstanding principle balance is due.	<u>1,666,434</u>	<u>1,826,932</u>
	11,808,700	12,459,546
Less: current maturities	<u>654,724</u>	<u>650,860</u>
Net long-term debt	<u>\$ 11,153,976</u>	<u>\$ 11,808,686</u>

Principal maturities of long-term debt are as follows:

2018	\$ 654,724
2019	467,278
2020	481,569
2021	496,298
2022	511,476
Thereafter	<u>9,197,355</u>
	<u>\$ 11,808,700</u>

TAPESTRY CHARTER SCHOOL
Notes to Financial Statements, Continued
June 30, 2017

Note 5 - Equipment Lease Obligation

During the year ended June 30, 2013, the School entered into an agreement to lease certain office equipment. The School accounted for this transaction as a capital lease and capitalized the equipment and recorded the related debt in the amount of \$25,785. The agreement required monthly payments of \$528 through February 2018. The equipment lease obligation at June 30, 2017 and 2016 is \$-0- and \$9,685, respectively.

Note 6 – Property Lease Obligation

The School occupies property, located at 65 Great Arrow Avenue in Buffalo, New York, that was financed under a lease agreement. The School accounted for this as a capital lease. The principal balance of this lease obligation was \$12,891,311 at June 30, 2015. Under the lease agreement and lease amendment, the School had the option to buy out its leasehold interest and improvements in the property. The buyout price represented the amount due on the landlord’s mortgage plus the landlord’s required equity contribution to the project including a 2.5% inflationary factor. On April 19, 2016, the School exercised the buyout and purchased the property thereby terminating the lease agreement. The purchase transaction included a \$200,000 reduction in the lease buyout price which was considered a donation made to the School. The School reduced the carrying value of the property by \$679,183 due to the difference between the property’s purchase price and the carrying amount of the lease obligation. The School financed the purchase of the property and the termination of the property lease obligation with a bank mortgage loan of \$10,243,000 and a bank term loan of \$1,840,000. Capitalized loan closing costs amounted to \$95,563.

Note 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 and 2016 are contributions received restricted for the following purposes:

	2017	2016
Scholarships	\$ 11,395	\$ 11,120
Other purposes	26,041	16,609
	\$ 37,436	\$ 27,729

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. The rate paid by the Buffalo school district was \$12,505 and \$12,355 per student for the years ended June 30, 2017 and 2016, respectively. The School had 821 and 818 enrolled students at June 30, 2017 and 2016, respectively, with the majority of students coming from the Buffalo school district. Total public school district revenue amounted to \$11,315,447 and \$10,860,123 for the years ended June 30, 2017 and 2016, respectively.

TAPESTRY CHARTER SCHOOL
Notes to Financial Statements, Continued
June 30, 2017

Note 9 - Retirement Plan

The School participates in the New York State Teachers' Retirement System (TRS), a cost sharing multiple employer, defined benefit pension plan. TRS offers a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability. TRS is administered by the New York State Teachers' Retirement Board and provides retirement, disability, withdrawal and death benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. TRS issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report can be found on the TRS website at www.nystrs.org/main/library/annual-report.htm.

TRS requires employee contributions of 3% of their annual salary for the first 10 years of service for those employees who joined the Plan between July 1976 and December 2009. Participants hired after January 1, 2010 are required to contribute 3.5% of their annual salary throughout their active membership in TRS. No employee contribution is required for those hired prior to July 1976. Pursuant to Article 11 of the Education Law, an actuarially determined contribution rate is established annually by the New York State Teachers' Retirement Board. The rate for the years ended June 30, 2017 and 2016 is 11.72% and 13.26% of the annual covered payroll, respectively. The School's required contribution was \$656,395 and \$687,829 for the years ended June 30, 2017 and 2016, respectively.

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, 2017, the maximum loss that would have resulted from that risk totaled \$3,166,702. The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

Note 11 - Subsequent Event

In August 2017, the School entered into a loan agreement with the Buffalo and Erie County Industrial Land Development Corporation (ILDC), principally to finance the cost of building a new school building for grades kindergarten through grade 5 and to re-finance existing bank debt. To finance the project, ILDC authorized the sale of tax-exempt revenue bonds in the aggregate principal amount of \$31,945,000 and taxable revenue bonds in the aggregate principal amount of \$1,955,000 under a trust indenture with a bank as trustee. The sale is secured by a mortgage and security agreement granting a first lien on and security interest in the facility and the other mortgaged property.

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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***

To 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, 2017, 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 27, 2017.

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.

Tonawanda, New York

October 27, 2017